DIRECTORS' REPORT ON THE OPERATIONS OF THE BANK OCHRONY ŚRODOWISKA GROUP IN THE SIX MONTHS ENDED 30 JUNE 2024

Warsaw, August 2024

Contents

FINANCIAL HIGHLIGHTS

THE GROUP Data from condensed consolidated interim financial statements of BOŚ Group	PLN thousand 6 months ended 30 Jun 2024	6 months ended 30 Jun 2023	EUR thousand 6 months ended 30 Jun 2024	6 months ended 30 Jun 2023
Interest and similar income	713,931	811,056	165,611	175,820
Fee and commission income	84,343	85,589	19,565	18,554
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	24,114	26,504	5,594	5,746
Gain (loss) on investment securities	29	-	7	-
Profit before tax	88,811	98,836	20,601	21,426
Net profit attributable to owners of parent	50,231	55,751	11,652	12,086

THE GROUP	PLN thousand 30 Jun 2024	31 Dec 2023	EUR thousand 30 Jun 2024	31 Dec 2023
Total assets	21,028,576	22,032,451	4,875,626	4,950,779
Amounts due to central bank and other banks	282,257	75,146	65,443	16,886
Amounts due to clients	17,362,997	18,565,197	4,025,735	4,171,673
Equity attributable to owners of parent	2,195,693	2,148,620	509,087	482,803
Common equity	1,461,036	1,461,036	338,752	328,301
Number of shares	92,947,671	92,947,671		
Capital ratio	17.54	16.27		

BANK Data from condensed interim financial statements of BOŚ S.A.	PLN thousand 6 months ended 30 Jun 2024	6 months ended 30 Jun 2023	EUR thousand 6 months ended 30 Jun 2024	6 months ended 30 Jun 2023
Interest and similar income	704,415	804,343	163,403	174,364
Fee and commission income	40,385	41,297	9,368	8,952
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	1,527	5,977	354	1,296
Gain (loss) on investment securities	29	0	7	0
Profit before tax	81,370	75,114	18,875	16,283
Net profit	49,794	43,185	11,551	9,362

BANK	PLN thousand 30 Jun 2024	31 Dec 2023	EUR thousand 30 Jun 2024	31 Dec 2023
Total assets	20,952,670	21,869,452	4,858,027	4,914,152
Amounts due to central bank and other banks	282,257	75,146	65,443	16,886
Amounts due to clients	17,484,513	18,641,304	4,053,910	4,188,775
Equity attributable to owners of parent	2,176,441	2,129,805	504,623	478,576
Common equity	1,460,364	1,460,364	338,596	328,150
Number of shares	92,947,671	92,947,671		
Capital ratio	18.00	16.71		

I. SUMMARY OF THE FINANCIAL RESULTS OF THE GROUP

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

Results of the Group

In the six months ended 30 June 2024, the BOŚ Group achieved a net profit of PLN 50.2 million, compared with PLN 55.8 million in the same period of 2023.

The decrease in net profit was attributable to non-recurring factors: a decision to write off certain assets and recognise a provision for future payments related to capital expenditures and personnel-related expenses on projects to develop credit process support systems, as well as the recognition of a provision for the government's loan moratorium scheme ('loan repayment holidays').

SELECTED ITEMS OF THE STATEMENT OF PROFIT OR LOSS (PLN thousand)	H1 2024	H1 2023	Change (%)
Net interest income	402,420	410,903	-2.1
Net fee and commission income	63,660	63,987	-0.5
Gain (loss) on financial instruments	24,114	26,504	-9.0
Net other income	-6,308	8,697	x
Effect of legal risk of mortgage loans denominated in foreign currencies	-107,523	-161,793	-33.5
Net impairment losses	3,468	6,028	-42.5
Administrative expenses	-291,020	-255,490	13.9
Profit before tax	88,811	98,836	-10.1
NET PROFIT	**50,231**	**55,751**	**-9.9**

Between 1 January and 30 June 2024, the BOŚ Group generated net interest income of PLN 402.4 million, compared with PLN 410.9 million in the six months ended 30 June 2023.

In the six months ended 30 June 2024, interest income fell by PLN 97.1 million year on year. An increase was recorded in interest on amounts due from institutional clients. The decrease in interest income was attributable to investment debt securities and interest income from retail clients.

The primary factor driving this decrease was the lower WIBOR rates compared with the corresponding period of the previous year, following the Monetary Policy Council's interest rate cuts in September 2023 by 75 basis points and a further reduction in October 2023 by 25 basis points, bringing the NBP's reference rate to 5.75%.

Total interest expense decreased by PLN 88.6 million compared with the six months ended 30 June 2023. The Bank offered term deposits to clients with terms reflecting the decline in interest rates. Despite these reductions, the interest rates on selected deposit products positioned the Bank's offering as a market leader compared with other banks.

The Group's net fee and commission income was PLN 63.7 million, which represents a year-on-year decrease of PLN 0.3 million. The decrease was mainly attributable to lower loan commissions and brokerage service fees, with a higher income from account handling fees and fees for other settlement transactions, as well as commissions from guarantees and letters of credit.

Net other income was affected by the decision to discontinue a project to develop credit process support systems and to write off capital expenditures and personnel-related expenses incurred in the amount of PLN 17.4 million, combined with the recognition of a provision for expenditure under contracts concluded in the course of the project of PLN 2.2 million.

Gain (loss) on financial instruments measured at fair value through profit or loss was PLN 24.1 million, compared with PLN 26.5 million in the same period of 2023.

The effect of legal risk associated with mortgage loans denominated in foreign currencies was PLN -107.5 million, compared with PLN -161.8 million in the six months ended 30 June 2023. The results reflect updates to the model parameters determining provisions, notably a significant deterioration in the indicator for awarded interest on delayed payments calculated from the date of the lawsuit and an increase in new lawsuits concerning EUR-denominated loans.

In the six months ended 30 June 2024, net impairment charges were positive at PLN 3.5 million, compared with PLN 6.0 million in the same period of the previous year. The positive result in impairment charges was mainly attributable to the reversal of provisions on the retail portfolio and on securities measured at fair value through other comprehensive income.

The Group's total administrative expenses amounted to PLN 291.0 million, an increase of PLN 35.5 million compared with the corresponding period of 2023. Employee benefit expense increased by PLN 25.9 million, or 20.4%, primarily due to salary and wage adjustments to market levels for individual positions within the Bank, an increase in employment, and recognised provisions for bonuses. Another significant driver of administrative expenses were material costs, which increased by PLN 7.1 million, or 11.3%. The Group also reported lower costs of contributions and payments to the Bank Guarantee Fund, marking a decrease of PLN 2.1 million, or 9.5%. The reduction in costs was primarily driven by the BFG's decision to levy a lower contribution to the Guarantee Fund for 2024 compared with the previous year.

Impact of annual contribution to BFG's resolution fund

According to information received by the Bank from the Bank Guarantee Fund (BFG) on 18 April 2024, the annual contribution to the resolution fund for 2024 set by the BFG for the Bank, after accounting for adjustments to the 2023 contribution, amounted to PLN 19.9 million. The entire contribution was charged to the Bank's financial result for the six months ended 30 June 2024.

The annual contribution to the resolution fund for 2023 amounted to PLN 22.0 million.

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

As at 30 June 2024, the provision for foreign currency-linked mortgage risk amounted to a total of PLN 705.6 million, of which PLN 203.8 million is presented as a provision for litigation and claims for legal risk related to foreign currency mortgage loans, and PLN 501.8 million – as an adjustment to the gross carrying amount. As at 31 December 2023, the amount of the provision was PLN 692.7 million.

The provisions recognised by the Bank for the risk associated with mortgage loans denominated in foreign currencies cover the costs of the Settlement Programme for clients repaying these loans, as proposed by the Chairman of the Polish Financial Supervision Authority. The Settlement Programme was launched by the Bankon 31 January 2022. By 30 June 2024, a total of 770 settlements had been concluded under the Programme.

Loan moratorium

Under the Act of 14 April 2024 Amending the Act on Support for Distressed Borrowers who Incurred Housing Loans and the Business Crowdfunding and Borrowers Assistance Act, borrowers have the right to temporarily suspend repayment of up to four instalments of a mortgage loan granted in the Polish currency for their own housing needs in 2024. This temporary suspension is commonly referred to as 'loan repayment holidays'. Given the likelihood of borrowers exercising this right, the Bank adjusts the gross carrying amount of the loans for the instalments eligible for suspension during this period, in line with provision B5.4.6 of IFRS 9 *Financial Instruments*. In estimating the adjustment to the gross carrying value, it was assumed that 70% of eligible instalments would be suspended. As borrowers are likely to exercise this right, the Bank, acting in accordance with the applicable accounting policies, recognised the effect on a one-off basis in advance in the result for the six months ended 30 June 2024.

As at 30 June 2024, the recognised amount of the provision for programme costs which may be incurred still this year is PLN 6.7 million.

The number of home loan accounts covered by the loan repayment holidays as at 30 June 2024 reached 0.5 thousand, while the gross carrying amount of PLN housing loans, prior to any adjustments related to the statutory holidays for which the Bank approved the application, totalled PLN 148.5 million.

Financial ratios

FINANCIAL RATIOS	H1 2024	2023	Change in percentage points
Return on capital (ROE)	3.4	3.8	-0.4
Return on assets (ROA)	0.3	0.4	-0.1
Interest margin on total assets	3.7	3.7	0.0
Risks costs	-0.5	-0.4	-0.1
Cost/income (C/I), assuming uniform distribution of the cost of the one-time contribution to the Bank Guarantee Fund over the year	58.1	51.3	6.8
Tier 1 capital ratio	16.65	15.17	1.48
Total capital ratio	17.54	16.27	1.27

Interest margin on total assets, calculated as the ratio of net interest income for the last 12 months to average assets, was 3.7%, compared with 3.7% in 2023.

The capital adequacy ratio of the Group was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional arrangements. As at 31 March 2024, the Bank and the Group met the applicable capital standards. The BOŚ Group's Tier 1 capital ratio was 16.65%, and the Total Capital Ratio (TCR) was 17.54%.

Impact of the war in Ukraine on operations

The Bank monitored the economic and market situation, in particular the risk of major sudden external events likely to have a significant indirect impact on the Bank's overall condition.

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

The stress tests' results show a modest increase in exposure to liquidity risk and interest rate risk in the banking book; however the overall impact on risk exposure remains within what is expected by the Bank.

With the current developments under the stress scenario for the ongoing Russian-Ukrainian conflict, the Bank has not faced any issues with maintaining liquidity or experienced any adverse effects on other financial risks. Despite short-lasting liquidity problems on the interbank market and a temporary sharp increase in cash withdrawals seen during the initial phase of the conflict (in 2022), no major threats to the Bank's liquidity have been observed. Simultaneously, no other significant indicators suggesting an increase in financial risk were recorded in the first half of 2024.

The Bank closely monitors the portfolio of its largest exposures associated with the conflict zone based on its established rules and guidelines.

The economic and financial conditions in Poland took a turn for the worse due to, among others, the energy crisis triggered directly by the war in Ukraine, which – as a critical factor behind the health of all Polish businesses, i.e. also the Bank's clients – is affecting the quality of its loan portfolio and the level of impairment losses.

The international situation invariably has a very strong impact on the Bank's cybersecurity. There is a continuing trend of an increased number of attempted attacks on the Bank's electronic banking services. Most frequently, those have been attempts to break through the security systems exploiting vulnerabilities recently communicated to the public. No successful security breach has been identified. DDoS attacks targeted at the Bank's infrastructure did occur, but they did not result in any service disruptions. Cybersecurity is ensured by 24/7 monitoring of cyberspace events by the Bank's Security Operation Centre. The Head of the Cybersecurity Department plays an active role in the activities of the financial sector groups operating at the Polish Bank Association and participates in monthly meetings organised by the PFSA, sharing information on current international developments.

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

1. Macroeconomic situation

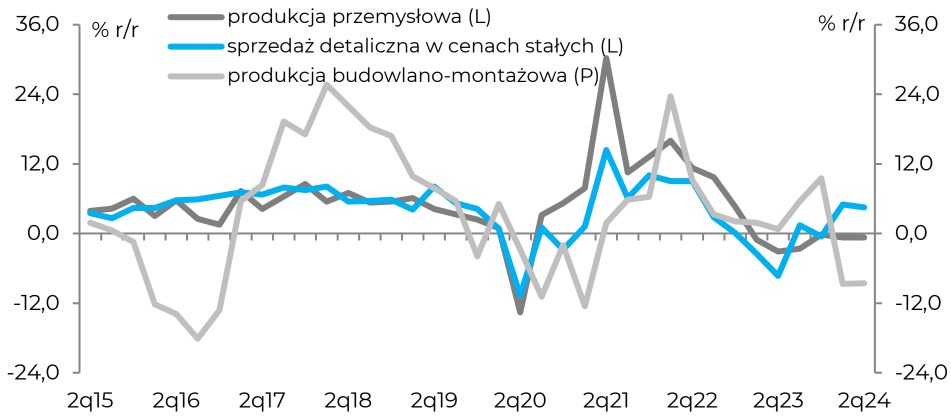
During the first half of 2024, global economic activity exhibited signs of a weakening. In the euro area, following a modest improvement in the first quarter of 2024 (with GDP growing by 0.3% quarter on quarter), leading economic indicators in the second quarter suggested a potential deceleration of this recovery. Similarly, in the United States, real GDP growth moderated to 1.4% quarter on quarter in the first quarter of 2024, down from elevated levels seen at the end of 2023, with economic indicators in the second quarter pointing to a further slowdown in growth. In China, subdued domestic demand dampened economic activity, with GDP growth slowing to 4.7% year on year in the second quarter of 2024, compared with 5.3% in the first quarter.

The dissipation of the elevated base effects from the 2022 commodity shock contributed to a slowing decline in inflation during the first half of 2024, following a sharp decrease in 2023. Core inflation indices decreased over the period, but the pace of this decline moderated compared with the latter half of 2023. With the progressive disinflation of commodity prices, this was due to the still elevated service price indices, driven by continued increases in labour costs.

In response to the downward trend in core inflation over the first months of the year and the generally robust labour market conditions, the U.S. Federal Reserve maintained interest rates unchanged in the first half of 2024 Conversely, the European Central Bank (ECB) reduced interest rates in June 2024, citing lower inflation and tempered inflation expectations while emphasising that future decisions would be data-dependent. The Swiss National Bank adopted a more dovish stance, cutting interest rates by a total of 50 basis points during the same period.

In Poland, the economic situation improved in the first half of 2024, driven primarily by a rebound in consumer demand. The resurgence in consumer spending was supported by a significant rise in real household incomes, mainly on the back of easing inflation. As a result, retail sales increased noticeably – by 4.9% year on year in the first half of 2024. Industrial activity ceased to decline but remained subdued, with only a 0.1% year-on-year increase in industrial output from January to June 2024. This was largely due to weak foreign demand and declining investment demand amidst persistent low industrial activity in the euro area. Conversely, the construction sector experienced a sharp contraction, with output declining by 8.7% year on year in the first half of 2024, following a strong 9.5% increase in the fourth quarter of 2023. The reason for such major weakening in construction activity was the waning positive impact of EU fund expenditures under the EU Multiannual Financial Framework for 2014-2020 at the end of 2023, with limited commencements of new projects co-funded under the 2021-2027 Financial Framework.

Production and retail sales dynamics in Poland



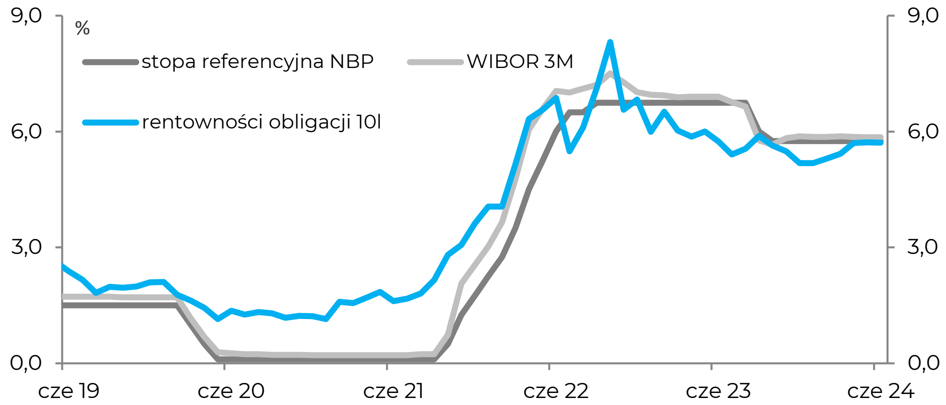
źródło: GUS

Produkcja przemysłowa (L)	industrial production (L)
Sprzedaż detaliczna w cenach stałych (L)	retail sales at constant prices (L)
Produkcja budowlano-montażowa (P)	construction and assembly production (P)
r/r	y/y

After reaching its lowest point in March (2.0% year on year), CPI inflation in Poland rose to 2.6% year on year from April to June, largely due to the reinstatement of the 5% VAT rate on basic food products. The initial decline in inflation during the first half of the year was mainly driven by a reduction in the annual growth rates of food and energy prices, in comparison to the very high bases of the previous year. However, core inflation remained above the CPI, reflecting the sustained high growth of service prices.

In the first half of 2024, the Monetary Policy Council (RPP) kept interest rates stable, including the NBP reference rate at 5.75%. The RPP cited the uncertain outlook for inflation, potential regulatory changes affecting food and energy prices, elevated core inflation, and rising wage dynamics as key factors behind its decisions. The 3M WIBOR rate at the end of June remained at a level similar to the end of December 2023, at 5.85%.

Interest rates in Poland



źródło: NBP

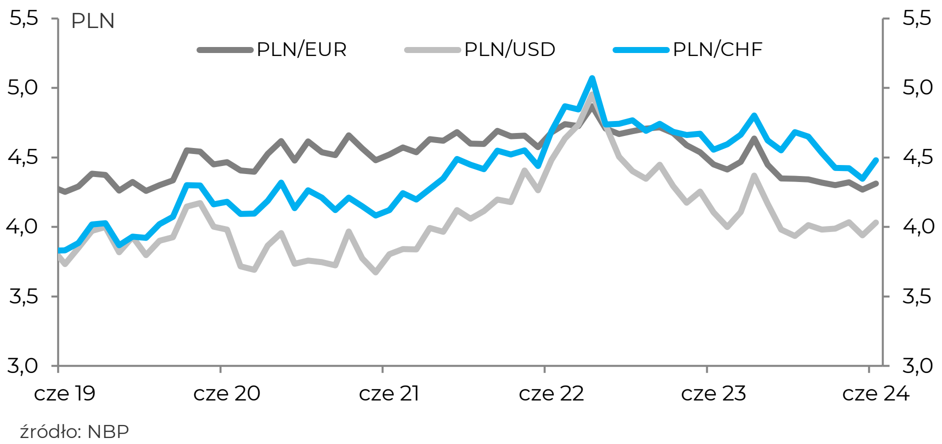
Stopa referencyjna NBP	NBP reference rate
WIBOR 3M	3M WIBOR
Rentowność obligacji 10	10-year treasury yields
Źródło: NBP	Source: NBP

At the beginning of 2024, market expectations for a swift monetary policy easing by major central banks remained prevalent, keeping government bond yields low in core markets. However, the slowdown in inflation declines and cautious communications from the Federal Reserve and ECB led to diminished expectations regarding the extent of monetary policy easing in 2024. Although the ECB reduced interest rates by 25 basis points in June, including lowering the deposit rate to 3.75%, the scale of monetary easing was still less than anticipated late last year. Consequently, government bond yields in core markets rose by approximately 50 basis points by the end of June compared with December 2023.

For most of the first half of 2024, domestic government bond yields increased, influenced by developments in core bond markets and a reassessment of expectations for the RPP's monetary policy. Over the period, the yield on 2-year government bonds rose by 14 basis points to 5.09%, and the yield on 10-year government bonds increased by 54 basis points to 5.72%.

In the first half of 2024, the Polish złoty remained strong against a basket of major currencies. At the end of June, the złoty was trading at 4.31 PLN/EUR, having strengthened by 0.8% compared with December 2023, and at 4.03 PLN/USD, having strengthened by 2.5% against the U.S. dollar. Simultaneously, a depreciation of the Swiss franc in global markets led to a more pronounced appreciation of the złoty against the franc. By the end of the first half of 2024, the exchange rate of the złoty against the franc was 4.48 PLN/CHF, representing a 4.3% appreciation compared with the level recorded in December 2023.

PLN exchange rates



2. Factors which will affect the Bank's performance in the next quarter and beyond

The Group's business in 2024 will be affected by macroeconomic factors and the situation in financial markets.

The most significant of the macroeconomic and market factors remains the heightened geopolitical risk, particularly due to the ongoing military conflict between Russia and Ukraine, tensions in the Middle East, and escalating trade disputes among major economies.

Key potential impacts of these risks include:

- downturn in the economic performance of Poland's main trading partners, which may lead to a slowdown of Polish economy,
- increased volatility of commodity prices, triggering price volatility across the economy,
- increased volatility of financial asset prices;
- subdued demand for credit in an environment of economic uncertainty and high interest rates.

These factors are a source of uncertainty regarding the future trajectory of the macroeconomic and market environment of the Bank's Group.

Legal risks associated with foreign currency housing loans continue to be a significant factor impacting the Bank's performance.

3. The Group's primary products, services and business areas

3.1. Banking products

Expansion of banking business

The Bank's portfolio includes deposit, loan, and payment products available to all customer groups, as well as offerings tailored specifically for selected client segments.

The terms of engagement with each client group are adapted by the Bank in response to changing market conditions and the needs of the Bank's targeted client groups, while maintaining the objective of continually improving client service efficiency.

Institutional clients

The Bank has a wide range of payment, deposit and credit products, which can be used to build individual offers for each client, tailored to their specific needs.

As part of its range of payment products, the Bank offers standard current accounts that serve as payment accounts in domestic and international transactions but are also used to accumulate funds.

There is also a separate offering of bank accounts for institutional clients who are sole traders. The Bank launched the product to meet the requirements of the Act of 31 July 2019 Amending Certain Acts to Reduce Regulatory Burdens (the 'Act on Reduction of Regulatory Burdens'), which instituted the category of an entrepreneur-consumer.

During the six months ended 30 June 2024, in the area of payment products:

- the rules governing the provision of bank account and payment services were amended to comply with legal requirements, specifically the Act of 26 May 2023 on the mObywatel Application and the Act of 18 November 2020 on Electronic Delivery.
- The Bank continued its efforts to align with the requirements of the new property development law, specifically the Law of 20 May 2021, which concentrates on safeguarding the rights of purchasers of dwellings or single-family houses and establishing the Developers Guarantee Fund.

Credit products for institutional clients

As regards the financing of small and medium-sized enterprises, in addition to the standard credit offering, the Bank continued the special offer implemented in 2022 – financing of Polish Strategic Investments.

On 29 December 2022, Cooperation Agreement no. 9/2022/KTEKO was signed with Bank Gospodarstwa Krajowego under the European Funds for a Modern Economy 2021-2027 Programme, Measure 2.32 – Priority 2 Technological Credit. Environment for Innovation and Measure 3.1 Green Credit – Priority 3Greening of Enterprises. The Agreement sets out the rules for cooperation in the provision of technology and green credits to enterprises by the Lending Bank and the technology bonus and green bonus by Bank Gospodarstwa Krajowego (BGK).

Pursuant to the Agreement, changes were made regarding the technology credit and a new product – the environmental credit – was added to the Bank's offering: The FENG technology credit is a new edition of the technology credit offered as part of the POIG 2007-2013 programme and the technology innovation credit offered as part of the POIR 2014-2020 programme. This is offered as support for micro, small and medium-sized enterprises in the form of a technology bonus for repayment of part of the credit. The product is designed for SMEs that implement novel technologies and leverage them to initiate the production of innovative or substantially enhanced products, processes, or services. Funding applications were accepted from 23 March to 31 May 2023. The Bank signed conditional technology credit facility agreements with three clients, totalling approximately PLN 44.8 million, and issued one financing commitment letter for a PLN 23.9 million technology credit facility.

The FENG environmental credit is a grant for companies aiming to modernise their infrastructure (e.g. buildings, machinery and equipment). The effect of such modernisation must be a reduction of primary energy consumption in the modernised area by at least 30% compared to current consumption. The product is designed for the SME sector as well as small mid-cap and mid-cap enterprises.

The first call for funding applications was held from June to August 2023. During this period, the Bank issued commitments and signed conditional loan agreements with five clients for a total funding amount of PLN 3.2 million, with the planned value of the projects amounting to PLN 7.2 million. On 28 March 2024, BGK announced the second call for funding applications for the FENG Environmental Credit. The application period will run from 25 April to 25 July 2024.

Moreover, in the area of lending products:

- The Bank offered its clients loans for energy retrofitting and renovation projects with a bonus from the Energy Retrofitting and Renovation Fund;
- In selected provinces, the Bank offered preferential loans for environmentally-friendly projects in cooperation with the Provincial Funds for Environmental Protection and Water Management;
- The Bank took steps to optimise and automate the lending process, from client acquisition, to assessment of credit application and credit decision-making, to disbursement of funds, credit monitoring and credit administration;
- The Bank continued efforts aimed to implement the EU Regulation concerning benchmark rates – WIBOR, LIBOR, EURIBOR, including through participation in the National Working Group developing measures to replace WIBOR with substitute rates.

Factoring

BOŚ S.A. uses the specialised online system, BOŚ Faktor, for factoring services, providing clients full control over receivables and enabling 24-hour contact with the Bank seven days a week. The system is used for the automated processing of factoring transactions.

In the six months ended 30 June 2024, the turnover from factoring transactions at the Bank was PLN 2.2 billion. In the six months ended 30 June 2024, factoring services were provided by BOŚ S.A. to 3,150 clients, with 21,410 invoices purchased.

Retail clients

The Bank's portfolio for retail clients encompasses all essential products and services available on the Polish banking market, including bank accounts, payment solutions, payment cards, options for managing surplus funds, electronic banking services, and lending products. Additionally, it offers an extensive selection of green financial products designed to support environmentally-friendly solutions, as well as services tailored for VIP clients, managed by dedicated account managers. Regarding payment cards, the Bank continued to issue debit cards featuring images of protected species, aiming to raise clients' awareness of endangered wild animals in Poland and broader environmental issues.

The Bank, in partnership with Mastercard, offered the ‘Points to Start’ promotion. The initiative was part of the Priceless Moments Programme and exclusively targeted new clients. Together with Mastercard, the Bank promoted cashless transactions, which contributed to reinforcing the ecological attitudes of clients, such as supporting the protection of rare species of wild animals and donating tree saplings for reforestation. Clients participating in the promotion earned extra points for their cashless transactions, which they could ultimately redeem for rewards in the Programme.

In the first quarter of 2024, BOŚ S.A. conducted a review of its Fee and Commission Tariff for domestic and international retail banking services. The objective of the review was to optimise and align fee and commission rates with market levels for accounts and payment cards, thereby increasing the Bank's revenue and supporting the process of obtaining consents for electronic correspondence. The changes to the Tariff took effect on 1 June 2024.

Additionally, the Rules for opening and maintaining retail savings and current accounts, the Rules for opening and maintaining basic payment accounts, the Rules for opening and maintaining retail term deposit accounts, and the Rules for issuing and using credit cards were amended to comply with legal requirements, specifically the Act of 26 May 2023 on the mObywatel Application and the Act of 18 November 2020 on Electronic Delivery. The changes took effect on 1 June 2024.

In the area of electronic banking, work is ongoing on the project titled 'Digital Vehicle for Acquiring Bank Deposits' aimed at remotely acquiring clients by facilitating client identification and the opening of savings accounts through the mobile application.

Amounts due to retail clients

Measures taken by the Bank with respect to deposit products for retail clients were aimed at:
- adapting them to the changing market environment;
- maintaining the balance of deposits as needed to meet the Bank's liquidity needs.

The key deposit products for retail clients were:
- current accounts, including personal accounts (EKOkonto bez Kosztów), and savings accounts (EKOkonto Oszczędnościowe) in PLN;
- new funds deposit, as well as standard term deposits and negotiated term deposits.

The Bank focused on building retail deposit balances by promoting new fund deposit products as well as standard deposit products, including options with longer terms, such as a 36-month term. The distinctive feature of promotional deposits for new funds is the ability to create a deposit up to the maximum amount of new funds held. Clients can set up more than one deposit.

The Bank continued a special offer of the EKOkonto Oszczędnościowe bez ograniczeń savings account, which stood out in the market as a savings product with no additional conditions attached for the client to benefit from a higher interest rate (no requirement to have a checking account or to deposit new funds).

The Fee and Commission Tariff stipulates that the Bank exempts savings account holders from fees for internal transfers to deposits established under the same account relationship (where the client is the sole account holder or a joint holder with the same person). This measure supports the sale of deposits and the management of the deposit portfolio through savings accounts.

The Bank's other activities with respect to checking accounts focused on maintaining a transparent offering by retaining the following checking accounts: EKOkonto bez Kosztów, EKOkonto VIP, EKOkonto PRP and EKOkonto oszczędnościowe in the following currencies: PLN, EUR, CHF, USD and GBP.

Credit products for retail clients

In the six months ended 30 June 2024, the Bank conducted a number of promotional campaigns targeting retail clients to support the sales of cash loan products:

- For environmental purposes:
  - 'Green Loan' (Pożyczka zielona) – a promotional cash loan offer, initially available from February 2024 to the end of April 2024, is being continued from May 2024 to the end of July 2024, to finance investments across five categories of green projects:
    - renewable energy sources,
    - energy efficiency/energy retrofitting,
    - waste management,
    - water management/small retention,

- eco-vehicles.

- For use on any personal expenditure:
  - ‘Flexible Loan’ (Pożyczka elastyczna) – a promotional cash loan, initially available from February 2024 to the end of April 2024, is being continued from May 2024 to the end of July 2024, to cater to clients' immediate personal spending needs.
  - ‘Silver Loan’ (Pożyczka srebrna) – a promotional cash loan, available from 24 April 2024 to 30 June 2024, offered on a pre-selected basis to a target group of the Bank’s clients based on the quality and length of the relationships through a telephone campaign carried out by the Operating Branches.

The Bank's regular offerings include the EkoKredyt PV for retail clients. The funds from this loan can be used for:

- the purchase and installation of brand new photovoltaic systems or refinancing the acquisition of a new system,
- the purchase and installation of energy storage systems,
- the purchase and installation of home charging stations,
- the purchase and installation of heat pumps.

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

The Bank's preferential terms for the financial sector feature reduced commission and margin rates compared to the standard mortgage loan offering. The offer targets employees of:

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

The most recognisable mortgage product offered by BOŚ is the Ekologiczny Kredyt Hipoteczny green mortgage loan. To meet clients' expectations and adapt to the dynamic market conditions, the Bank updated the eco-friendly criteria required to qualify for the green mortgage offer, to align them with the Environmental Risk Assessment Principles. The Bank was also engaged in day-to-day management of the BK2% housing loan portfolio, fulfilling the reporting obligations towards BKG and the Ministry of Finance.

In addition, the Bank offers a stock exchange loan designed for individuals with an investment account at BOŚ Brokerage House (DM BOŚ). The loan can be used to:

- buy securities via BOŚ S.A. Brokerage House
  - in organised markets,
  - in primary market or in initial public offerings,
  - in special cases – repay a stock exchange loan previously granted by BOŚ S.A.,
- refinance securities previously bought with the borrower's own funds.

Credit products for micro-enterprises and housing communities

The Bank’s permanent offering also includes loan products specifically designed for micro-enterprises, including sole traders using simplified accounting, as well as housing communities.

Insurance products and additional services

The Bank provides insurance products as additional offerings alongside its banking services.

In the six months ended 30 June 2024, the Bank provided insurance coverage for environmental protection equipment, life and health insurance for borrowers, loss of income insurance, and insurance for payment card holders. The Bank acts as an insurance agent for insurance companies, placing particular emphasis on green insurance products. In partnership with PZU SA, the Bank offers a specialised insurance product called *Ubezpieczenie urządzeń eko* (eco equipment insurance). This coverage is designed for a variety of eco-friendly installations and devices, including photovoltaic systems (complete with car chargers and batteries), solar thermal installations, central heating boilers, heat pumps, and hybrid heating systems.

The Bank offers a variety of additional products that contribute to generating commission income, including Mecenas Direct, a legal assistance service to personal account holders, providing professional legal support via remote communication tools.

3.2. Brokerage business

In the six months ended 30 June 2024, a noticeable upward trend continued in the domestic equity market. All major indices demonstrated gains ranging from +9.3% (Wig20) to +12.9% (Wig). Investor activity in session trading increased on the equity market (+27.3% year on year), remained virtually unchanged on the futures market (+0.3% year on year) and decreased on the NewConnect market (-11.2% year on year). In the case of BOŚ Brokerage House (DM BOŚ), investor activity increased on the equity market (+6.1% year on year) and on the NewConnect market (+6.4%), and declined on the futures market (-5.0% year on year).

In the six months ended 30 June 2024, BOŚ Brokerage House was the leader of the NewConnect market, with a share of 19.7%. Its share in session trading on the WSE equity market and on the futures market over the period was 2.2% and 12.7%, respectively.

The first half of 2024 was a period of continued downturn in the primary capital market. Company flotations on the WSE regulated market resulted from listing transfers from the NewConnect market without new stock issues. Against this challenging background, DM BOŚ carried out a share issue for Lichthund S.A., which made its debut on the NewConnect market in July. The activity of DM BOŚ focused on the issuance of bonds. It was involved as a syndicate member in eight corporate debt offerings for eight issuers: PCC Exol S.A., MCI Management Sp. z o.o., Marvipol Development S.A., PCC Rokita S.A., Kruk S.A., Ronson Development S.A., Kredyt Inkaso S.A., and PGM Vindexus S.A. Over that period, DM BOŚ also served as an issue arranger for 14 municipal bond issues with a total value of approximately PLN 78 million for 11 local government units under bond programmes totalling PLN 209.4 million. It also continued cooperation with AgioFunds TFI and Beta Securities Poland S.A. to promote the domestic market for investment certificates. In the first half of 2024, nine Polish Beta ETF certificates were being traded on the WSE, for which BOŚ Brokerage House acts as an offering broker and market maker.

The six months ended 30 June 2024 saw a further strong increase in the number of investment accounts maintained by DM BOŚ. The total number of investment accounts opened at BOŚ Brokerage House was 8,339, of which 8,286 were brokerage accounts registered with the CSDP. As a result, DM BOŚ secured the second position in the market in terms of the number of open brokerage accounts.

In the six months ended 30 June 2024, a new version of the bossaMobile 2.0 application was deployed at BOŚ Brokerage House, featuring a graphically improved and easier-to-use interface facilitating access to existing and new functionalities for exchange market prices and charts. During the period, BOŚ Brokerage House also provided its clients with access to BossaWebTrader, a new trading platform that will replace the existing system.

With its strong market position and high-quality services, DM BOŚ again won a number of industry awards. For the fifth consecutive year, it was ranked first in the 21st edition of the National Investors' Survey carried out by the Polish Association of Retail Investors (SII). DM BOŚ was also awarded Platinum Megawatt statuettes by the Polish Power Exchange and the Commodity Exchange Clearing House for the highest activity in 2023 on electricity markets and on the Property Rights Market. In May, BOŚ Brokerage House was honoured with the prestigious title of Financial Brand of the Year by *Gazeta Finansowa,* a testament to its commitment to providing clients with superior-quality investment services marked by reliability and professionalism.

3.3. Bank's participation in operational programmes and financial mechanisms, and related cooperation

Collaboration with National and Provincial Funds for Environmental Protection and Water Management

BOŚ collaborates with key institutions that form the environmental protection financing system and play a significant role in efforts to prevent the adverse impacts of climate change: the National Fund for Environmental Protection and Water Management (NFOŚiGW) and its regional branches. The Bank's offering complements the priority programmes implemented by the National Fund for Environmental Protection and Water Management and Provincial Funds for Environmental Protection and Water Management. The collaborative partnerships include the My EV and Clean Air programmes run by the Bank. As the first bank in Poland, Bank Ochrony Środowiska launched lending activities under the banking path framework of the Clean Air government programme on 6 July 2021. The programme is intended for owners and joint owners of single-family residential buildings or separate units in single-family residential buildings with separate entries in land and mortgage registers. By 30 June 2024, clients entered into 625 Clean Air loan agreements with the Bank for a total amount of about PLN 34.1 million.

In addition, BOŚ collaborates with NFOŚiGW in the My EV programme. The programme's status is presented further on in this report.

The Bank has six active cooperation agreements with Provincial Funds for Environmental Protection and Water Management, which focus on providing preferential loans for environmental protection and water management projects. The preferential terms include below-market interest rates on loans or subsidies for loan principal repayment. The agreements specify the scope of the financing and the types of entities eligible for such loans. The financing targets projects focused on:

- atmospheric protection, encompassing heat sources, renewable energy sources, and energy retrofitting;
- water protection, which includes wastewater treatment plants and sewage systems;
- land protection, covering:
  - waste management,
  - removal and neutralisation of products containing substances such as asbestos and xylenamide.

Mój Elektryk **(My EV) programme**

The Bank entered into an agreement with the National Fund for Environmental Protection and Water Management (NFOŚiGW) to administer subsidies for leasing zero-emission vehicles as part of the Priority Programme 'My EV' on 8 September 2021. The purpose of the programme is to support the purchase of zero-emission vehicles. The Bank has PLN 660 million available for subsidies for leases of zero-emission vehicles. The funds are available for use in 2021–2025. As at 31 December 2023, 30 leasing companies had entered into cooperation agreements with the Bank. The list of collaborating companies is available at https://www.bosbank.pl/moj-elektryk

Between 6 December 2021 and 30 June 2024, the Bank received over 20 thousand applications for a total amount of PLN 656.65 million. This translates into an average of 149 applications per week. Between 1 January and 30 June 2024, the Bank received over 5.5 thousand applications for an aggregate amount of PLN 162 million.

Since the launch of the programme until 30 June 2024, the Management Board of the National Fund for Environmental Protection and Water Management approved 131 collective applications relating to subsidies for 18,154 vehicles. The total amount of subsidies under approved applications is PLN 592.15 million, representing 89% of the funds made available to BOŚ for 2021–2025.

The Bank signed subsidy agreements in respect of 13,172 applications for an amount of PLN 449.15 million.

Loans with BGK bonus

Loans granted under the cooperation agreement between BOŚ and Bank Gospodarstwa Krajowego (BGK). A key benefit for the client is the bonus granted and disbursed by BGK, intended for principal repayment:

- energy retrofitting bonus, amounting to 26% of the energy retrofitting project budget (with the possibility of increasing the bonus to 31% if renewable energy sources (RES) are used, or by utilising the TERMO grant for up to 10% of the energy retrofitting costs),
- renovation bonus, amounting to 25% of the renovation project budget.

The product is targeted at housing cooperatives, housing communities, local government units and municipal companies managing municipal resources, retail clients, and micro-enterprises.

Clients receiving a loan with the BGK bonus are also eligible to have 90% of the necessary audit and technical documentation costs reimbursed (out of ELENA grant funds received by BOŚ from the European Investment Bank).

In 2024, BOŚ advanced 37 loans with the BGK bonus totalling approximately PLN 20 million.

ELENA grant

Pursuant to Agreement no. ELENA-2019-157 executed between the Bank and the European Investment Bank (EIB) in February 2022, under the ELENA initiative, the Bank was awarded a grant of EUR 2.59 million. The agreement remains in effect until 28 February 2025.

Grant funds, designated among others for supporting projects aimed at enhancing energy efficiency, are available to investors undertaking projects in areas such as:

- energy retrofitting of residential buildings, public utility buildings and buildings constituting corporate property;
- upgrades of district heating networks,
- construction of electric vehicle charging stations,
- street lighting upgrades.

Eligible for support are public sector entities (local government units and municipal companies), housing sector entities (housing cooperatives and housing communities) and businesses (including SMEs and mid-caps).

The grant support entails financing 90% of the cost of the required technical documentation for the implementation of projects in the specified areas. This funding is distributed through two channels:

- Reimbursement of 90% of the cost of technical documentation for projects carried out by housing sector entities.
- Co-financing of 90% of the cost of technical documentation for projects implemented in areas other than energy retrofitting of multi-family residential buildings.

By the end of June 2024, 33 agreements had been signed for the provision of ELENA grant funds to local government units totalling PLN 3.8 million (i.e. 42% of the funds allocated to support project owners). These agreements will facilitate the development and launch by the local governments of 33 projects, valued at PLN 112.4 million (i.e. 43.2% of the target value).

In addition, by the end of June 2024, PLN 131 thousand had been spent to reimburse costs incurred by housing cooperatives and housing communities – all these investments are financed by the Bank through loans with the BGK bonus.

The total estimated value of projects (implemented by local government units, housing cooperatives/housing communities and SMEs) reportable to EIB is approximately PLN 129 million, i.e. about 50% of the target value set out in the agreement with EIB.

European Union funds under the programme European Funds for a Modern Economy 2021-2027

On 29 December 2022, Cooperation Agreement no. 9/2022/KTEKO was signed with BGK under the European Funds for a Modern Economy 2021-2027 Programme (FENG Programme). The Agreement sets out the terms of cooperation regarding the provision by BOŚ of technology and green loans, as well as the disbursement of technology and green bonuses by BGK.

The FENG environmental credit is a facility for companies aiming to modernise their infrastructure (e.g. buildings, machinery and equipment). The effect of such modernisation must be a reduction of primary energy consumption in the modernised area by at least 30% compared to current consumption. The product is designed for the SME sector as well as small mid-cap and mid-cap enterprises.

- The first call for funding applications was held from June to August 2023. During that period, the Bank issued commitments and signed conditional loan agreements with five clients for a total funding amount of PLN 3.2 million, with the planned value of the projects amounting to PLN 7.2 million.
- On 28 March 2024, BGK announced the second call for funding applications for the FENG Environmental Credit. The application period will run from 25 April to 25 July 2024.

European Union loans financed under the European Funds Scheme for the Lublin Province 2021-2027

BOŚ has been designated by BGK, acting as the Trust Fund Manager, to administer preferential loans aimed at the development of renewable energy sources (RES). The aggregate value of RES loans to be facilitated by BOŚ over a 24-month term is set at PLN 62.5 million, inclusive of PLN 12.5 million to be sourced from BOŚ's own funds. Should the demand for such loans exceed initial projections, BGK retains the option to increase the amount of funds allocated to BOŚ.

The funding can be provided for:

- construction and extension of RES installations for electricity generation (also with energy storage units serving the needs of a given RES source and connection to the grid),
- construction and extension of RES installations for heat production (also with heat storage units serving the needs of a given RES source).

The main groups of potential beneficiaries include: local government units (LGUs), their associations, unions and alliances; organisational units of LGUs with legal personality; municipal companies; housing cooperatives and communities, social housing associations (TBS); hospitals, and other entities involved in healthcare.

JESSICA initiative

JESSICA loans were financed with EU funds under the regional operational programmes of the 2007-2013 edition. The Bank disbursed as loans all funds administered by the Bank under the programme. Currently, BOŚ's role is to passively manage the loan portfolio.

The Bank has acted as the administrator of the Urban Development Fund in the following provinces:

- Province of Szczecin, excluding the Szczecin Metropolitan Area – since 2010;
- Province of Gdańsk, excluding Tricity – since 2011;
- Province of Katowice – since 2011.

As at 30 June 2024.

- 53 loan agreements signed for a total amount of PLN 422.23 million,
- Principal repaid PLN 279.63 million, with the current outstanding balance of PLN 142.60 million.

The Bank is compensated for the processing and administration of JESSICA loans. The fee received in the six months ended 30 June 2024 for managing the JESSICA Initiative was PLN 0.58 million.

JEREMIE initiative

Since 2017, BOŚ S.A. has been acting as a Financial Intermediary for the JEREMIE II Initiative in the Province of Szczecin. The programme is administered on behalf of the Province of Szczecin by Zachodniopomorska Agencja Rozwoju Regionalnego S.A. (ZARR S.A.).

The disbursed loans were funded by the Regional Operational Programme for the Province of Szczecin 2007-2013.BOŚ was selected to act as an intermediary in a competitive process announced by BGK.

In August 2018, the implementation of the facility was concluded. BOŚ S.A. contracted 100% of the funds for qualifying projects, amounting to a total of PLN 65.35 million, including the Bank's own funds of PLN 32.7 million. The outstanding balance as at 30 June 2024 was PLN 47.54 million (with PLN 23.77 million owed to both BOŚ and ZARR S.A.).

The Bank is compensated for the administration of JEREMIE loans. In the six months ended 30 June 2024, it received a management fee of PLN 0.4 million.

BGK portfolio guarantees

On 2 January 2024, a cooperation agreement was signed with BGK for two guarantee products under FG FENG:

- Biznesmax Plus guarantee,
- Ekomax guarantee.

BGK granted separate limits for the Biznesmax Plus guarantee of PLN 150 million and Ekomax guarantee of PLN 80 million.

Within the limit granted for the Biznesmax Plus guarantee, up to 40%, i.e. PLN 60 million, will be available to secure working capital facilities.

Value and number of new portfolio guarantees issued by BGK in the six months ended 30 June 2024 and the utilisation of limits as at 30 June 2024.

BGK portfolio guarantees – active

(PLN thousand)	DE MINIMIS guarantee	Biznesmax Plus guarantee	Ekomax guarantee	Clean Air (*Czyste powietrze*) guarantee
Allocated limit	700,000 (revolving limit)	150,000 (90,000 – investment loans, 60,000 – working capital facilities	80,000	38,800
Availability period	30 Apr 2025	30 Apr 2025	30 Apr 2025	31 May 2025
Utilisation of the limit as at 30 June 2024	566,461	Investment loans 21,400 Working capital facilities	0	27,294
Limit remaining	133,539	128,600 Investment loans 90,000 Working capital facilities 38,600	80,000	11,506
Amount and number of new guarantees issued in the six months ended 30 June 2024	147,200 (106)	0 (0) Investment loans 21,400 (10) Working capital facilities	0 (0)	4,205 (72)

Based on BGK–Zlecenia

In the six months ended 30 June 2024, clients of the Bank who utilised the Biznesmax FG POIR Guarantee submitted 38 applications for interest subsidies, for a total amount of PLN 6.28 million. The subsidies were disbursed to the clients (guarantees were available until 31 December 2023).

3.4. Awards and recognitions

Awards and recognitions

(January) BOŚ with HR Quality Certificate 2024

The Polish Human Resources Management Association (PSZK) awarded BOŚ the HR Quality Certificate for 2024. These certificates are presented annually to distinguished employers based on the results of a comprehensive HR process survey and an analysis of a selected HR project. Our ‘Out For Well-Being’ project was evaluated, which included consultations, workshops, webinars, and e-learning sessions. Our initiatives were particularly appreciated: a series of short relaxation sessions and the ‘Short Break’ campaign, which aimed to enhance efficiency by shortening standard meeting durations, allowing for brief rest periods between meetings. The survey results were also positively verified, highlighting internship programmes, onboarding practices, professional development opportunities (such as education funding), additional benefits (such as Legimi), and flexible remote work options.

The HR Quality Certificate for 2024 reaffirms that BOŚ is a reputable, reliable, and trustworthy employer that applies the latest solutions in human capital management.

(January) Top Employer 2024 Poland title for BOŚ

BOŚ has earned this title for the second consecutive year. The recognition by the international research organisation, Top Employers, confirms the Bank's commitment to creating excellent working conditions and caring for its employees. These efforts establish BOŚ as a trustworthy employer that prioritises employee well-being and implements HR practices that align with current needs and the latest trends.

(March) BOŚ economists again in the forefront

In this year's 16th edition of the competition for the best macroeconomic analyst, Łukasz Tarnawa and Aleksandra Świątkowska secured second place. The BOŚ team deserves special recognition for its consistent strong performance in the macroeconomic analyst competition. They achieved first place in the medium-term forecast ranking in 2013, secured second place in 2020, and third place in 2021. In the short-term forecast competition organised by *Parkiet*, our economists won four times (in 2022 and three consecutive times from 2017 to 2019),marking the best ever result in the *Parkiet* competition. Organised since 2007, it saw participation from 35 analytical centres in its latest edition.

The *Parkiet* and *Rzeczpospolita* competition assesses the accuracy of macroeconomic forecasts for the upcoming year. Participants submit forecasts four times a year for the four consecutive quarters, covering eight macroeconomic and market indicators:GDP, CPI inflation, investment, consumption, unemployment rate, NBP reference rate, and the exchange rate of the złoty against the euro and the dollar.

(March) Distinction for BOŚ as the leader of the Biznesmax guarantee for green projects

On 20 March, during the event titled 'Biznesmax Guarantee as an Effective Instrument for Supporting Innovative Enterprises – Programme Summary', BGK recognised BOŚ as the leader in Biznesmax guarantees granted for green projects.

The Biznesmax Guarantee was financed with EU funds (Innovative Economy Programme for 2014–2020). Small and medium-sized enterprises (SMEs) were eligible to use this guarantee. Throughout the duration of the programme, BOŚ issued 218 guarantees for a total amount of approximately PLN 505 million, securing loans worth over PLN 1 billion. Starting from February this year, we offer the Biznesmax Plus and Ekomax guarantees for businesses in the SME sector, as well as for small mid-caps and mid-caps (i.e. companies employing up to 3,000 people). Both guarantees are financed by the new EU programme – European Funds for a Modern Economy 2021–2027.

A key advantage of BOŚ is its ability to utilise EU funds from the ELENA grant. Clients applying for an investment loan with the Ekomax guarantee can additionally seek funding for 90% of the costs of an energy audit, which is necessary to obtain a principal subsidy for the loan, and – in justified cases – funding for project documentation.

(April) BOŚ as best rated bank according to NetMonitor Banking Review

In its report on the Polish banking sector at the beginning of April, BOŚ was named as first among the TOP 3 best rated Polish banks, alongside Santander Bank Polska and Nest Bank S.A.

(April) Five BOŚ practices highlighted in FOB report

The Responsible Business Forum (FOB) has released its 22nd report titled 'Responsible Business in Poland. Good Practices', providing Poland's most comprehensive overview of sustainability projects.

This year's report, which summarises 1,046 projects undertaken by 266 companies, includes educational initiatives of the BOŚ Foundation: the Filmeko film competition for schools, Fit Diet, Fit Brain (*Zdrowo jem, więcej wiem*), a nationwide project for the youngest students; the Ecomurals – World in the Eyes of the Young (*Ekomurale – Świat oczami młodych*) creative grant competition, as well as grants for 10 youth groups and 5 science clubs active in environmental protection.

FOB has also mentioned Bank Ochrony Środowiska's EcoBusiness Stop project, a platform through which BOŚ experts share their knowledge to promote general environmental awareness. It is a platform for dialogue between the Bank's environmental engineers and market participants to raise awareness of green finance and sustainable investment projects.

The distinction by FOB is a token of appreciation for the Bank's activities, confirming their alignment with the principles of sustainability and corporate social responsibility.

(April) BOŚ honoured as a Laureate of the Social Responsibility Leaders programme

BOŚ was again named a Laureate of the Social Responsibility Leaders programme 2024, in the 17th edition of the project organised by editors of *Business Forum*, *Biznes Trendy* and *SpolecznieOdpowiedzialni.info*.

The Bank was announced winner in three categories: Good Employer 2024, ECO Company 2024, and Good Company 2024.

These titles serve as a confirmation of the Bank's reputation as a robust organisation that is attentive to the needs of local communities and its employees, seen as an employer of choice.

(April) Golden Banker – BOŚ topping the ranking in social media category

In the 15th edition of the Golden Banker ranking, BOŚ was ranked third among banks standing out for their effective social media presence. The selection of BOŚ as a winner of Poland's largest survey of the banking sector, organised by *Bankier.pl* and *Puls Biznesu*, came as one of the biggest surprises of this year's ranking, justified by the judging panel as follows: "The Bank consistently pursues its mission on social media channels, not trying to be a 'cool bank' but placing the primary focus on environmental education."

Bank Ochrony Środowiska is present on all popular social networking sites: Facebook, LinkedIn, Twitter (X), and YouTube.

In the same ranking, the Bank was ranked seventh in the Branches category. The result – achieved through efforts of employees of BOŚ branches – improved by 10 pp year on year, moving the Bank up the list by three places. This testifies to the amount of work put in by the Bank to improve service quality. Additionally, the result achieved by BOŚ branches gave it a better position in the overall ranking. We were ranked 10th overall (up from 11th place in 2023 and 12th place in 2022). The final result was also boosted by the ranking of the BOŚ helpline, which took the eighth place (12th in 2023).

(June) BOŚ comes 17th in the 'Responsible Management ESG Ranking'

Bank Ochrony Środowiska was covered by 18th edition of the 'Responsible Management ESG Ranking' study organised by the Kozminski Business Hub at Kozminski University. Evolved from the Responsible Companies Ranking, it has long been recognised by the market as a reliable gauge of the maturity of responsible management among the largest companies.

In this year's ranking BOŚ emerged 17th with a score of 79 points, having advanced by three places on the previous year. Notably, for the first time BOŚ became a Leader of the 'G' Area, standing for Governance, i.e. a system of rules designed to ensure proper corporate management.

In the 'Banking, Financial and Insurance Sector' category, Bank Ochrony Środowiska took eighth place, ranking just behind large international banking corporations.

BOŚ's improvement in rankings

Wprost published its 10th list of '200 largest Polish companies', ranking BOŚ as 120th, up from 200th the year before.
Gazeta Finansowa – BOŚ gained in three rankings:
'50 most dynamic financial institutions' – having advanced to 28th place,
'100 largest financial institutions' – where it was ranked 21st;
'1,000 largest companies in Poland' – Bank Ochrony Środowiska Group ranked 240th, up from 294th in 2023.
Rzeczpospolita – on the '500 List' published in May, BOŚ ranked 236th, compared with 277th a year earlier.

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

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

Lender	Loan amount	Available amount	Currency	Contract date	Principal repayment date
Council of Europe Development Bank, Paris	50,000	-	EUR	8 March 2010	Tranche 1 22 April 2025
European Investment Bank, Luxembourg	75,000	-	EUR	13 June 2017	Tranche 1 15 December 2028, Tranche 2 15 December 2029, Tranche 3 15 December 2030
European Investment Bank, Luxembourg	42,000	33,000	EUR	28 October 2021	Tranche 1 16 June 2031, maturity up to 12 years from the date of disbursement
TOTAL EUR	**167,000**	**33,000**			

5. Selected operational data of the Group

SELECTED OPERATIONAL DATA, all amounts in thousands	30 Jun 2024	31 Dec 2023	Change (%)
BANK OCHRONY ŚRODOWISKA S.A.			
Number of clients	150.1	154.0	-2.5
Number of retail clients	140.3	143.8	-2.4
Number of micro-enterprise clients	6.2	6.5	-4.6
Number of institutional clients	3.6	3.7	-2.7
Number of clients using electronic channels	98.2	100.8	-2.6
Number of checking accounts[1]	151.9	155.4	-2.3
Debit and credit cards in total	57.3	59.1	-3.0
Number of branches	54	54	0.0
DOM MAKLERSKI BOŚ S.A.			
Number of investment accounts	189.6	181.3	4.6
including online accounts	187.3	179.0	4.6
Number of branches	8	8	0.0

As at the end of March 2024, the Bank had 54 outlets, including:

- 16 business centres serving corporate and SME clients only,
- 38 branches serving retail clients.

6. Development directions for the Bank

On 15 December 2023, the Bank published a new Strategy for 2024-2026.

By the end of 2026, the Bank aims to achieve the following objectives as set in the Strategy:

- a net banking income of PLN 1 billion,
- a return on equity (ROE) over 10%,
- a C/I ratio at <46 %;
- a non-performing loan (NPL) ratio at 7.5%,
- the share of green loans in the total loan portfolio over 50%,
- employee engagement above 58%.

These objectives and strategy pillars are not to be interpreted as forecasts or predictive outcomes (including financial forecasts) but instead underline the Bank's strategic intent over the span of 2024-2026.

In line with the Bank's strategy, the focus is on supporting clients in their green transition efforts, particularly corporate clients. The Bank strives to achieve sustainable profitability by executing key strategic initiatives and strengthening its position as a bank specialised in financing the green transition. This is reflected in the Bank's mission:

> 'We provide comprehensive finance and support for initiatives driving the transition towards a greener future.'

and the Bank's vision:

> 'BOŚ is the premier specialist bank for corporate clients aiming to invest in projects that foster environmental sustainability. We are a valued partner in banking services'.

Among the priorities for the coming years, the Bank emphasises developing relationships with existing clients and acquiring new ones through a comprehensive product offering for companies, particularly in the area of green products. Other priorities include improving product profitability, simplifying interactions with clients, optimising processes, and enhancing digitalisation to increase the Bank's overall efficiency and profitability.

Activities undertaken as part of the Strategy

In operationalising its Strategy, the Bank defined key strategic activities and took steps to align its organisational structure with the stated priorities. Seeking to increase client focus and drive business growth, it made a decision to establish, as of 1 July 2024, two Business Areas dedicated to serving individual client segments as separate units within the Bank's organisational structure – the Corporate Area and the SME, Micro-Enterprise and Retail Banking Area. The Management Board aims to position BOŚ as a modern and flexible organisation, fostering equal-footing relationships with its clients and expanding the scale of its operations.

As regards key strategic activities, in the six months ended 30 June 2024 the Bank implemented improvements to a number of processes, including corporate lending, My EV programme and AML processes. The Bank's efforts to further enhance client service earned it the highest position in years in the Golden Banker 2024 ranking, where BOŚ surpassed a number of leading competitors, including mBank and Citibank. In the same study, the Bank was also recognised for its social media presence (having been named among the top three banks in that category), ahead of much larger competitors.

In the six months ended 30 June 2024, the Bank was also committed to building environmental and ESG awareness among its clients, having prepared a sustainable development manual for SMEs, provided to its existing and prospective clients at the beginning of the third quarter. BOŚ also carried on its policy of providing loans intended to support the green transition.

The Bank is focused on implementing strategic initiatives that strengthen client relationships and increase total assets, while enhancing the speed and cost of service. The implementation of the strategic goals and objectives for 2024–2026 is intended to fully unlock and leverage the Bank's potential. The Bank aims to become faster, more flexible, and more accessible to clients, leading to a greater scale of operations. These goals will be pursued in accordance with sustainability principles, with particular attention to environmental, social, and corporate governance standards. Thanks to its unique experience and the expert knowledge of its employees, the Bank is naturally positioned to play a leading role in financing and supporting the pro-environmental initiatives of Polish enterprises.

Key capex projects

In addition to the key strategic activities mentioned above, in the second quarter of 2024 the Bank pursued 32 projects. These projects spanned both initiatives of strategic importance and operational improvements.

In addition, projects were undertaken by the Bank in the regulatory area, including primarily the implementation of a new Client Risk Assessment Model as part of anti-money laundering and counter-terrorist financing measures in the regulatory, process and system areas (AML-Module) and the implementation of a foreign payment monitoring system (AML-Payments). The Bank was also aligned with the requirements of the Financial Information System (SInF) Act making relevant adjustments to its reporting systems, and the requirements of the Act of 20 May 2021 on Safeguarding the Rights of Purchasers of Dwellings or Single-Family Houses and Establishing the Developers Guarantee Fund. Project work was also begun to deploy a new Contact Centre service system and to align the Bank with the requirements of Regulation (EU) of the European Parliament and of the Council on digital operational resilience for the financial sector.

7. Organisation of the Group

Structure of the Group

Consolidated subsidiaries of the BOŚ Group as at 30 June 2024:

Subordinated entities	Registered office	% equity interest as at	% voting interest as at	Consolidation method
Direct subsidiaries				
Dom Maklerski BOŚ S.A.	Warszawa	100%	100%	Full consolidation
BOŚ Leasing - EKO Profit S.A.	Warszawa	100%	100%	Full consolidation
Indirect subsidiary (subsidiary of BOŚ Leasing - Eko Profit S.A.)				
MS Wind sp. z o. o.	Warszawa	100%	100%	Full consolidation

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

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

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

III. FINANCIAL RESULTS AND OPERATIONS

1. Financial results of the Group

1.1. Statement of profit or loss

STATEMENT OF PROFIT OR LOSS, PLN thousand	H1 2024	H1 2023	Change (%)
Interest and similar income	713,931	811,056	-12.0
Interest expense and similar charges	-311,511	-400,153	-22.2
Net interest income	**402,420**	**410,903**	**-2.1**
Fee and commission income	84,343	85,589	-1.5
Fee and commission expense	-20,683	-21,602	-4.3
Net fee and commission income	**63,660**	**63,987**	**-0.5**
Dividend income	12,185	8,160	49.3
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	24,114	26,504	-9.0
Gain (loss) on investment securities	29	-	x
Gain (loss) on hedge accounting	-962	-1,242	-22.5
Gain (loss) on foreign exchange transactions	6,357	349	1,721.5
Gain (loss) on derecognition of financial instruments	309	571	-45.9
Other income	21,837	23,462	-6.9
Other expenses	-46,063	-22,603	103.8
Effect of legal risk of mortgage loans denominated in foreign currencies	-107,523	-161,793	-33.5
Net impairment losses	3,468	6,028	-42.5
Administrative expenses	-291,020	-255,490	13.9
Profit (loss) before tax	**88,811**	**98,836**	**-10.1**
Income tax expense	-38,580	-43,085	-10.5
NET PROFIT (LOSS)	**50,231**	**55,751**	**-9.9**

In the period from 1 January to 30 June 2024, the BOŚ Group earned a net profit of PLN 50.2 million, compared with PLN 55.8 million reported in the corresponding period of 2023.

In the six months to 30 June 2024, the BOŚ Group generated net interest income of PLN 402.4 million, a decrease of PLN 8.5 million, or 2.1%, year on year. The decrease in net interest income was mainly attributable to the recognition of a provision for ‘loan repayment holidays’.

In the six months ended 30 June 2024, interest and similar income fell by PLN 97.1 million, or 12.0%, on the first half of 2023, due primarily to lower interest rates and the WIBOR benchmark rates. Interest on non-trading investment debt securities went down by PLN 68.1 million, or 23.4%. A decrease was also recorded in interest income from retail clients – down by PLN 21.3 million, or 19.6%, and in income on amounts due from banks and the central bank – down by PLN 12.9 million, or 37.2%.

The average base rate on the Bank’s PLN-denominated loans in the six months ended 30 June 2024 was 7.97%, compared with 9.02% in the first half of 2023. For foreign currency loans, the rate was 6.66%, compared with 4.89% in the first half of 2023.

NET INTEREST INCOME, PLN thousand	H1 2024	H1 2023	Change (%)
Interest and similar income:	**713,931**	**811,056**	**-12.0**
Amounts due from banks and the central bank	21,783	34,659	-37.2
Amounts due from institutional clients	372,325	364,318	2.2
Amounts due from retail clients	87,363	108,656	-19.6
Non-trading investment debt securities	222,675	290,816	-23.4
Financial instruments held for trading	1,589	1,937	-18.0
Hedging transactions	8,196	10,670	-23.2
Interest expense and similar charges on:	**311,511**	**400,153**	**-22.2**
Bank accounts and deposits from banks	2,061	1,487	38.6
Bank accounts and deposits from institutional clients	103,617	136,594	-24.1
Bank accounts and deposits from retail clients	175,780	233,614	-24.8
Borrowings from clients	8,955	8,054	11.2
JESSICA lending support funds	366	663	-44.8
Financial instruments – own debt securities	19,131	16,745	14.2
Lease liabilities	1,592	1,756	-9.3
Other	9	1,240	-99.3
NET INTEREST INCOME	**402,420**	**410,903**	**-2.1**

Interest expense and similar charges decreased by PLN 88.6 million, or 22.2%, compared with the first half of 2023, primarily due to a reduction in interest expense on retail deposits by PLN 57.8 million, or 24.8%, and a decrease in the costs of institutional accounts and deposits by PLN 33.0 million, or 24.1%. Costs of financial instruments (own debt securities) increased by PLN 2.4 million, or 14.2%.

The decrease in interest expense was mainly due to reduced interest rates on deposits. The average base interest rate on deposits placed with the Bank branches between 1 January and 30 June 2024 was as follows:

- 3.96%, compared with 5.08% in the first half of 2023, for PLN deposits,
- 1.07%, compared with 0.60% in the first half of 2023, for foreign currency deposits.

The Group's net fee and commission income amounted to PLN 63.7 million, down by PLN 0.3 million, or 0.5%, from the first half of 2023.

Decrease was seen mainly in loan commission income, which fell by PLN 2.1 million, or 11.0%. On the other hand, increase was recorded in fees for maintaining client accounts and for other domestic and international settlement transactions, which rose by PLN 0.6 million, or 3.5%.

Fee and commission expense fell by PLN 0.9 million, or 4.3%, due primarily to lower brokerage service fees, which declined by PLN 1.3 million. On the other hand, fee expense attributable to payment cards rose by PLN 0.3 million, or 9.4%.

NET FEE AND COMMISSION INCOME, PLN thousand	H1 2024	H1 2023	Change (%)
Fee and commission income	**84,343**	**85,589**	**-1.5**
Brokerage service fees	44,291	44,642	-0.8
Fees for maintaining client accounts, other domestic and international settlement transactions	18,109	17,504	3.5
Commission fees on credit facilities	17,322	19,457	-11.0
Commission fees on guarantees and letters of credit	4,212	3,705	13.7
Fees for portfolio management services and other management fees	405	278	45.7
Other fees	4	3	33.3
Fee and commission expense	**20,683**	**21,602**	**-4.3**
Brokerage fees, including:	15,883	17,133	-7.3
for custody services	473	414	14.3
Payment card fees	3,923	3,585	9.4
Current account fees	293	296	-1.0
ATM service charges	242	218	11.0
Fees on amounts due from clients	3	4	-25.0
Other fees	339	366	-7.4
TOTAL NET FEE AND COMMISSION INCOME	**63,660**	**63,987**	**-0.5**

Gain (loss) on financial instruments measured at fair value through profit or loss was PLN 24.1 million, compared with PLN 26.5 million in the same period of 2023.

The effect of legal risk of mortgage loans denominated in foreign currencies was PLN -107.5 million, compared with PLN -161.8 million in the six months ended 30 June 2023. The increase reflects updates to the model parameters determining provisions, notably a significant deterioration in the indicator for awarded interest on delayed payments calculated from the date of the lawsuit and an increase in new lawsuits concerning EUR-denominated loans. The Bank will continue to monitor emerging trends in case law, track the influx of new cases, and thoroughly study their effect on the parameters of the estimation model.

In the six months ended 30 June 2024, impairment losses totalled PLN 3.5 million, relative to PLN 6.0 million in the first half of 2023. The positive result in impairment charges was mainly attributable to the reversal of provisions on the retail portfolio and on securities measured at fair value through other comprehensive income.

Administrative expenses of the Group increased by PLN 35.5 million, or 13.9%, relative to the same period of 2023. The item that grew the most was employee benefits expense, which rose by PLN 25.9 million, or 20.4%, primarily due to salary and wage adjustments to market levels for individual positions within the Bank, an increase in employment, and recognised provisions for bonuses. Another significant driver of administrative expenses were material costs, which increased by PLN 7.2 million, or 7.8%. The Group incurred lower costs of contributions and payments to the BFG: the reduction in costs of PLN 2.4 million, or 10.7%, was primarily driven by the BFG's decision to levy a lower contribution to the Guarantee Fund for 2024 compared with the previous year.

ADMINISTRATIVE EXPENSES, PLN thousand	H1 2024	H1 2023	Change (%)
Employee benefits	152,919	126,980	20.4
Administrative expenses, including:	99,521	92,292	7.8
material costs	69,393	62,343	11.3
taxes and charges	7,768	5,447	42.6
contribution and payments to BGF	20,243	22,667	-10.7
contribution and payments to PFSA	1,709	1,447	18.1
contribution to cover operating expenses of Financial Ombudsman	348	328	6.1
contribution to Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)	60	60	0.0
Amortisation and depreciation, including:	38,580	36,218	6.5
depreciation of property, plant and equipment	10,196	9,740	4.7
amortisation of intangible assets	19,656	17,987	9.3
depreciation of rights-of-use assets	8,728	8,491	2.8
TOTAL ADMINISTRATIVE EXPENSES	**291,020**	**255,490**	**13.9**

The Bank continuously implements measures to optimise administrative costs, both at the budgeting stage and as part of its day-to-day management. The Bank strives to maximise the utilisation of its existing physical and personnel resources. This approach allows it to effectively manage cost growth while ensuring the smooth and secure operation of the organisation in compliance with applicable laws and supervisory requirements. The Bank also conducts regular evaluations of the efficiency and profitability of individual outlets within its network.

As at 30 June 2024, the Bank employed 1,297 persons (FTEs), compared with 1,272 at the end of the first half of 2023. The workforce rose by 2.0% at the Bank and 1.9% at the subsidiaries relative to 30 June 2023. The table below presents employment (FTEs) at the Bank and its subsidiaries. The workforce at the BOŚ Group increased by 2.0% on 30 June 2023.

EMPLOYMENT, FULL-TIME EQUIVALENTS	30 Jun 2024	30 Jun 2023	Change (%)
Employment at BOŚ S.A.	1,297	1,272	2.0
Employment at subsidiaries	327	321	1.9
EMPLOYMENT AT THE BOŚ GROUP	**1,624**	**1,593**	**2.0**

1.2. Statement of financial position of the Group

As at 30 June 2024, the Group's total assets stood at PLN 21,028.6 million, having decreased by 4.6% on 31 December 2023.

Changes in the structure of the Group's assets

As at 30 June 2024, amounts due from clients had the highest share in total assets, at 51.3%. Their share in total assets increased by 2.4 pp relative to the end of 2023, while the share of investment securities decreased by 2.9 pp.

ASSETS, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Cash and balances with central bank	663,176	584,089	13.5
Amounts due from banks	214,183	162,781	31.6
Financial assets held for trading	187,960	169,494	10.9
Derivative hedging instruments	9,340	15,556	-40.0
Investment securities:	8,448,481	9,484,770	-10.9
Amounts due from clients, including:	10,791,443	10,767,436	0.2
measured at amortised cost	10,791,371	10,767,297	0.2
measured at fair value through profit or loss	72	139	-48.2
Intangible assets	106,818	131,833	-19.0
Property, plant and equipment	87,291	92,327	-5.5
Right of use – leases	56,374	53,967	4.5
Tax assets:	140,168	158,734	-11.7
Other assets	323,342	411,464	-21.4
TOTAL ASSETS	**21,028,576**	**22,032,451**	**-4.6**

Amounts due from clients

The carrying amount of amounts due from clients of the Group as at 30 June 2024 was PLN 10,791.4 million, an increase of 0.2% on 31 December 2023.

Amounts due from institutional clients measured at amortised cost accounted for the highest share of total amounts due from clients, at 81.1%. Their share increased by 1.3 pp on year-end 2023. Amounts due from institutional clients measured at amortised cost were PLN 8,747.9 million.

Amounts due from institutional clients measured at amortised cost increased by PLN 162.4 million, or 1.9%.

The share of amounts due from retail clients measured at amortised cost in total amounts due decreased by 1.3 pp, to 18.6%. The amount of retail loans measured at amortised cost was PLN 2,006.9 million as at 30 June 2024, compared with PLN 2,140.9 million at year-end 2023. Amounts due from retail clients measured at amortised cost decreased by PLN 134.0 million, or 6.3%.

Amounts due from clients

AMOUNTS DUE FROM CLIENTS, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Measured at amortised cost	**10,754,815**	**10,726,424**	**0.3**
Amounts due from retail clients	**2,006,922**	**2,140,943**	**-6.3**
overdraft facilities	771	1,722	-55.2
cash loans	225,430	243,660	-7.5
housing loans	1,585,807	1,695,002	-6.4
other credit facilities	194,914	200,559	-2.8
Amounts due from institutional clients	**8,747,893**	**8,585,481**	**1.9**
working capital facilities	999,115	901,662	10.8
term facilities	5,927,164	6,023,495	-1.6
factoring receivables	506,204	464,404	9.0
lease receivables	242,612	240,526	0.9
purchased receivables	67,841	72,864	-6.9
commercial paper	1,004,957	882,530	13.9
Measurement at fair value through profit or loss	**72**	**139**	**-48.2**
Amounts due from retail clients	**54**	**109**	**-50.5**
overdraft facilities	-	-	x
housing loans	22	43	-48.8
other credit facilities	32	66	-51.5
Amounts due from institutional clients	**18**	**30**	**-40.0**
working capital facilities	-	-	x
term facilities	18	30	-40.0
Total	**10,754,887**	**10,726,563**	**0.3**
Margin deposits	31,784	34,296	-7.3
Other amounts due from clients	4,772	6,577	-27.4
TOTAL AMOUNTS DUE FROM CLIENTS	**10,791,443**	**10,767,436**	**0.2**

Housing loans are the largest item among retail loans measured at amortised cost. As at 30 June 2024, they amounted to PLN 1,585.8 million compared with PLN 1,695.0 million as at 31 December 2023.

The largest decline was seen in housing loans denominated in CHF and EUR. The decrease is attributable to adjustments in legal risk provisions for foreign currency loans, concluded settlements, and early repayments.

Housing loans

HOUSING LOANS, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Loans measured at amortised cost	1,585,807	1,695,002	-6.4
Housing loans in PLN	1,187,352	1,194,758	-0.6
Housing loans in CHF	92,233	139,620	-33.9
Housing loans in EUR	293,003	344,047	-14.8
Housing loans in USD	13,219	16,577	-20.3
Loans measured at fair value through profit or loss	**22**	**43**	**-48.8**
Housing loans in PLN	22	43	-48.8
TOTAL HOUSING LOANS	**1,585,829**	**1,695,045**	**-6.4**

Foreign currency loans accounted for 25.1% of total housing loans (29.5% at year-end 2023). The share of housing loans denominated in CHF in the total loan portfolio of the Group (net) was 0.9%, having decreased by 0.4 pp on year-end 2023.

Balance of green loans

The balance of green loans according to the Bank's internal classification as at 30 June 2024 (nominal amount) was PLN 4,743.9 million, a decrease of 3.6% on 31 December 2023. The green loans accounted for 39% of the Bank's total lending portfolio (vs 41% as at 31 December 2023).

GREEN LOANS, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Green loans to institutional clients	4,348,061	4,513,330	-3.7
Green loans to retail clients	395,863	409,739	-3.4
GREEN LOANS	**4,743,923**	**4,923,069**	**-3.6**

Total loan sales

TOTAL LOAN SALES, PLN thousand	H1 2024	H1 2023	Change (%)
Loans to institutional clients in the period	1,795,462	1,827,211	-1.7
Loans to retail clients in the period	120,634	87,117	38.5
LOANS MADE IN THE PERIOD	**1,916,096**	**1,914,329**	**0.1**

In the period from 1 January to 30 June 2024, the BOŚ Group granted loans amounting to PLN 1,916.1 million, which represented a 0.1% increase compared with the same period last year. The growth was attributable to the retail client segment. Over 49.7% of the loans made in the six months ended 30 June 2024 were green loans.

Sales of green loans

GREEN LOAN SALES, PLN thousand	H1 2024	H1 2023	Change (%)
Sales of loans to institutional clients in the period	921,764	845,541	9.0
Sales of loans to retail clients in the period	31,149	20,212	54.1
SALES OF GREEN LOANS IN THE PERIOD	**952,913**	**865,753**	**10.1**

In the six months ended 30 June 2024, sales of new green loans amounted to PLN 952,9 million, representing a 10.1% year-on-year increase. The vast majority (in value terms) of the new green loans were made to institutional clients (97%). Loans for energy and construction projects represented the largest share of the total.

Quality of the Group's loan portfolio

The share of amounts due from clients with indications of impairment and impaired (Bucket 3) in the loan portfolio measured at amortised cost was 13.1% as at 30 June 2024, compared with 12.6% as at year-end 2023.

As at 30 June 2024, the loan loss provision coverage ratio for Bucket 3 loans was 52.0% relative to 51.7% as at 31 December 2023.

QUALITY OF THE GROUP'S LOAN PORTFOLIO, PLN thousand	30 Jun 2024	%	31 Dec 2023	%
AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST				
Amounts due from clients without indications of impairment, including:	10,078,799	86.0	10,081,168	86.5
exposures without significant increase in credit risk since initial recognition (Bucket 1)	8,954,706	76.5	9,027,502	77.5
exposures with significant increase in risk since initial recognition (Bucket 2)	1,124,093	9.6	1,053,666	9.0
Amounts due from clients with indication of impairment, impaired (Bucket 3)	1,539,105	13.1	1,472,394	12.6
Amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	94,997	0.8	100,869	0.9
Total amounts due from clients measured at amortised cost (gross)	**11,712,901**	**100.0**	**11,654,431**	**100.0**
Impairment losses on:				
amounts due from clients – (Bucket 1)	-120,629		-121,105	
amounts due from clients – (Bucket 2)	-58,518		-64,508	
amounts due from clients – (Bucket 3) with indication of impairment	-800,179		-760,846	
amounts due from clients that were credit-impaired at the date of initial recognition (POCI)	21,240		18,452	
Total impairment losses	-958,086		-928,007	
Total amounts due from clients measured at amortised cost (net)	**10,754,815**		**10,726,424**	
AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS				
Fair value	72		139	
Total amounts due from clients measured at fair value through profit or loss	**72**		**139**	
Margin deposits	31,784		34,296	
Other amounts due from clients	4,772		6,577	
Total amounts due from clients	**10,791,443**		**10,767,436**	

Equity and liabilities of the Group

EQUITY AND LIABILITIES OF THE GROUP, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Amounts due to central bank and other banks	282,257	75,146	275.6
Financial liabilities held for trading	70,016	79,920	-12.4
Amounts due to clients	17,362,997	18,565,197	-6.5
Subordinated liabilities	445,983	447,184	-0.3
Provisions	300,597	256,289	17.3
Tax liabilities	1,842	3,260	-43.5
Lease liabilities	54,066	53,253	1.5
Other liabilities	315,125	403,582	-21.9
Total equity	**2,195,693**	**2,148,620**	**2.2**
TOTAL EQUITY AND LIABILITIES	**21,028,576**	**22,032,451**	**-4.6**

As at 30 June 2024, amounts due to clients represented the largest share (82.6%) of total equity and liabilities. Their share decreased by 1.7 pp on 31 December 2023.

Equity was PLN 2,195.7 million at the end of the first half of 2024, having increased by PLN 47.1 million, or 2.2%, mainly due to net profit and a positive effect of an increase in the gross amount of securities measured at fair value through other comprehensive income, gross.

AMOUNTS DUE TO CLIENTS, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Retail clients	10,350,013	10,669,066	-3.0
current/checking accounts	4,800,367	4,624,837	3.8
term deposits	5,549,646	6,044,229	-8.2
Institutional clients	6,502,116	7,204,703	-9.8
current/checking accounts	4,067,410	4,627,042	-12.1
term deposits	2,434,706	2,577,661	-5.5
Other clients	80,793	208,099	-61.2
Borrowings from international financial institutions	409,921	439,283	-6.7
Lending support funds	20,154	44,046	-54.2
TOTAL AMOUNTS DUE TO CLIENTS	**17,362,997**	**18,565,197**	**-6.5**

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

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

As at 30 June 2024, amounts due to clients of the Group were PLN 17,363.0 million, relative to PLN 18,565.2 million at year-end 2023.

Amounts due to retail clients decreased by PLN 319.1 million, or 3.0%, in the first six months of 2024. Amounts due to institutional clients fell by PLN 702.6 million, or 9.8%.

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

In the six months ended 30 June 2024, the Group did not take out any credit facilities or sign any borrowing, surety or guarantee agreements not related to its operating activities.

1.3. Contingent assets and contingent liabilities of the Group

Contingent assets and liabilities, PLN thousand	30 Jun 2024	31 Dec 2023	Change (%)
Contingent liabilities:	**3,429,339**	**3,797,386**	**-9.7**
Financial assets, including:	2,870,061	3,252,643	-11.8
open lines of credit, including:	2,846,274	3,249,265	-12.4
revocable	2,431,267	2,763,285	-12.0
irrevocable	415,007	485,980	-14.6
open import letters of credit	23,787	3,378	604.2
Guarantees, including:	514,469	534,943	-3.8
credit repayment sureties and guarantees	12,739	12,739	0.0
performance bonds	501,730	522,204	-3.9
Underwriting	44,809	9,800	357.2
Contingent assets:	2,274,216	2,396,932	-5.1
Financial assets, including:	**142,329**	**143,484**	**-0.8**
open lines of credit	142,329	143,484	-0.8
Guarantees	2,108,466	2,231,402	-5.5
Other	23,421	22,046	6.2

Total contingent liabilities of the Group as at 30 June 2024 were PLN 3,429.3 million, including financial liabilities of PLN 2,870.1 million. As at 30 June 2024, total outstanding guarantees and sureties provided by the Bank, disclosed off-balance sheet, were PLN 514.5 million:

- all guarantees were provided by the Bank to residents,
- the highest guarantee was for PLN 59,650 thousand,
- the guarantees mainly comprised domestic performance bonds and domestic payment guarantees.

As at 30 June 2024, the guarantees were issued at the request of (in value terms):

- non-financial entities – 99.2%
- central and local government institutions – 0.8%.

Sureties and guarantees granted and obtained

In the six months ended 30 June 2024, the Bank granted 73 guarantees and sureties for a total amount of PLN 106.9 million, of which 57 guarantees and sureties for a total amount of PLN 95.2 million were outstanding as at 30 June 2024 (2023: 160 guarantees and sureties granted for a total amount of PLN 264.4 million, of which 103 guarantees and sureties for a total amount of PLN 246.9 million were outstanding as at 31 December 2023).

Maturities of the outstanding guarantees and sureties granted in the six months ended 30 June 2024 were as follows (in value terms):

- from 1 month to 3 years – 84.7%,
- from 3 to 5 years – 11.3%,
- more than 5 years – 4.0%.

1.4. Key financial ratios

FINANCIAL RATIOS	H1 2024	2023	Change in percentage points
Return on equity (ROE)[1]	3.4	3.8	-0.4
Return on assets (ROA)[2]	0.3	0.4	-0.1
Interest margin on total assets[3]	3.7	3.7	0.0
Cost-of-risk[4]	-0.5	-0.4	-0.1
Cost/income (C/I)[5], assuming uniform distribution of the cost of the one-time contribution to the Bank Guarantee Fund over the year	58.1	51.3	6.8

1) net profit earned in the last four quarters to average equity,

2) net profit earned in the last four quarters to average assets,

3) net interest income in the last four quarters to average assets,

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

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

Interest margin on total assets was 3.7%, unchanged from the 2023 level.

The cost/income ratio in the six months to 30 June 2024 was 58.1%, compared with 51.3% in 2023, chiefly as a result of higher administrative expenses, as well as the consequences of the decision to discontinue a project to develop credit process support systems, with the related capital expenditures and personnel-related expenses written off, and to recognise a provision for expenditure under contracts concluded in the course of the project. The ratio was also negatively affected by the provisions for 'loan repayment holidays' charged to profit or loss.

1.5. Capital management

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

Capital ratios	30 Jun 2024	31 Dec 2023	Change in percentage points
Common equity Tier 1 capital ratio	16.65	15.17	0.28
Tier 1 capital ratio	16.65	15.17	0.28
Total capital ratio	17.54	16.27	0.17

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 and the Act on Macroprudential Oversight of the Financial System and Crisis Management in the Financial System of 5 August 2015, financial institutions are required to maintain additional capital buffers for capital ratios. As of 1 January 2019, the capital conservation buffer is 2.5 percentage points and the countercyclical buffer is 0 percentage point. The Bank and the Group are 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 18 March 2020.

On 13 December 2023, the Polish Financial Supervision Authority recommended that own funds should be maintained, on a consolidated basis, to cover the additional capital add-on to absorb potential losses resulting from the occurrence of stress conditions, at the level of 1.33 percentage points above the total capital ratio referred to in Article 92(1)(a-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 Oversight Act. The additional add-on should consist entirely of Common Equity Tier 1 capital.

As a result, as of 31 December 2023, the minimum capital ratios recommended by the PFSA for the Group are:

- common equity Tier 1 capital ratio – 8.33%,
- Tier 1 capital ratio – 9.83%,
- total capital ratio TCR – 11.83%.

The capital adequacy ratio of the Group as at 30 June 2024 was above the levels recommended by the Polish Financial Supervision Authority.

2. Difference between financial forecasts and actual results

The BOŚ Group did not publish any financial forecasts.

IV. RISK MANAGEMENT AT THE GROUP

1. Credit risk

The key objective of credit risk management in the six months ended 30 June 2024, especially in asset quality management, was to improve the quality and structure of the loan portfolio.

The efforts to enhance the quality of the loan portfolio focused on maintaining a policy of moderate risk appetite to achieve a risk cost close to the sector's average.

In order to improve the structure of the loan portfolio, the Bank continued efforts to reduce individual exposures and concentration risk.

On 15 December 2023, the new Strategy of Bank Ochrony Środowiska S. A. for 2024-2026 was published. It focuses on supporting clients in the green transition, prioritising corporate clients. Among the priority initiatives for the coming years are process and product optimisations, as well as digitalisation efforts, all aimed at enhancing the Bank's efficiency and profitability.

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

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

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

The Bank scaled down financing for entities whose activities did not align with sustainable business practices benefiting the environment, local communities, consumers, and employees. This was achieved through the introduction of a catalogue specifying transactions BOŚ would not engage in, adhering to ESG principles.

The Bank made lending decision conditional on:

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

Clients and transactions were subject to a comprehensive credit risk assessment, taking into account market conditions and the geopolitical situation.

The Bank conducted credit risk assessments utilising rating and scoring models tailored to the specific client and transaction types. The models were developed, constructed, monitored, and managed by the Risk Area, taking into account both internal protocols and external regulatory frameworks.

The credit risk assessment model for retail clients seeking funding unrelated to business ventures included several components:

- a quantitative analysis, which appraised the value and stability of the sources of loan repayment,
- and a qualitative analysis, assessing crucial personal characteristics of retail clients that significantly influence their commitment to repaying the loan on the agreed terms. This facet of assessment utilised scoring methods and analysed client behaviour based on data from Biuro Informacji Kredytowej S.A. (Credit Information Bureau).

The process also adhered to the stipulations outlined in Recommendations T and S of the Polish Financial Supervision Authority.

During the client evaluation phase, the Bank used information from a variety of sources, including external databases.

The credit risk model for retail clients requiring finance for business purposes or statutory activities (such as municipal borrowers) concentrated on two primary aspects: client assessment and transaction assessment (rating).

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

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

The assessment of credit risk related to financing sought by institutional clients included an ESG risk analysis.

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

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

The risk assessment was verified by a credit risk expert – an employee specialised in risk identification and selection of adequate forms of risk mitigation who was independent from the sales functions.

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

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

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

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

The Bank employed both individualised and group approach to measure impairment of credit exposures and to recognise allowances or provisions.

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

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

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

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

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

The Bank preferred collateralised transactions, with the proviso that in the retail segment the maximum amount of unsecured transactions was determined taking into account features of the lending products, the client segment, the impact of such transactions on the Bank's profit or loss and the amount of potential losses.

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

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

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

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

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

The Bank identified, measured, monitored and reported the concentration risk of its separate and consolidated exposures on the following levels:

- individual client and transaction,
- the loan portfolio.

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

At the loan portfolio level, the concentration of exposures was effectively managed by adhering to external limits, internal limits, or warning thresholds. Additionally, an acceptable level of credit risk appetite was determined by a set of indicators that encompassed not only traditional credit risk factors but also considerations of Environmental, Social, and Governance (ESG) risks. The levels of internal limits are approved by the Bank's Management Board, and the risk appetite – also by the Supervisory Board.

In particular, the Bank applied the following limits:

- geographical limits – limit of exposure to other countries;
- product-specific limits – e.g. maximum LTV;
- limits for the portfolio of mortgage loans and loans financing real property – in compliance with the PFSA Recommendations,
- sector-specific limits,
- limits concerning the share of foreign currency loans in the Bank's portfolio,
- limits for the aggregate exposure to entities/groups of related entities with respect to which the Bank's exposure exceeds 10% of Tier 1 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,
- limits for credit exposures towards the Bank's subsidiaries.
- limit for transactions with derogation from the credit rules set out in internal procedures that result in increased credit risk.

In the concentration risk management process, the Bank used a warning level system that applied to all internal limits for credit risk. The 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 governance bodies on a regular basis, in accordance with the Bank's internal regulations.

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

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

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

2. Financial risk

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

- liquidity risk,
- market risk, including:
  - interest rate risk (in the banking book and the trading book),
  - currency risk (mainly in the trading book; currency risk from the banking book is transferred to the trading book),
  - 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 business environment and taking into account changes occurring within the Bank and the Group.

The Group's risk management is conducted within strategic limits tailored to the appetite and tolerance for individual risks, as outlined in the policies for managing liquidity risk, interest rate risk in the banking book, and market risk in the trading book.

Based on the limits, an early warning system has been established which focuses on identifying, measuring, monitoring, controlling and reporting the risks.

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

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

In line with the 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 BOŚ Brokerage House 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 2024, the Group monitored the economic and market situation associated with the wars in Ukraine and Israel, analysing their impact on financial risks, including the market and liquidity risks. The levels of individual risks generally remained within the limits applied by the Group.

In 2024, the main objectives, principles and organisation of the financial risk management process at the Group did not change. The level and profile of financial risk are regularly monitored by the Financial Risk Department (the second 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).

2.1. Liquidity risk

The purpose of liquidity management by the Group is to maintain the capacity to finance assets and settle liabilities promptly, and to sustain a balanced structure of assets and liabilities. This ensures a secure liquidity profile across specific time bands, segmented into liquidity in PLN and major foreign currencies, with a primary focus on the overall liquidity position.

The liquidity risk management strategy and processes are specifically tailored to align with 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 thresholds, is set out in the Liquidity Management Policy approved by the Supervisory Board.

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

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

- intra-day liquidity – during the day;
- current liquidity – in the period up to 7 days;
- short-term liquidity – in the period up to 1 month;
- medium-term liquidity – in the period of above 1 month to 12 months;
- long-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:

- the level of intra-day 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,
- liquid assets (excess liquidity) – a buffer for expected and unexpected outflows over a period of 30 days,
- liquidity reserve – which measures the level of liquid assets less expected and unexpected outflows, determined for a period of 30 days,
- net liquidity coverage ratio (%),
- assessment of the stability of the deposit base,
- 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,
- stress tests, including scenarios that account for ESG risks (enabling, among other things, verification of the ability to maintain liquidity over the time horizon defined by the Bank in various scenarios).

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

- 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),
- the non-current assets to non-current liabilities ratio;
- the coverage of loans used by clients to finance long-term needs with the most stable sources of funding (LKD),
- the net stable funding ratio (NSFR),
- stress test taking into account ESG risks (for a 12-month horizon),
- the forecast of LCR, NSFR and liquid assets.

To evaluate the effectiveness of the liquidity risk management process, for most of the mentioned measures, limits or warning thresholds are established within a hierarchical framework of internal liquidity risk limits. These thresholds are set at various levels including the Supervisory Board, the Management Board, and the ALCO Committee. The limits and warning thresholds are subject to regular reviews (at least once a year) to ensure effective monitoring of liquidity.They define the framework for the Bank's liquidity tolerance and are consistent with the Bank's risk appetite. The shaping of an appropriate liquidity risk profile is supported by taking into account the cost of liquidity under the Bank's transfer pricing system.

The measures and tools used by the Bank are reviewed on a regular basis and are regularly updated to better map the liquidity profile. The process of monitoring liquidity and liquidity risk in the Bank is supported by a dedicated IT system (used in particular to generate reports on contractual and actual liquidity gaps, on regulatory liquidity measures and on internal limits, and to prepare mandatory reports). At least once a year, the Bank prepares a review of the Internal Liquidity Adequacy Assessment Process (ILAAP), in compliance with the EBA/GL/2016/10 Guidelines on ICAAP and ILAAP information collected for SREP (Supervisory Review and Evaluation Process) purposes. The ILAAP review carried out by the Bank as at 31 December 2023 showed that the process complied with the Bank's internal regulations and external guidelines. The ALCO Committee gives its opinion on the review, and the document requires approval by the Management Board and the Supervisory Board of the Bank.

Liquidity risk reports are presented to all the Bank's units involved in the liquidity risk management process. Results of the risk analysis, the degree of utilisation of regulatory standards, internal limits and warning thresholds 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 securities 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 Bank maintains its liquid assets primarily in the form of highly liquid NBP bills, which constituted 33% of the liquid portfolio of securities as at 30 June 2024. Additionally, Treasury bonds accounted for 62% of the liquid portfolio as at the same date, further contributing to the low specific risk of with these assets. 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 30 June 2024, the amount of liquid assets was PLN 7,479 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.

The Bank may access additional funding sources through a technical loan and a lombard loan from the NBP and, under exceptional circumstances, 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 establishes supervisory liquidity metrics 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) 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 stress conditions). The LCR is calculated on an aggregated basis for all currencies (translated into PLN) and separately for significant currencies, i.e. for PLN and EUR. For the ratio in EUR, the Bank identifies a currency mismatch related to the method of financing long-term loans granted in this currency.

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

The Bank, in accordance with Commission Implementing Regulation (EU) 2021/451 of 17 December 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 the six months ended 30 June 2024, the supervisory liquidity measures, i.e. LCR and NSFR, were calculated daily (i.e. every business day), and remained at a safe level, significantly above the regulatory requirements. As at 30 June 2024, these measures were as follows:

Metric*	30 Jun 2024	31 Dec 2023
LCR	189%	199%
NSFR	158%	162%

*/ LCR and NSFR for the Group.

The Bank has an Emergency Liquidity Action Plan in place, ensuring the uninterrupted continuation of operations and preservation of liquidity in the event of crisis situations.

As part of its risk management system, 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 analysing liquidity deterioration in emergency situations (which is based on the conducted stress tests), also includes quantifiable and non-quantifiable early warning indicators of emergency situations, allowing for the systematic monitoring of potential sources of liquidity crises. These indicators are monitored by the Bank on an ongoing basis. The Emergency Liquidity Action Plan is 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.

In addition to the Emergency Liquidity Action Plan, the Bank also conducts liquidity stress tests. The tests are conducted in accordance with the Liquidity Risk Stress Testing Programme, which comprises:

- Sensitivity analyses (conducted no less frequently than once a year);
- Scenario-based analyses/tests (conducted on a monthly basis);
- Reverse stress tests (conducted no less frequently than once a year).

The objective of these tests is to assess the Bank's position in the event that highly unfavourable risk factors materialise. The specific type and extent of these risk factors are dynamically established, taking into account the current situation of the Bank and its clients and the prevailing market conditions. The tests cover both internal factors (client behavioural patterns) and external factors (market conditions).These factors are analysed within certain defined liquidity scenarios, which include at a minimum the occurrence of an internal crisis, an external crisis, and a mixed crisis.

Stress tests encompass three fundamental types of scenarios:

- 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,
- external crisis – assumes materialisation of currency risk, rising interest rates, crisis in financial markets and possible second round effects,
- mixed crisis – a combination of elements of both internal and external crises.

The Bank also prepares (once every quarter) intraday liquidity stress tests. The outcomes of the stress tests are presented to the Bank's management in quarterly reports related to liquidity risk. As part of the analysis, three intraday liquidity stress testing scenarios (internal, external, mixed) are prepared, along with a reverse stress test.

Additionally, for the purposes of monitoring liquidity indicators, further stress-testing scenarios are developed:

- Addressing the Bank's sensitivity to long-term liquidity risk factors (such as market liquidity withdrawal, strategic changes in funding structure) as well as short-term internal or external shocks (effect of geopolitical risk);
- Considering the ESG risk in terms of any negative financial impact on the Bank caused by current or future effects of ESG factors (environmental, social, and governance issues) prepared in scenarios spanning up to 1 month and up to 12 months.

The stress tests carried out facilitate the identification of factors whose manifestation could lead to liquidity risk within the Bank, and the formulation of requisite contingency measures in the event of crises.

Moreover, within the scope of the annual review of the Liquidity Risk Stress Testing Programme, the Bank undertakes analyses of sensitivity to individual liquidity risk drivers and conducts reverse stress tests. A comprehensive review of the Liquidity Risk Stress Testing Programme is performed annually. 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 assessments, the Bank also considers the potential for adverse movements in foreign exchange rates, especially CHF and EUR, which could potentially trigger increased liquidity needs.

Furthermore, the Bank undertakes testing of the Emergency Liquidity Action Plan, and modifications to this Plan are implemented based on the outcomes of those tests. The outcomes of the Emergency Liquidity Action Plan tests are reported to and reviewed by both the Asset and Liability Management Committee and the Bank's Management Board.

The stress tests performed in 2023, as in 2022, demonstrated that the Bank had a stable liquidity position, with its liquid assets proving sufficient to withstand the stipulated scenarios over the tested periods.

2.2. Interest rate risk

Interest rate risk refers to the present or potential risk of a decrease in both Bank’s income and economic value due to unfavourable fluctuations in interest rates, impacting interest rate-sensitive instruments. This risk is associated with factors such as mismatch risk, basis risk and option risk. 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 stabilisation and optimisation 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 hedge the fair value of the fixed-rate Treasury bonds, which are part of the HtC&S bond portfolio and also serve as the Bank's liquidity buffer. IRS hedging transactions reduce the extent of capital fluctuations caused by movements in interest rates.

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

- repricing gap, presenting the values of assets, liabilities and on-balance-sheet items sensitive to interest rate movements at maturity or repricing,
- 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,
- 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,
- sensitivity analysis of EVE and NII to a 100 basis points change in credit spread,
- 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,
- unparallel mismatch risk analysis, which aims to estimate the impact on the economic value of equity of unparallel movements in the shape of the yield curve,
- client option risk analysis, whose objective is to assess the impact of client options embedded in interest bearing products on the Bank's financial result,
- 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,
- the level of internal capital for interest rate risk in the banking book.

Measures of interest rate risk in the banking book

To manage interest rate risk in the banking book, the Bank employs two measures: the sensitivity of the net interest income (NII), both with and without consideration of changes in market value, to a +/- 200 basis points change in interest rates, and the sensitivity of the economic value of equity (EVE) to a +/- 200 basis points change in interest rates. Interest rate risk in the banking book is measured on the basis of product characteristics (capital flow schedules, interest rate repricing, 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/2022/14 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 30 June 2024 and 31 December 2023:

Date	ΔNII		ΔEVE	
	-200 bps	+200 bps	-200 bps	+200 bps
30 Jun 2024	-15,609	15,185	177,004	-162,838
31 Dec 2023	-46,290	45,835	159,359	-145,744
Change	30,681	-30,650	17,645	-17,094

In the six months ended 30 June 2024, both NII and EVE were within limits/warning thresholds 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 drop in sensitivity of net interest income in the six months ended 30 June 2024 to a 200 bps decrease in market interest rates was caused chiefly by a decline in the amount of retail and corporate loans. The decrease in sensitivity of EVE to interest rate hikes was mainly attributable to a lower amount of Treasury bonds. In the six months ended 30 June 2024, the war in Ukraine had no direct impact on the interest rate risk measures in the banking book.

In accordance with the EBA/GL/2022/14 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 the SOT for the six standard shock scenarios specified in the Guidelines are presented in the table below.

Data	ΔEVE in a given SOT scenario					
	parallel shock up[1]	parallel shock down[1]	steepener shock[2]	flattener shock[2]	short rates shock up[3]	short rates shock down[3]
30 Jun 2024	-166,066	94,030	40,256	-111,434	-161,691	87,731
31 Dec 2023	-146,017	84,320	31,049	-89,171	-133,973	73,442
Change	-20,049	9,710	9,207	-22,263	-27,718	14,289

[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 the Bank is most vulnerable to a decline in the economic value of equity (EVE) in the parallel shock up scenario. The level of sensitivity of the economic value of equity is below the regulatory warning thresholds, which indicates moderate exposure to interest rate risk.

As at 30 June 2024, the Bank also designated new sensitivity measures for NII in accordance with the guidelines of Commission Delegated Regulation (EU) 2024/856 of 1 December 2023. The new SOT regulatory measure for NII was -2.26% FW/Tier1, that is below the required maximum of -5%, and NII's sensitivity to interest rate movements by +/-200 bps, taking into account the sensitivity of FV of the future NII recognised at fair value would be PLN -45.1 million.

In the six months ended 30 June 2024, the Bank introduced a warning threshold for maximum NII's sensitivity in case the SOT scenarios (as defined in the EBA Guidelines) materialise. This safeguards the Bank's net interest income against interest rate risk and helps maintain the Bank's exposure to IRRBB risk within NII's sensitivity levels recommended by EBA in the SOT scenarios.

Once a month, the Bank conducts a 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. The scenarios are described in detail in the Group's full-year financial statements for 2023.

The results of the stress test as at 30 June 2024 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 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 6M WIBOR 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.

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:

- 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,
- the basis point value (BPV), i.e. sensitivity of securities and derivative instruments generating the interest rate risk to a 1 bp movement of interest rates,
- system of limits/warning thresholds,
- stress tests.

In the six months ended 30 June 2024, there were no significant changes in the techniques applied to measure the interest rate risk of the Bank's trading book.

The Value at Risk (VaR) for interest rate in the trading book and the impact of the stress test scenario – parallel shifts in the IRS and BOND yield curves upwards/downwards by 500/300 bps on the Bank's annual result were as follows (maximum, minimum, mean and as at the reporting date):

Date	1-day VaR				+500/-300 bps stress tests
	mean	max	min	as at	as at
1 Jan 2024 30 Jun 2024	143	205	45	100	-3,600
31 Dec 2023	147	261	40	44	-65

To validate the value-at-risk model, the Bank conducts back-testing analyses on a monthly basis. This process involves a comparison between the maximum losses projected by the VaR model and the actual gains and losses, as well as the theoretical profit or loss changes resulting from the revaluation of positions. Results of monthly back-testing are presented in management reports.

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

- the limit/warning threshold for 1-day VaR,
- the BPV warning threshold for instruments generating interest rate risk in the trading book at end-of-day,
- maximum 1-day and 30-day (stop loss) limits, as well as annual loss (end loss) limits on assets within the trading book.

The continuous monitoring and calculation of the utilisation levels of individual limits and warning thresholds are performed daily and throughout the day by the Asset and Liability Management Department as a critical element of the first line of defence. The monitoring of the limits and warning thresholds is carried out at the end of each business day by the Financial Risk Department, in line with the protocols of the second line of defence.

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading books 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 using both the historical and parametric methods. The historical method considered the volatility of interest rates, taking into account various factors such as geopolitical crises that contribute to fluctuations in interest rates. Stress testing analyses in the trading book are conducted both with and without the assumption of correlation between curve changes and market illiquidity (the inability to close an open position during the day). In parametric stress tests, the assumption made is a parallel upward/downward shift in interest rate curves by 500/300 basis points. Risk factor levels within historical scenarios are set determined based on an examination of the time series for bond and IRS interest rate curve movements over a three-year period, taking into account statistically significant trends, volatility, and the Hurst exponent, which characterises the propagation of change variance.

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.

The Bank also examines potential impact of a large-area flooding on the financial result of the trading book attributable to interest rate risk, as well as on the sensitivity of net interest income (NII) and the economic value of equity (EVE). The findings from the climate risk stress tests (ESG stress tests) reveal a negligible impact on the financial result of the trading book. In the case of the banking book, the realisation of this scenario would not lead to a breach of the established limits for net interest income (NII) and economic value of equity (EVE).

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

The interest rate risk metrics in the trading book were monitored on an ongoing basis.

2.3. Currency risks

Currency risk is understood as the risk of loss to the Group due to changes in exchange rates. This risk is generated by BOŚ Brokerage House (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 foreign exchange positions in DM BOŚ S.A.'s trading portfolio arise from offering services to clients in the derivatives trading market and from providing services on a regulated market.

The BOŚ Group maintains a harmonised foreign exchange risk management system, wherein the risk is 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:

- 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,
- system of limits/warning thresholds,
- 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 50%/30% increase/decrease 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	1-day VaR						Stress tests of the Group – increase/decrease of foreign exchange rates
	Bank				DM	Group	
	mean	max	min	as at	as at	as at	as at
1 Jan 2024 30 Jun 2024	116	394	4	23	573	572	-37,777
31 Dec 2023	108	317	8	199	516	648	-64,021

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

The system of limits/warning thresholds for foreign exchange risk in the trading book includes:

- the limit/warning threshold for 1-day VaR,
- the warning threshold quoted for the total position separately for the trading book and the banking book,
- 1-day and 30-day loss limits (stop loss) and annual loss limits (end loss) arising from foreign exchange transactions.

The monitoring of the limits/warning thresholds in the trading book is carried out every business day and intraday by the Asset and Liability Management Department as part of the first line of defence. The monitoring of the limits and warning thresholds is carried out at the end of each business day by the Financial Risk Department, in line with the protocols of the second line of defence.

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

The Bank conducts a monthly stress-test analysis, examining the evolution of currency risk levels in the event of the materialisation of extreme changes in risk factors using both historical and parametric methods. The historical method took into account the volatility of foreign exchange rates caused by such factors as the geopolitical crisis.

The Bank performs parametric stress tests on the financial result of the trading book from foreign exchange transactions, assuming a 30%/50% appreciation/depreciation of the złoty relative to all foreign currencies held by the Bank. Risk factor levels within historical scenarios are set determined based on an examination of the time series for exchange rate, taking into account statistically significant trends, volatility, and the Hurst exponent, which characterises the propagation of change variance. Stress testing analyses are conducted both with and without the assumption of correlation between interest changes and market illiquidity (the inability to close an open position during the day). The Bank also examines potential impact of a large-area flooding on the financial result of the trading book attributable to interest rate risk (ESG stress tests). This analysis indicates that the impact of the risk is negligible.

The outcomes of the stress test analysis indicate that, even under extremely unfavourable market conditions and heightened exposures, the Bank's foreign exchange risk is maintained at a safe level.

The results of the currency risk analysis in the trading book are communicated to the members of the Bank's Management Board and the Asset and Liability Committee as part of daily reports. In weekly cycles, the reports are presented to the ALCO Liquidity and Market Risk Committee. Monthly reports are prepared for the Bank's Management Board and ALCO, while quarterly reports are presented to the Bank's Supervisory Board and the Risk Committee.

Despite the existence of geopolitical crises and other factors that contribute to exchange rate volatility, the level of currency risk did not increase significantly. The measures of currency risk were monitored on an ongoing basis and remained within the limits applied by the Bank.

2.4. Other market risks

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

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

Transactions in equity instruments executed for own account by DM BOŚ S.A. relate to DM BOŚ S.A.'s activities as a market maker and in most cases are closed at the end of the day. DM BOŚ S.A. maintains a significant exposure to equity instruments only through hedged (arbitrage) transactions, including short selling activities. 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 volatility of equity instruments, commodity prices, and investment certificates did not significantly increase the level of other market risks. The measures of these risks were monitored on an ongoing basis and remained within the limits applied by DM BOŚ S.A.

3. Operational risk, compliance risk and internal control system

3.1. Operational risk

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

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

- organising processes in a manner reducing the number of operational risk events,
- monitoring the operational risk level items, in particular, the use of operational risk tolerance limits and operational risk appetite,
- periodic reviews of operational risk based on self-assessment process,

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

Information regarding operational risk is included in periodic management reports prepared for the Operational Risk Committee, the Bank's Management Board and Supervisory Board, and the Risk Committee (in collaboration with the Supervisory Board).

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

In the six months ended 30 June 2024, a number of tasks were completed as part of the risk management system organisation efforts, including: (1) review and approval of the operational risk appetite and tolerance limits for 2024, (2) periodic monitoring of the utilisation of the applied limits, (3) development of the Operational Risk Map for 2024 based on self-assessment of the Bank's Head Office organisational units, (4) assessment of the significance of the BOŚ Group's subsidiaries in terms of the generated operational risk, (5) review of the Key Operational Risk Indicators (KRI).

In addition, the Bank continued its efforts to raise operational risk awareness of employees by organising, among other things, onboarding training on the Bank's Risk Culture Principles and mandatory e-learning training on operational risk management at BOŚ S.A. A new edition of the educational programme focused on operational risk was run in the form of regular communications for all of the Bank's employees.

In the six months ended 30 June 2024, in terms of operational risk, there were no non-recurring events generating extraordinary and unanticipated losses that would materially affect the safety of the Bank's and the Group's operations. Operational risk events were investigated and measures aimed to reduce potential losses were implemented. The most significant operational risk factor affecting the level of this risk in the six months ended 30 June 2024 were lawsuits filed by the Bank's clients and related to mortgages tied to foreign currency exchange rates. The number of such lawsuits continued to increase. In order to mitigate the risk, the Bank has in place the Settlement Programme to reach settlements with clients who have taken out mortgages tied to foreign currency exchange rates. In parallel, work was undertaken to review and revise the strategy for dealing with such clients to increase the number of settlements reached and reduce the number of lawsuits filed by clients. The Bank has created and periodically reviews the provision for future court cases.

3.2. Compliance risk

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

The bank maintains compliance with legal regulations, internal policies, and market standards through a comprehensive compliance risk management process. This process encompasses the identification, evaluation, control, and monitoring of compliance risks, with regular reporting to the Bank's Management Board and Supervisory Board. It also includes the implementation of control mechanisms, their independent oversight, and the dissemination of the results from this independent monitoring.

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 the Compliance Risk Management Rules of Bank Ochrony Środowiska S.A.

The Bank has a separate, independent compliance function, reporting directly to the President of the Bank's Management Board.

The compliance function, assisted by all organisational units forming the first and second lines of defence, is responsible for the compliance risk management process, including:

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

The Bank identifies the following key compliance areas:

- implementing and monitoring compliance with the laws and market standards,
- implementing and monitoring compliance with ethical standards,
- accepting/giving benefits or gifts,
- protection of consumers with regard to collective interests of customers, including protection against unfair market practices,
- offering products and providing related services, including the implementation of new products (including insurance products), and handling of client complaints,
- fulfilment of disclosure obligations towards the Bank's clients,
- preventing and managing conflicts of interest,
- trading in financial instruments,
- preventing money laundering and terrorist financing (AML/CFT),
- personal data protection.

The compliance unit is responsible for overseeing the anonymous reporting system for violations of laws, ethical procedures and standards adhered to by Bank Ochrony Środowiska S.A.

The Bank oversees and manages compliance risk related to the activities of its subsidiaries' within the Group. This oversight is executed through ownership supervision exercised by individuals who serve on the supervisory boards of the subsidiaries, supported by the Bank's compliance function.

The approach to managing compliance risk within the Group is determined by the Internal Control System and Compliance Policy, as well as relevant internal regulations implemented by the subsidiaries.

In the six months ended 30 June 2024, there were no events which would have a material impact on the level of compliance risk, and the Bank focused its efforts on preventing the occurrence of compliance risk.

Internal control system

The Bank's internal control system is an integral part of its overall management infrastructure. This system delineates the structural and organisational components of the internal control mechanism and specifies the aims, objectives, and operational procedures of its crucial elements within the BOŚ Group.

The internal control system supports the Bank's Supervisory Board, Internal Audit Committee, Management Board and employees in the proper, efficient and effective performance of their duties.

The internal control system within the Bank operates in a manner that guarantees the fulfilment of the objectives outlined in Article 9c(1) of the Banking Law. These objectives include:

- efficiency and effectiveness of the Bank's operations;
- reliability of financial reporting;
- compliance with the Bank's risk management framework;
- compliance of the Bank's operations with applicable laws, internal regulations and market standards.

The Bank's risk management and internal control systems are organised on three independent levels:

- Level 1 comprises operational risk management;

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

Within the Bank's internal control system, employees at all three levels effectively implement control measures as part of their responsibilities. They independently oversee adherence to these controls and report accordingly within the scope of the control function.

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

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

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

Control mechanisms are integrated during the creation of internal regulations, as well as during the development of applications and information systems, embedding them into the foundation of these structures.

The Bank's organisational structure incorporates a compliance function. This role manages compliance risk, which includes identifying, assessing, and controlling compliance risk within the Bank and the BOŚ Group. Organisationally, the compliance function reports directly to the President of the Management Board.

Internal audit is an integral and independent part of the Bank's internal control system, positioned in its third line of defence. Internal audit is performed by the internal audit function, a separate unit within the Bank's organisational structure, established so as to ensure its full independence and objectivity, which reports directly to the President of the Management Board and is supervised by the Internal Audit Committee.

The role of the internal audit function is to independently and impartially examine and evaluate the adequacy and effectiveness of the risk management system and internal control system (excluding the internal audit function) of the Bank and its subsidiaries.

The internal audit unit evaluates the implementation of processes and contributes to their improvement, including in particular business processes, risk management processes, and corporate governance processes, as well as associated control mechanisms applied in the course of such processes.

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

Role of the Bank's bodies in the internal control system

The Supervisory Board's role is to exercise ongoing supervision over implementation of the Bank's internal control system and whistleblowing procedures for anonymous reporting of any breaches of law, the Bank's internal regulations and ethical standards, and to evaluate their adequacy and effectiveness.

Annually, guided by the Internal Audit Committee's review, the Supervisory Board evaluates the adequacy and effectiveness of the internal control system. This system encompasses the control function, the compliance function, and the internal audit function.

In exercising supervision over the Bank's activities, the Supervisory Board monitors the effectiveness of the internal control system based on information provided by the compliance unit, the internal audit unit, the Management Board and the Internal Audit Committee.

The Internal Audit Committee directly supervises the Bank's internal audit unit, monitoring the adequacy and effectiveness of the internal control system, including the internal audit unit, compliance unit and control function. The Internal Audit Committee supports the Supervisory Board in overseeing the internal control system.

The Management Board designs, implements and ensures the effective operation of the internal control system and whistleblowing procedures for anonymous reporting of breaches of law, the Bank's internal regulations and ethical standards.

The Bank's Management Board holds the responsibility for designing, implementing, and maintaining an adequate and effective internal control system. This system includes the control function, compliance function, and internal audit function. The Management Board also ensures the independence of both the internal audit and compliance functions.

In addition, the Management Board ensures the functioning of the internal control system at subsidiaries.

The Management Board takes measures to ensure the ongoing operation of the internal control system. This includes fostering effective collaboration among all employees within the control function and maintaining cooperation with the compliance function and internal audit function. Furthermore, the Management Board ensures that employees in these departments have access to the required source documents, including those containing legally protected information, to fulfil their responsibilities.

If any irregularities are identified by the internal control system, the Management Board will take necessary actions, which may include implementing appropriate corrective measures and disciplinary actions, to address and rectify the identified irregularities.

The Management Board submits information to the Supervisory Board on a yearly basis regarding the execution of tasks, which serves as the basis for the Supervisory Board's assessment of the effectiveness and adequacy of the internal control system.

The heads of the internal audit function and the compliance function are obligated to maintain continuous cooperation with the President of the Management Board, the Bank's Management Board, and the Chairman of the Internal Audit Committee. This collaboration entails promptly notifying them of any significant disruptions detected in the Bank's and BOŚ S.A. Group entities' operations, as well as identifying gaps and inefficiencies within the internal control system and the risk management system. Additionally, they are responsible for submitting proposals to enhance the systems and address any inefficiencies.

V. ADDITIONAL INFORMATION

1. Assessment of financial resources management

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

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

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

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

2. Dependence on partners

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

3. Related party transactions

Related party transactions are described in Note 40 to the interim condensed consolidated financial statements of BOŚ S.A. for the six months ended 30 June 2024.

The Bank and its subsidiaries did not enter into any related-party transactions on non-arms' length terms.

4. Seasonal or cyclical nature of the business

The Group's business does not involve any significant events or factors that would be subject to seasonal or cyclical variations.

5. The Bank's agreements

5.1. Significant agreements

5.2. Agreements with the Central Bank and regulatory bodies

On 1 March 2023, the Bank concluded an Agreement with the NBP regarding the terms and conditions of opening and maintaining a euro account in the TARGET-NBP system.

5.3. Contracts for audit of financial statements

Body selecting the independent auditor

On 7 June 2024, the Supervisory Board of Bank Ochrony Środowiska S.A. selected the audit firm by adopting a resolution regarding the appointment of an audit firm to audit the full-year financial statements of BOŚ S.A. and the full-year consolidated financial statements of the BOŚ Group, as well as to review the half-year financial statements of BOŚ S.A. and half-year consolidated financial statements of the BOŚ Group for the years 2024-2025.

Contract with the independent auditor

On 21 June 2024, a contract was signed with Mazars Audyt Sp. z o.o. to review and audit the financial statements for 2024 and 2025.

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

The Bank's Management Board represents that the audit firm Mazars Audyt Sp. z o.o., engaged to audit the Bank's full-year separate financial statements and consolidated financial statements, was appointed in compliance with the applicable laws and regulations, including those governing selection and appointment of the audit firm, and that:

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

6. Non-recurring factors and events

In the six months ended 30 June 2024, there were no other events at the Bank that would be material for the assessment of its human resources, assets, financial position, financial result and any changes thereto, as well as for the assessment of the Bank's ability to fulfil its obligations.

7. Litigation, legal risks and forms of assistance to clients

Lawsuits – total

As at 30 June 2024, Bank Ochrony Środowiska S.A. was:

- a claimant in 880 lawsuits for a total amount of PLN 164.5 million,
- a respondent in 2,096 lawsuits for a total amount of PLN 819.7 million.

As at 30 June 2024, the Bank was not involved in any material proceedings pending before any court, arbitration body or public administration authority where the amount of the Bank's liabilities or claims would represent at least 10% of the Bank's equity.

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

The vast majority of court rulings delivered after the judgment of the Court of Justice of the European Union ('CJEU') of 3 October 2019 in case C-260/18 are unfavourable to banks.

The Bank monitors both domestic case law and the CJEU's rulings on an ongoing basis when assessing the legal risks of foreign currency-indexed loans and takes into account in its analyses that the CJEU judgments and rulings by Polish courts to the disadvantage of banks result in a growing number of court proceedings and increase in the value of claims sought.

In 2021, BOŚ S.A., together with a group of other banks, initiated a project to create a voluntary settlement offer for clients. This agreement stipulates that loans originally denominated in foreign currencies be recalculated as if they had been originally advanced in the Polish złoty, applying an interest rate based on WIBOR plus an appropriate margin.

Having obtained the approval of the Extraordinary General Meeting (Resolution No. 4/2021 of 8 December 2021), on 31 January 2022 the Bank implemented the BOŚ S.A. Settlement Programme based on a framework communicated by the President of the PFSA. By 30 June 2024, a total of 770 settlements had been concluded under the Programme, with 69 more pending conclusion.

As at 30 June 2024, the provision for foreign currency-linked mortgage risk amounted to a total of PLN 705.6 million, of which PLN 203.8 million is presented as a provision for litigation and claims for legal risk related to foreign currency mortgage loans, and PLN 501.8 million – as an adjustment to the gross carrying amount. As at 31 December 2023, the amount of the provision was PLN 692.7 million.

As at 30 June 2024, there were 1,988 court cases pending against the Bank concerning loans denominated mainly in CHF (as well as USD and EUR), with a total value of claims of PLN 767.12 million. The claims filed in lawsuits concerning credit agreements and loans tied to foreign currency exchange rates typically seek to have the loan agreement declared null and void and to secure a refund of paid credit instalments and other loan-related charges.

Investment certificates

Between 2015 and 2017, the Bank acted as a broker for the distribution of investment certificates from several investment funds. These funds were subject to regulation and oversight by the relevant authorities, in accordance with applicable laws. Due to the financial circumstances and legal status of certain investment funds, some purchasers of investment certificates have lodged compensation claims against the Bank.

As at 30 June 2024, there were 41 ongoing court cases concerning investment certificates, with the disputed amounts totalling PLN 18.6 million.

The Bank continuously monitors the funds' capacity to redeem certificates and updates its assessment of legal risks associated with adverse court rulings and the obligation to enforce judgments. Based on this assessment, a provision of PLN 9.5 million was recognised.

Proceedings by UOKiK

On 13 February 2024, the Bank received a notification from the President of the Office of Competition and Consumer Protection (UOKiK) dated 8 February 2024, initiating proceedings regarding practices that infringe upon the collective interests of consumers. The President of UOKiK has levelled the following accusations against the Bank:

- The Bank allegedly failed to reimburse the amount of an unauthorised payment transaction or to restore the affected account to its pre-transaction state by no later than D+1 (i.e. by the end of the next business day following the consumer's report of the unauthorised transaction). This was despite there being no valid reasons to withhold such actions, such as when the Bank has reasonable and properly documented grounds to suspect fraud by the consumer and has reported this suspicion to law enforcement, or when the notification of the unauthorised transaction was received from the consumer more than 13 months after the account was debited.
- The Bank is also accused of misleading consumers in its responses to reports of unauthorised payment transactions by suggesting that the mere authentication of a transaction by the Bank is equivalent to its authorisation, thus absolving the Bank of liability. This involves the use of individual authentication data in a way that might misleadingly indicate that authentication alone constitutes authorisation. In other words, the President of UOKiK accuses the Bank of misleading consumers by implying in its responses that authenticating a transaction is the same as authorising it.

According to the President of UOKiK, the Bank's practice described in point 1 above may violate Article 46(1) of the Payment Services Act of 19 August 2011 and infringe upon the collective interests of consumers. Consequently, this could constitute a practice that breaches the collective interests of consumers as specified in Articles 24(1) and 24(2) of the Act on Competition and Consumer Protection.

In the view of the President of UOKiK, the practice described in point 2 may mislead consumers about the Bank's obligations under Article 46(1) of the Payment Services Act. It may also misrepresent the distribution of the burden of proof in demonstrating that a payment transaction was authorised (i.e. shifting the burden of proof onto the consumer). This could constitute an unfair market practice as outlined in Article 5(1), 5(2)(1) and 5(3)(3) in conjunction with Article 4(2) of the Act of 23 August 2007 on Counteracting Unfair Market Practices, infringing upon the collective interests of consumers. Consequently, this could represent a practice that breaches the collective interests of consumers as specified in Articles 24(1) and 24(2)(3) of the Act on Competition and Consumer Protection.

The Bank does not know the timeline for the conclusion of the proceedings, nor can it predict the outcome or decision that will result from these proceedings.

This issue impacts a substantial segment of the banking sector and has been addressed in submissions by the Polish Bank Association to UOKiK.

Proceedings by PFSA

On 27 April 2023, the Polish Financial Supervision Authority initiated administrative proceedings to impose an administrative penalty on Bank Ochrony Środowiska S.A. under Articles 147(4)(a), 147(5), 147(11) and 147(13) of the

Anti-Money Laundering and Terrorist Financing Act as a result of an audit. At this stage, it is not possible to determine the possible financial impact of the proceedings.

‘Free credit’ sanction

The Bank has observed a rise in complaints and legal actions pertaining to consumer loans wherein borrowers allege violations of the Consumer Credit Act of 12 May 2011, resulting in the imposition of ‘free credit’ sanctions.

Consumers argue that the Bank has not adequately fulfilled its obligations to provide information about variable loan interest rates and misstated credit costs. They also challenge the validity of interest charged on financed arrangement fees and other loan-related charges.

The successful assertion of violations of the provisions of the Consumer Credit Act and the consumer's use of 'free credit' sanctions does not render the consumer credit agreement void. The agreement remains legally binding, but the Bank loses interest income.

As at 30 June 2024, there were 23 ongoing court cases concerning ‘free credit’ sanctions, with the disputed amounts totalling: PLN 617.0 thousand.

8. Changes in significant management policies

In the six months ended 30 June 2024, there were no changes in significant management policies at the Bank.

9. Information about dividend

No dividend was paid or declared in the six months ended 30 June 2024.

No dividend was paid or declared in the six months ended 30 June 2024. In 2023, the Bank generated net profit. On 19 June 2024, the Annual General Meeting of Bank Ochrony Środowiska S.A. passed a resolution to allocate the Bank’s entire net profit for the period 1 January–31 December 2023 of PLN 61,701 thousand to statutory reserve funds.

10. Value of collateral

Value of collateral established on the borrowers’ accounts or assets

As at 30 June 2024, the value of significant collateral other than blank promissory notes and assignment of an insurance policy for movable or non-movable property amounted to PLN 22,481.4 million. The primary form of security remains real estate mortgages, with a valuation of PLN 11,212.6 million, accounting for 49.9% of the total collateral. The amount of guarantees and sureties was PLN 5,498.1 million, or 24.5% of the total collateral. The amount of pledges was PLN 4,951.0 million, or 22.0% of the total collateral. The amount of assignments of receivables from business partners based in an OECD-member country was PLN 493.2 million, or 2.2% of the total collateral. Other forms of collateral constituted less than 1.0% of the total collateral pool.

11. Shareholding structure and rights attached to shares

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

The following shareholders held at least 5% of the share capital and total voting rights:

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

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

11.2. Treasury shares

As at 30 June 2024, the Bank held 37,775 treasury shares, representing 0.04% of its share capital and 0.04% of total voting rights in the Bank.

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

11.3. Agreements concerning future changes in the shareholding structure

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

11.4. Holders of special control rights attached to securities

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

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

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

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

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

12. Governing bodies

12.1. Supervisory Board of the Bank

As at 31 December 2023, the composition of the Supervisory Board was as follows:

1. Piotr Sadownik – Chair
2. Tadeusz Wyrzykowski – Deputy Chair
3. Andrzej Matysiak – Secretary
4. Piotr Bielarczyk – Member
5. Wojciech Krawczyk – Member
6. Marian Niemirski – Member
7. Aleksandra Świderska – Member
8. Waldemar Trelka – Member
9. Paweł Trętowski – Member *(delegated to temporarily perform the duties of Vice President of the Management Board in charge of the Management Board (no longer than until 28 March 2024).*

Changes in the composition of the Supervisory Board in the six months ended 30 June 2024:

- On 5 March 2024, Waldemar Trelka submitted a statement of resignation, effective from that date, from his membership on the Supervisory Board of the Bank;
- On 11 March 2024, the Extraordinary General Meeting of BOŚ S.A. made changes to the composition of the Supervisory Board.

Consequently, as at 30 June 2024, the composition of the Supervisory Board was as follows:

1. Adam Ruciński – Chair
2. Artur Stefański – Deputy Chair
3. Marzenna Sendecka– Secretary[1]
4. Wojciech Krawczyk – Member
5. Marcin Liberadzki[2] – Member
6. Marcin Likierski – Member
7. Władysław Mańkut – Member
8. Aleksandra Świderska – Member
9. Piotr Wybieralski – Member

12.2. Management Board of the Bank

Management Board

As at 30 June 2024, the Management Board consisted of:

- Bartosz Kublik – Vice President of the Management Board in charge of the Management Board,
- Tomasz Jodłowski – Vice President of the Management Board,
- Kamil Kuźmiński – Vice President of the Management Board,
- Krzysztof Łabowski – Vice President of the Management Board,
- Michał Należyty – Vice President of the Management Board.

As at 1 January 2024, the composition of the Management Board was as follows:

1) from 11 March to 10 April 2024, delegated to temporarily serve as Vice President of the Management Board.
2) from 11 March to 10 April 2024, delegated to temporarily serve as Vice President of the Management Board in charge of the Management Board.

- Paweł Trętowski – Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board in charge of the Management Board,
- Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board,
- Sebastian Bodzenta – Vice President of the Management Board,
- Iwona Marciniak – Vice President of the Management Board.

Changes in the Management Board composition in the six months to 30 June 2024:

1. With effect as of 11 March 2024,
   - the Bank's General Meeting removed from the Supervisory Board Paweł Trętowski, Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board in charge of the Management Board,
   - The Supervisory Board:
     - removed from the Management Board Sebastian Bodzenta and Iwona Marciniak,
     - delegated from among its members Marcin Liberadzki to temporarily serve as Vice President of the Management Board in charge of the Management Board, and Marzenna Sendecka to temporarily serve as Vice President of the Management Board.

Therefore, as at 31 March 2024, the Management Board was composed of:
   - Marcin Liberadzki – Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board in charge of the Management Board,
   - Arkadiusz Garbarczyk – Vice President of the Management Board, First Deputy President of the Management Board,
   - Marzenna Sendecka – Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board.

2. On 3 April 2024, the Supervisory Board:
   - passed a resolution to remove, with effect from 3 April 2024, Arkadiusz Garbarczyk as Vice President, first Deputy President of the Management Board of Bank Ochrony Środowiska S.A.;
   - passed a resolution to delegate, with effect from 4 April 2024, Artur Stefański, Member of the Supervisory Board, to temporarily serve as Vice President of the Management Board of Bank Ochrony Środowiska S.A. until the end of day on 10 April 2024;
   - passed resolutions whereby the delegation of Marcin Liberadzki and Marzenna Sendecka to the Management Board expired at the end of day on 10 April 2024.

Accordingly, in the period from 4 April to 10 April 2024 the composition of the Bank's Management Board was as follows:
   - Marcin Liberadzki – Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board in charge of the Management Board,
   - Marzenna Sendecka – Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board,
   - Artur Stefański – Member of the Supervisory Board delegated to temporarily serve as Vice President of the Management Board.

Furthermore, at the meeting held on 3 April 2024, the Supervisory Board:
   - appointed, with effect from 11 April 2024, Bartosz Kublik as Vice President of the Management Board in charge of the Management Board for a definite period until the effective date of the Supervisory Board's resolution appointing President of the Management Board of Bank Ochrony Środowiska S.A.Simultaneously, the Supervisory Board resolved to appoint Bartosz Kublik as President of the Management Board, conditional upon and becoming effective following approval by the Polish Financial Supervision Authority;
   - appointed, with effect from 11 April 2024, Tomasz Jodłowski as Vice President of the Management Board for a definite period until the effective date of the Supervisory Board's resolution appointing Vice President and First Deputy President of the Management Board of Bank Ochrony Środowiska S.A.Simultaneously, the

Supervisory Board resolved to appoint Tomasz Jodłowski as Vice President and First Deputy President of the Management Board, conditional upon and becoming effective following approval by the Polish Financial Supervision Authority;

- appointed, with effect from 11 April 2024, Kamil Kuźmiński as Vice President of the Management Board of Bank Ochrony Środowiska S.A.,
- appointed, with effect from 11 April 2024, Krzysztof Łabowski as Vice President of the Management Board of Bank Ochrony Środowiska S.A.,
- appointed, with effect from 15 May 2024, Michał Należyty as Vice President of the Management Board of Bank Ochrony Środowiska S.A.

All appointments to the Bank's Management Board are effective for a new joint three-year term beginning 11 April 2024.

Accordingly, in the period from 11 April to 14 May 2024 the composition of the Bank's Management Board was as follows:

- Bartosz Kublik – Vice President of the Management Board in charge of the Management Board,
- Tomasz Jodłowski – Vice President of the Management Board,
- Kamil Kuźmiński – Vice President of the Management Board,
- Krzysztof Łabowski – Vice President of the Management Board.

Since 15 May 2024, the Bank's Management Board has been composed of:

- Bartosz Kublik – Vice President of the Management Board in charge of the Management Board,
- Tomasz Jodłowski – Vice President of the Management Board,
- Kamil Kuźmiński – Vice President of the Management Board,
- Krzysztof Łabowski – Vice President of the Management Board,
- Michał Należyty – Vice President of the Management Board.

On 18 July 2024, Bartosz Kublik was approved by the Polish Financial Supervision Authority for the position of President of the Management Board of Bank Ochrony Środowiska S.A.

13. Control systems deployed in financial reporting

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

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

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

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

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

- financial reporting process,

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

14. Conflicts of interest at BOŚ S.A.

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

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

15. Remuneration policy at BOŚ S.A.

15.1. Executive compensation policy

In order to meet the requirements set out in the Regulation of the Minister of Finance, Funds and Regional Policy of 8 June 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 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank implemented the Remuneration 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 Remuneration 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.

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. has the authority to grant its consent to increase the maximum level of variable remuneration up to 200% of the fixed remuneration, in accordance with the procedure outlined in Section 25.3.4.b) and Section 25.3.4.c) 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.

In the reporting period following the end of the retention period, the following phantom shares were converted into cash and paid out to former members of the Bank's Management Board:

- third (last) tranche of deferred variable remuneration for 2019,
- first tranche of deferred variable remuneration for 2021,
- non-deferred portion of variable remuneration for 2022,

with a total gross amount of PLN 893.358 thousand (64,896 phantom shares times the price equal to the arithmetic average of the closing prices at the first five sessions after the end of the retention period, i.e. PLN 11.72 and PLN 15.82).

Variable remuneration for the 2023 performance and the deferred tranches, with regard to Management Board members and other persons holding managerial positions with a material impact on the risk profile, are yet to be determined and awarded.

Severance compensation for members of managing bodies
Contracts concluded with the managers included severance compensation. In this regard, the following provisions were in effect:

- Where the contract with a manager is terminated by the Bank for reasons other than a breach of basic contractual obligations, the manager may receive compensation of up to three 3 times the fixed remuneration, provided that the manager performed the function for at least 12 months prior to such termination; Severance pay amount is set by the Supervisory Board, taking into account the workload, efficiency and performance in the last three years of holding the function as well as the effects of the services performed and the financial results of the Bank and of the business line supervised by the manager concerned.
- Non-competition compensation (for refraining from direct or indirect involvement with the Bank's competitor) for a manager holding the function for at least three months is provided for in the amount of 50% (until 10 April 2024) or 100% (from 11 April 2024) of the fixed remuneration received directly prior to contract termination, payable for six months. The above rules were applicable to:
  - from 1 January 2024 to 10 March 2024 – three members of the Management Board,
  - from 11 March 2024 to 10 April 2024 – one member of the Management Board,
  - from 11 April 2024 to 14 May 2024 – four members of the Management Board,
  - from 15 May 2024 to 30 June 2024 – five members of the Management Board.

15.2. Management Stock Option Plan and Employee Share Plan

There was no Employee Share Plan in place at the Bank in 2023 and in the six months ended 30 June 2024.

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

Based on available information, no member of the Management or Supervisory Boards held any shares in the Bank or any of its related entities as at 30 June 2024.

16. Events after the reporting date

After the reporting date there did not occur any significant events which would not be disclosed in the financial statements.

VI. REPRESENTATION ON THE RELIABILITY OF FINANCIAL STATEMENTS

The Management Board of Bank Ochrony Środowiska S.A. represents that, to the best of its knowledge, the interim condensed consolidated financial statements of the Bank Ochrony Środowiska Group and the interim condensed financial statements of Bank Ochrony Środowiska S.A. for the six months ended 30 June 2024 have been prepared in compliance with the applicable accounting policies and give a true, fair and clear view of the assets, financial condition and financial performance of the Bank Ochrony Środowiska Group and Bank Ochrony Środowiska S.A., and that the Directors' Report on the operations of the Bank Ochrony Środowiska Group in the six months ended 30 June 2024 gives a true view of the development, achievements and condition of the Group and the Bank, and includes a description of key risks and threats.

Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
13 August 2024	Bartosz Kublik	President of the Management Board	Signed with qualified e-signature
13 August 2024	Tomasz Jodłowski	Vice President of the Management Board	Signed with qualified e-signature
13 August 2024	Kamil Kuźmiński	Vice President of the Management Board	Signed with qualified e-signature
13 August 2024	Krzysztof Łabowski	Vice President of the Management Board	Signed with qualified e-signature
13 August 2024	Michał Należyty	Vice President of the Management Board	Signed with qualified e-signature