

**Report
on the Operations of Supervisory Board
of Bank Ochrony Środowiska S.A.
for 2018**

Warsaw, May 2019

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In the reporting period, the Supervisory Board of Bank Ochrony Środowiska S.A. – in accordance with legal requirements and with the Articles of Association of BOŚ S.A. – permanently supervised the activity of the Bank.

1. Composition of Supervisory Board in 2018

In 2018 BOŚ S.A. Supervisory Board composed of eight persons.

As at 31 December 2017 the composition of BOŚ S.A. Supervisory Board was as follows:

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

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

- 1) on 13 February 2018 Mr Paweł Mzyk resigned from the position in the Supervisory Board,
- 2) BOŚ S.A. Extraordinary General Meeting, held on 13 February 2018:
 - dismissed Mr Oskar Kowalewski from his position in the Supervisory Board,
 - appointed Ms Iwona Duda and Mr Dariusz Wasilewski to positions in the Supervisory Board.

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

- 1) Wojciech Wardacki – Chairman
- 2) Andrzej Matysiak – Vice Chairman
- 3) Emil Ślązak – Secretary
- 4) Iwona Duda
- 5) Janina Goss
- 6) Piotr Sadownik
- 7) Marian Szołucha
- 8) Dariusz Wasilewski

2. Number of Supervisory Board Meetings in 2018

While fulfilling their duties related to ongoing monitoring of the Bank's operations in 2018 the Supervisory Board held 10 meetings on the following dates:

- 15 January – two meetings,
- 21 February,
- 14 March,
- 28 April,
- 16 May,
- 27 June,
- 12 September,
- 16 October,
- 28 November.

Additionally, in 2018 the Supervisory Board held nine voting sessions outside meetings, adopting relevant resolutions in matters under consideration.

3. Major Activities of Supervisory Board in 2018

In 2018 actions of the Supervisory Board involved both issues specified in the Annual Activity Plan of the Supervisory Board and issues arising from Bank's ongoing operations.

Major issues which the Supervisory Board worked on in 2018 include:

- 1)** regular evaluation of the Bank's situation upon the lapse of subsequent months and quarters, including:
 - monitoring of progress of the Recovery Proceedings Program;
 - monitoring of Bank's commitment to the financing of wind farms;
 - evaluation of the manner of managing individual types of banking risk;
 - evaluation of results of Bank's pro-ecology activities;
 - evaluation of results of internal audits and external controls;
- 2)** consideration and evaluation of financial statements of the Bank and of BOŚ S.A. Capital Group for 2017 and Bank Management Board reports on the activity of the Bank and of BOŚ S.A. Capital Group for 2017, as well as consideration and expression of opinions on materials submitted to BOŚ S.A. Ordinary General Meeting held on 19 June 2018;
- 3)** consideration and approval of a series of documents submitted to the Supervisory Board by the Management Board, in particular:
 - an updated version of the Recovery Proceedings Program of Bank Ochrony Środowiska S.A.;
 - internal distribution of competence within the Bank Management Board, and also Organisational Structure;
 - "BOŚ S.A. Internal Control System Rules";
 - "Compliance Policy of Bank Ochrony Środowiska" and "Annual Operations Plan of Compliance Office for 2018";
 - "Bank Ochrony Środowiska S.A. Banking risk management strategy" and Bank Policies regarding management of individual risk types, including: "Concentration risk management policy", "Model risk management policy",

- “Credit risk management policy”, “Policy for the management of liquidity risk, market risk in commercial ledger, interest rate risk in bank ledger and a set of total internal quantitative limits for financial risk in BOŚ S.A.”;
- “Bank Ochrony Środowiska S.A. policy for capital and ICAAP process management”;
 - “Capital plan for 2018-2021, i.e. for the Recovery Proceedings Program period”;
 - “Long-term plan for acquisition and maintenance of BOŚ S.A. external stable funds for 2018-2021” and “BOŚ S.A. Liquidity Strategy for 2018-2021”;
 - “BOŚ S.A. Investment Policy for Bank Capital Group Companies by 2020”;
 - Update of “Framework Development Strategy of Bank Ochrony Środowiska S.A. for 2016 – 2020” for the period of 2018 – 2021;
 - Bank Ochrony Środowiska S.A. 2019 Financial Plan;
- 4)** consideration and adoption of resolutions on matters remaining within the sole competence of the Supervisory Board, in particular:
- appointment, upon obtaining KNF agreement, of Vice President first deputy president of the Management Board supervising the management of major risk in Bank’s operations;
 - implementing changes to the composition of the Bank Management Board in February 2018;
 - setting management objectives, objectives of supervised areas and individual targets for Management Board members for 2018;
 - adoption of “Policy of assessment of suitability of candidates for Supervisory Board Members and of Supervisory Board Members of Bank Ochrony Środowiska S.A.”;
 - adoption of Rules of Procedure “Organisation and tasks of the Internal Audit Committee”.

4. Activity and composition of Supervisory Board Committees

4.1. Internal Audit Committee

In 2018 the Internal Audit Committee consisted of four persons.

Following the changes to the Supervisory Board carried out by the Bank Extraordinary General Meeting on 13 February 2018, the composition of the Committee was as follows:

- | | | |
|----|-------------------|--|
| 1) | Wojciech Wardacki | Committee Chair |
| 2) | Oskar Kowalewski | Committee Vice Chair (till 13 Feb. 2018) |
| 3) | Iwona Duda | Committee Vice Chair (from 21 Feb. 2018) |
| 4) | Emil Ślązak | Committee Member |
| 5) | Marian Szołucha | Committee Member |

The Committee operated on the basis of the Rules of Procedure “Organisation and Tasks of Internal Audit Committee” adopted by the Supervisory Board.

In 2018 these Rules of Procedure were amended twice. The amendments involved primarily the necessary adjustment of the Committee's activity to the requirements set forth in "Recommendation H" of the Financial Supervision Authority and also to the requirements set forth in: a) Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks; b) Finance Minister's Regulation of 29 May 2018 on detailed technical and organisational terms and conditions for investment companies, banks specified in art. 70 section 2 of the Act on trading financial instruments and on trust banks.

In 2018 the Internal Audit Committee meetings were held when needed, mainly in relation to the execution of the Committee's Activity Plan and fulfilment of Bank's current needs (Committee's 2018 Activity Plan was fully realised). In 2018 there were 13 Internal Audit Committee meetings, which was documented in meeting minutes.

The Internal Audit Committee meetings were each time attended by Bank Management Board President (with the exception of the meeting on 15 Jan. 2018) and Internal Audit Director and Compliance Office Director, and also – when considering issues involving accounting and financial reporting – the Accounting Department Director (Committee meetings on 28 Feb. 2018, 14 March 2018, 10 Aug. 2018, 12 Sep. 2018) and representatives of the external Auditor - Mazars Audyty sp. z o.o. company (Committee meetings on: 24 Jan. 2018, 28 Feb. 2018, 14 March 2018, 18 July 2018, 10 Aug. 2018).

In 2018 the Internal Audit Committee issued opinions, requests, recommendations, and guidelines to improve security and limit the risk in Bank's operations.

The undertaking of actions arising from the Internal Audit Committee's issued recommendations was within the competence of the Bank Management Board and the Internal Audit Department Director.

The Internal Audit Committee's recommendations issued in 2018 have been realised.

The results of the Internal Audit Committee's activity in 2018 included:

- issuing a positive recommendation regarding hiring a new person on the positions of the internal audit unit director and the compliance unit director;
- approval of the updated Risk Map of Bank Ochrony Środowiska S.A.;
- consideration and adoption of: 1) Information on accomplishment of "Internal Audit Department Strategy for 2016 – 2020 compliant with Framework Development Strategy of BOŚ S.A."; 2) Information on the results of self-assessment of the Internal Audit Department for 2017; 3) Information on the progress of the Program for ensuring and improving the quality of work of the Internal Audit Department for 2015-2018.
- consideration and issuing of recommendations to the Supervisory Board, regarding, among other things, the following documents:

- updated “Annual plan of internal audits for 2018 and Long-term plan for 2018 - 2020”, and “Plan of internal audits for 2019 long-term plan of audits for 2019 – 2021”;
 - “Rules of procedure of compliance unit’s functioning in Bank Ochrony Środowiska S.A.”;
 - Compliance policy in Bank Ochrony Środowiska SA,
 - “Rules for conducting internal control in Bank Ochrony Środowiska S.A.”;
 - “Internal audit card – Rules (of procedure) for the functioning of the internal audit unit in Bank Ochrony Środowiska S.A.”;
 - regular (quarterly) information on the results of internal audits and internal controls conducted in the Bank;
 - regular (quarterly) information on the compliance risk in Bank Ochrony Środowiska S.A. and on compliance controls conducted by the compliance unit;
 - regular reports on implementation of KNF recommendations arising from controls and inspections conducted in the Bank, including also those issued as a result of the BION (supervisor’s inspection and assessment) assessment process;
 - information on Compliance Office’s actions to adjust Bank’s internal regulations to national and EU laws regarding MIFID II/MIFIR regulations.
- preparing for the Supervisory Board – based on materials and information provided by the Bank Management Board and by the Internal Audit Department and the Compliance Office – recommendations on the assessment of BOŚ S.A. internal control system in 2018. On a scale of 1 to 4 (with 1 as the best grade) the effectiveness of the internal control system, like a year before, was graded 2: “Adequate and effective with irregularities”. The Supervisory Board approved the presented assessment – in accordance with the Committee’s recommendation. Justification of the assessment has been included in Appendix 1 hereto.

4.2. Remuneration and Nomination Committee

The Remuneration and Nomination Committee was established by the Supervisory Board on 27 June 2018 as a result of converting the Remuneration. The reason for establishing a new Committee and extend its competence scope was the necessity to adjust the Committee’s activity to the requirements set forth in supervision regulations, including:

- 1) art. 9cb. and 22aa. of the Banking Act of 29 Aug. 1997;
- 2) Guidelines of the European Banking Authority on the assessment of the suitability of members of the management body and key function holders of 22 November 2012;
- 3) Guidelines of the European Banking Authority on sound remuneration policy specified in art. 74 sections 3 and 75 section 2 of directive 2013/36/EU, and disclosure of information in accordance with art. 450 of regulation (EU) no. 575/2013 of the European Banking Authority of 27 June 2016.

The tasks of the former Remuneration Committee were extended by powers regarding supporting the General Meeting and Supervisory Board in the performance of tasks arising from the policy of assessment of suitability of candidates for Supervisory Board and Management Board Members and of Members of these authorities. The new powers granted to the Remuneration and Nomination Committee contribute to exerting effective supervision over the Bank by confirming the members of the Supervisory Board and of the Management Board have proper qualifications, guarantee due execution of duties, independence and lack of the conflict of interest.

In 2018 the Committee consisted of three persons.

Following changes to the Supervisory Board conducted by the Extraordinary General Meeting of the Bank on 13 February 2018, the Committee was made up of the following persons:

- 1) Piotr Sadownik – Committee Chairman,
- 2) Oskar Kowalewski – Committee Vice Chairman (till 13 Feb. 2018)
- 3) Dariusz Wasilewski – Committee Vice Chairman (from 21 Feb. 2018)
- 4) Janina Goss – Committee Member.

In 2018 the Committee held 5 meetings, which was documented in meeting minutes. The Committee meetings were held when needed, mainly in relation to the execution of the Committee's Activity Plan and fulfilment of Bank's needs.

In addition to Committee Members, the Committee meetings were also attended by the Bank Management Board and the HR and Training Department Director.

The topics of the Committee meetings revolved mainly around:

- implementation of the provisions of art. 22aa. of the Banking Act and Guidelines of the European Banking Authority on the assessment of the suitability of members of the management body and key function holders of 22 November 2012;
- variable salaries of people holding key positions in the Bank, as defined in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks.

The Committee issued opinions, motions and recommendations regarding the remuneration policy. Initiation of actions arising from the issued opinions, motions and recommendations fell into the competence of the Supervisory Board and Management Board, respectively. All opinions, motions and recommendations in 2018 were taken into account and implemented in their entirety.

The results of the Committee's work were, in particular:

- consideration and issuing of recommendations to the Supervisory Board, with regard to the following documents:
 - draft of "Policy of assessment of suitability of candidates for Management Board Members and of Management Board Members of Bank Ochrony Środowiska S.A.",

- draft of „Policy of assessment of suitability of candidates for key function holders and of key function holders in Bank Ochrony Środowiska S.A.”;
- issuing recommendations to the Supervisory Board with regard to:
 - amount of Fixed Remuneration for a newly appointed Bank Management Board Member;
 - assessment of the results and accomplishment of tasks for 2017 for the Bank Management Board Members (including a proposal not to grant a bonus for the 2017 results);
 - management objectives, objectives of the supervised Area and individual targets for individual Management Board for 2018.
- issuing of opinions on:
 - planned changes to the List of persons holding managerial positions in BOŚ S.A. (i.e. having a major impact on Bank’s risk profile) and a proposal not to grant these people the variable remuneration for 2017;
 - results of an analysis of significance of impact of individual subsidiaries on Bank’s risk profile, as at 30 June 2018 according to the Policy of remuneration of persons holding managerial positions in BOŚ S.A. Capital Group;
- preparation for the Supervisory Board – according to the “Corporate Governance Rules for Supervised Institutions” issued by the Financial Supervision Committee – “Assessment of the functioning of remuneration policy in BOŚ S.A. in 2018” along with a draft of assessment of the deciding authority regarding determination whether the Remuneration Policy of BOŚ S.A. favours the development and safe operations of the Bank. Information on the accomplished assessment has been included in Appendix 2 hereto.

4.3. Ecology Committee

The primary tasks of the Ecology Committee include:

- issuing opinions and preparation of recommendations to the Supervisory Board regarding quarterly information on Bank’s pro-ecology activities and corresponding initiatives as well as directions of financing pro-ecology projects developed by the Bank;
- supporting Bank’s cooperation with the National and Voivodship Funds for Environment Protection and Water Management and other environmental organisations,
- preparation of recommendations and opinions to the Supervisory Board and Management Board regarding the development of banking ecological product offer.

In 2018 the Committee consisted of three persons.

Following changes to the Supervisory Board conducted by the Extraordinary General Meeting of the Bank on 13 February 2018, the Committee was made up of the following persons:

- 1) Andrzej Matysiak – Committee Chairman
- 2) Paweł Mzyk – Committee Vice Chairman (till 13 Feb. 2018)

- 3) Dariusz Wasilewski – Committee Vice Chairman (from 21 Feb. 2018)
- 4) Janina Goss – Committee Member.

In 2018 the Committee held 5 meetings, which was documented in meeting minutes. The Committee meetings were held when needed, mainly in relation to the execution of the Committee's Activity Plan and fulfilment of Bank's needs.

In addition to Committee Members, the Committee meetings were also attended by representatives of the Bank Management Board and representatives of the Bank Head Office managerial staff, particularly the Managing Director of the management-operations division and Bank Chief Ecologist.

In 2018 the topics of the Committee meetings revolved mainly around quarterly reports on Bank's pro-ecology activity, with particular regard to cooperation with the National and Voivodship Funds for Environment Protection and Water Management. The Ecology Committee issued relevant recommendations to the Supervisory Board (positive).

Additionally, among major issues related to the development of Bank's pro-ecology activity, during the Committee Meetings the discussed topics included:

- information on talks undertaken by the Bank with WFOŚiGW on intensifying cooperation between the Funds and the Bank;
- information on the current status of the Program of preferential loans and subsidies from NFOŚiGW funds for the development of RES microinstallations "Prosument II" and the status of negotiations regarding cooperation with individual WFOŚiGW in this regard,
- information on Bank's preparations to handle the Program of subsidies to energy-saving wooden buildings planned by NFOŚiGW (Committee issued a positive opinion on Bank's actions in this area),
- information on changes to the organisational structure and tasks performed by ecology-related units' staff (the purpose of the implemented changes was to fully involve the business area in the sale of pro-ecology products and at the same time use the know-how of ecology experts) and on the impact of these changes on the quality of services provided by the Bank and on the sale of pro-ecology products,
- possibility of Bank's involvement in supporting the Clean Air Program (Czyste Powietrze) (the Bank prepared, among others, an offer of commercial supplementary crediting of costs of non-qualified projects conducted as part of the Program),
- Information on the carrying out and results of the "Ambasador Ekomarki BOŚ" Competition (BOŚ Eco-brand Ambassador), the main purpose of which was to raise ecological knowledge among Bank employees (the results of the competition gained a positive evaluation and further actions to continuously perfect knowledge of ecology and ecological behaviours are being continued).

4.4. Risk Committee

The Risk Committee supports the Supervisory Board in the supervision of the risk area, performing tasks specified in the Banking Act, Bank's Articles of Association and Supervisory Board's Resolutions.

In 2018 the Risk Committee consisted of four persons.

Following changes to the Supervisory Board conducted by the Extraordinary General Meeting of the Bank on 13 February 2018, the Committee was made up of the following persons:

- | | |
|----------------------|--------------------------------------|
| 1) Emil Ślężak | Committee Chairman |
| 2) Marian Szolucha | Committee Vice Chairman |
| 3) Oskar Kowalewski | Committee Member (till 13 Feb. 2018) |
| 4) Iwona Duda | Committee Member (from 21 Feb. 2018) |
| 5) Wojciech Wardacki | Committee Member |

In 2018 the Risk Committee meetings were held when needed, mainly in relation to the execution of the Committee's Activity Plan and fulfilment of Bank's needs.

In 2018 the Risk Committee held 8 meetings, which was documented in meeting minutes.

The following persons attended in the Committee meetings:

- 1) Bank Management Board President and/or Vice President supervising the Risk Area,
- 2) Directors of Head Office organisational units involved in the Risk Area and, when needed, Directors of Head Office organisational units from the Bank's Business Area,
- 3) Internal Audit Department Director and Compliance Office Director or employees from these units appointed by their respective Directors,

Additionally, the Committee Members adopted a principle that the Committee meetings may be attended by Supervisory Board Members who are not Committee Members.

The main tasks of the Risk Committee include supporting the Supervisory Board in the supervision of the risk area. When performing its tasks, the Committee, in particular:

- 1) issues comprehensive opinions on Bank's current and future readiness for undertaking risk, including the Committee:
 - a) acknowledges periodic reports/ information of the Bank Management Board on major events affecting the risk level in the Bank and on major changes to the risk management process and system,
 - b) acknowledges periodic statements/ reports/ information of the Bank Management Board on the risk level, increased exposure position to a given risk, on manners of identifying and monitoring of risk and on undertaken actions to mitigate risks;
- 2) issues opinions on the Bank Management Board's strategy of managing risk in the Bank's operations and information on the implementation of this strategy presented

by the Bank Management Board, as well as supports the Supervisory Board in supervising the implementation of this strategy in the Bank;

- 3) verifies whether the prices of liabilities and assets offered to customers fully take into account the Bank's business model and its risk strategy and when these prices do not properly reflect the risk types vis-à-vis this model and this strategy, it presents the Bank Management Board proposals which are to ensure the prices of liabilities and assets are adequate to the types of these risks.

In 2018 the results of the Committee's works included:

- 1) consideration and issuing recommendations to the Supervisory Board regarding materials and documents related to Bank's risk management. These recommendations applied, in particular, to:
 - "Banking Risk" quarterly reports,
 - regulations on managing individual types of risks, including, in particular:
 - BOŚ S.A. Banking Risk Management Strategy,
 - BOŚ S.A. Credit risk management policy,
 - BOŚ S.A. concentration risk management policy,
 - BOŚ S.A. liquidity risk management policy,
 - BOŚ S.A. policy for managing market risk in the commercial ledger,
 - BOŚ S.A. policy for managing interest rate risk in the banking ledger,
 - the set of total internal quantitative limits for financial risk in BOŚ S.A.,
 - Long-term plan for obtaining and maintaining external stable funds of BOŚ S.A. for 2018-2021,
 - BOŚ S.A. liquidity strategy for 2018-2021,
 - BOŚ S.A. operating risk management policy,
 - BOŚ S.A. models risk management policy;
 - Rules of procedure for granting, by Bank Ochrony Środowiska S.A., loans, credits, banking guarantees, endorsements and other off-balance sheet commitments to Bank authority members, persons holding key management positions in the Bank and entities related to them by capital or organisation or upon their request,
 - Rules of procedure for granting, by Bank Ochrony Środowiska S.A., loans, credits, banking guarantees, endorsements and other off-balance sheet commitments to subsidiaries and entities affiliated with the Bank, Bank shareholders, entities related to shareholders by capital or organisation, Bank employees or upon their request;
- 2) consideration and issuing recommendations to the Supervisory Board regarding capital adequacy issues and internal capital issues, particularly to:
 - Report on the review of ICAAP ((Internal Capital Adequacy Assessment Process) review in BOŚ S.A. Capital Group for 2017,
 - BOŚ S.A. policy for capital and ICAAP management;
 - Capital plan for 2018-2021, i.e. for the Bank's Recovery Proceedings Program period;
- 3) consideration and issuing recommendations to the Supervisory Board regarding the results of the ILAAP (internal liquidity adequacy assessment process) review;
- 4) consideration of information on:
 - actions undertaken with regard to the clients from the wind farm portfolio,

- major loan exposures affecting results due to depreciation,
 - selected credit exposures in relation to which in 2018 the Bank conducted restructuring or debt collection activities;
- 5) preparation, for the Supervisory Board – based on materials and information provided by the Bank Management Board – recommendations regarding BOŚ S.A. risk management system assessment in 2018. On the scale of 1 to 4 (1 being the best score) the system was evaluated at 2: “Adequate and effective with reservations (grade was 1 point higher than 2017 evaluation). The Supervisory Board approved that evaluation. The justification of the evaluation has been included in Appendix 1 hereto.

5. Self-Evaluation of Work of Supervisory Board in 2018

In accordance with “Good Practices of Companies Listed on WSE” the Supervisory Board presented an evaluation of its works in 2018 to the General Meeting.

In 2018 the Supervisory Board held 10 meetings and carried out 9 voting sessions outside the meetings, resulting in the Board’s adoption of the requested resolutions.

The number of the Supervisory Board meetings significantly exceeded the obligations arising both from Par. 19 subpara. 2 of the Bank’s Articles of Association (“*Supervisory Board meetings shall be convened by its chairman as necessary but no less frequently than once in a quarter*”), and art. 389 Par. 3 of the Commercial Companies Code (“*Supervisory Board meetings shall be convened as necessary but no less frequently than three times in a financial year*”).

The Supervisory Board’s activities involved in 2018 issues specified in the Board’s Framework Activity Plan and also issues arising from Bank’s current activities.

Activities which the Supervisory Board was obligated to perform were conducted in a timely manner and with due diligence. Decisions were undertaken upon detailed consideration and listening to the Management Board’s argumentation.

Persons appointed to the Supervisory Board – in order to ensure versatility and diversity of this body – represented/ represent different directions of education and skills, high qualifications and rich professional experience.

Each of the Supervisory Board Members was continuously interested in the Bank’s situation, which resulted not only from the functions held but also from education, experience and interest. Some of the major observations and opinions were reflected in the Board meeting minutes.

All the Management Board Members fulfilled their duties on their respective functions actively, demonstrating the necessary commitment to the work in the Supervisory Board. The Supervisory Board Members devoted the necessary amount of time to executing their duties, arising from their membership in a supervision body, including the Supervision Board Committees (each Supervisory Board Member held/holds a function in at least one Committee).

It was a regular principle for all the Supervisory Board Members to attend all the Board meetings. Rare cases of absence were always justified.

Activeness and commitment of individual Board Members allowed due execution of the tasks of the Supervisory Board as a supervision body.

Given the duties arising from the law and articles of association, the Supervisory Board duly executed its duties arising from permanent supervision of the Company. This was particularly visible in the matters involving:

- implementation of assumptions of the Recovery Proceedings Program and current financial situation of the Bank. This issue, being critical to the Bank, was discussed at each meeting. The Board considered periodic (monthly) reports on Bank's generated financial results – both vis-à-vis the Financial Plan (Recovery Proceedings Plan) and vis-à-vis other banks of this sector, paying particular attention to the necessity to undertake more active and effective actions to increase Bank's revenue, particularly the increase of balances and the scale of loan activities;
- Bank's involvement in financing wind farms (Bank's involvement in this sector resulted in an increase of the concentration risk and consequently, a necessity to book additional write-offs and in a decrease of the Bank's financial results at the end of 2016). The Bank Management Board – as expected by the Supervisory Board – regularly presented, at the Supervisory Board Meetings, reports on the condition of the wind farm portfolio and situations of individual farms and risk management report in this context. Actions undertaken in 2017 and 2018 resulted, among other things, in an improved structure of the wind farm portfolio, decrease of the balance of these loans and decreasing share of the wind farm portfolio in the total loan portfolio;
- the quality of managing individual types of banking risk. Detailed reports on this issue were regularly (on a quarterly basis) considered both by the Supervisory Board and by the Risk Committee;
- results of controls and internal audits as well as external audits. Reports on this issue were regularly considered both by the Supervisory Board and by the Internal Audit Committee;
- Bank's pro-ecology activities, including the financing of environmental projects, particularly in cooperation with the National and Voivodship Funds for Environment Protection and Water Management – as part of executing the statutory mission of BOŚ S.A. Detailed reports on this issue were regularly considered by the Supervisory Board and by the Ecology Committee

Additionally, according to the requirements set forth in the Commercial Companies' Code and Corporate Governance Rules issued by the Financial Supervision Authority, Good Practices of Companies listed on WSE and the Act on the Rules for Managing State Property – the Supervisory Board:

- evaluated the Bank's situation in 2018 taking into account the evaluation of internal control systems, risk management system, compliance system and internal audit functions (Appendix 1 hereto);
- evaluated the functioning of the Remuneration Policy in 2018 (Appendix 2 hereto);

- evaluated the rationale of the Bank’s policy of sponsoring, charitable or similar activity or information (Appendix 3 hereto);
- evaluated the Bank’s application of Corporate Governance Rules in 2018 (Appendix 4 hereto);
- evaluated the Management Board’s reports on the activity of the Bank and of BOŚ S.A. Capital Group for 2018 vis-à-vis their compliance with ledgers, documents and actual state of matters. The Supervisory Board issued a relevant statement which was publicised in accordance with art. 382 Par. 3 of the Commercial Companies Code, Par. 70 section 1 Item 14 and Par. 71 section 1 item 12 of the Finance Minister’s Regulation of 29 March 2018 on current and periodic information presented by issuers of securities and on the terms of acceptance as equivalent of information required by the laws of a non-member state and Par. 20 subpara. 11 point 9 of the Bank’s Articles of Association;
- considered and issued opinions on the “Report on expenditures on representation, legal services, marketing services, public relations services, social communication and management consulting services for 2018” presented by the Bank Management Board to the Ordinary General Meeting.

6. Information on Supervisory Board Members’ fulfilment of the criterion of independence in 2018

In 2018 BOŚ SA Supervisory Board consisted of:

- 1) Wojciech Wardacki
- 2) Andrzej Matysiak
- 3) Emil Ślązak
- 4) Iwona Duda (from 13 Feb. 2018)
- 5) Janina Goss
- 6) Oskar Kowalewski (till 13 Feb. 2018)
- 7) Paweł Mzyk (till 13 Feb. 2018)
- 8) Piotr Sadownik
- 9) Marian Szołucha
- 10) Dariusz Wasilewski (from 13 Feb. 2018)

In accordance with:

- “Good Practices of Companies Listed on WSE” adopted for execution in the Bank, according to which the “the Supervisory Board evaluates whether there are relations or circumstances which may affect the fulfilment by individual Supervisory Board Members of the independence criteria”,
- European Commission recommendation on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board, according to which the Supervisory Board should identify independence of its Members,
- the provisions of the Rules of BOŚ S.A. Supervisory Board,

The Supervisory Board evaluated whether there are relations or circumstances which may affect the fulfilment by individual Supervisory Board Members of the independence criteria and identified the status of independence of its members.

Following the declarations submitted by the Supervisory Board Members, as well as the evaluation performed by the Supervisory Board, the Supervisory Board concluded that in 2018:

- 1) the criteria of independence were fulfilled by:
 - Mr Wojciech Wardacki
 - Mr Emil Ślązak
 - Ms Janina Goss
 - Ms Iwona Duda
 - Mr Piotr Sadownik
 - Mr Marian Szolucha
 - Mr Dariusz Wasilewski
- 2) independence criteria were not fulfilled by Mr Andrzej Matysiak due to his relation with a shareholder holding at least 5 per cent of the total number of votes in BOŚ S.A. shares.

Additionally, the Supervisory Board concluded that:

- the criteria of independence were fulfilled also by the Supervisory Board Members holding Board functions until 13 February 2018 – Mr Oskar Kowalewski and Mr Paweł Mzyk,
- the criteria of independence set forth in the Act on chartered accountants, auditing firms and public supervision of 11 May 2017 were fulfilled by all the Members of the Internal Audit Committee.

7. Information on Supervisory Board Members' fulfilment of requirements set forth in art. 129 sections 1 and 5 of the Act on chartered accountants, auditing firms and public supervision of 11 May 2017 (Journal of Laws of 2018 item 1089 with further amendments)

The Act on chartered accountants, auditing firms and public supervision of 11 May 2017 introduced special requirements for the Supervisory Board Members who are members of the Internal Audit Committee.

The provisions of art. 129 section 1 of the act requires that at least one member of the Internal Audit Committee have knowledge and skills in the area of accounting or auditing of financial statements.

This requirement – in accordance with submitted declarations – was fulfilled by all Supervisory Board Members who were members of the Internal Audit Committee:

- 1) Mr Wojciech Wardacki
- 2) Ms Iwona Duda (from 13 Feb. 2018)
- 3) Mr Oskar Kowalewski (till 13 Feb. 2018)
- 4) Mr Emil Ślązak

5) Mr Marian Szołucha

The provisions of art. 129 section 5 of the act requires that the Internal Audit Committee members have knowledge and skills in the area of banking, while this condition is deemed fulfilled if at least one Internal Audit Committee Member has knowledge and skills in the area of banking or if individual members in individual scopes have knowledge and skills in the area of banking.

This condition – in accordance with submitted declarations – was fulfilled by all the members of the Supervisory Board who were members of the Internal Audit Committee:

- 1) Mr Wojciech Wardacki
- 2) Ms Iwona Duda (from 13 Feb. 2018)
- 3) Mr Oskar Kowalewski (till 13 Feb. 2018)
- 4) Mr Emil Ślązak
- 5) Mr Marian Szołucha.

8. Supervisory Board Report on the conducted evaluation of:

- **statements of the Bank and of BOŚ S.A. Capital Group for 2018, i.e.:**
 - **consolidated financial statement of Bank Ochrony Środowiska S.A. Capital Group for the year ended 31 Dec. 2018,**
 - **financial statement of Bank Ochrony Środowiska S.A. for the year ended 31 December 2018,**
 - **Management Board report on activity of Bank Ochrony Środowiska S.A. Capital Group for 2018,**
 - **Management Board report on activity of Bank Ochrony Środowiska S.A. for 2018,**
- **vis-à-vis their compliance with ledgers, documents and actual state of matters;**
- **Management Board's motion for distribution of Bank's 2018 profit.**

The Supervisory Board of Bank Ochrony Środowiska S.A., under art. 382 Par. 3 of the Commercial Companies Code and Par. 43 subpara. 1 and 2 of the Articles of Association of Bank Ochrony Środowiska S.A. issued a positive opinion on compliance with ledgers, documents and actual state of matters of:

- 1) consolidated financial statement of Bank Ochrony Środowiska S.A. Capital Group for the year ended 31 Dec. 2018 (consolidated financial statement),
 - 2) financial statement of Bank Ochrony Środowiska S.A. for the year ended 31 December 2018 (separate financial statement),
 - 3) Management Board report on activity of Bank Ochrony Środowiska S.A. Capital Group for 2018,
 - 4) Management Board report on activity of Bank Ochrony Środowiska S.A. for 2018
- on the basis of:
- the wording of the abovementioned statements and reports submitted and discussed by the Management Board of Bank Ochrony Środowiska S.A.,
 - reports on the review of the separate and consolidated financial statements (financial statements) and additional report of the auditing company for the Internal Audit Committee,

- meetings with representatives of the auditing company, including its key chartered accountant,
- recommendations of the Internal Audit Committee regarding opinions on the reviewed financial statements.

The correctness of the consolidated financial statement of Bank Ochrony Środowiska S.A. capital group and of the separate financial statement of Bank Ochrony Środowiska S.A. for the year ended 31 December 2018 was also acknowledged by the opinion issued by an authorised, independent chartered accountant, which contains no reservations.

The Supervisory Board's statement on the performed evaluation was publicised in an annual report of 14 2019, in accordance with Par. 70 section 1 Item 14 and Par. 71 section 1 item 12 of the Finance Minister's Regulation of 29 March 2018 on current and periodic information presented by issuers of securities and on the terms of acceptance as equivalent of information required by the laws of a non-member state and Par. 20 subpara. 11 point 9 of the Articles of Association of Bank Ochrony Środowiska S.A.

Additionally, the Supervisory Board – upon consideration at its meeting on 15 May 2019 – issued a positive opinion on the Management Board's motion for the distribution of Bank's 2018 profit according to which the net profit earned in 2018 in the amount of sixty-five million twelve thousand six hundred and seventy PLN 65 grosz (65,012,670.65 PLN) is to be allocated in its entirety to reserve capital.

Bank Supervisory Board issued a positive opinion on the General Meeting's resolution on this matter and recommended the General Meeting to adopt this resolution.

Having submitted this report, the Supervisory Board hereby requests the General Meeting to approve it.

On behalf of Supervisory Board of Bank Ochrony Środowiska S.A.
Vice Chairman of Supervisory Board

/-/ Andrzej Matysiak, PhD. Eng.

Warsaw, 15 May 2019

Evaluation of Bank's situation in 2018, taking into account evaluations of internal control system, risk management system, compliance system and internal audit function.

The basis for the Supervisory Board's evaluation within this scope is constituted by the corporate governance rules included in "Good Practices of Companies Listed on WSE 2016".

1. Concise evaluation of Bank's situation in 2018.

The Supervisory Board evaluated the Bank's situation in 2019 on the basis of:

- current reports on the economic and financial situation of the Bank considered during the year at Supervisory Board Meetings,
- reports of the compliance unit and reports of the internal audit unit on the results of conducted audits and controls,
- an analysis of the Management Board's report on the Bank's activity in 2018,
- an analysis of 2018 BOŚ S.A. financial statement,
- an independent chartered accountant's report on the audit of the Bank's financial statement for the financial year 2018 and the auditor's information on the course and results of this audit.

When evaluating the Bank's situation in 2018 the Supervisory Board particularly draws attention to and positively evaluates the following facts:

- 1) in February 2018 the Bank prepared and the Supervisory Board approved an updated version of the Recovery Proceedings Program. Due to consistently conducted activities, in 2018 BOŚ S.A. generated net profit of 65 million PLN, versus 24.4m PLN a year before and versus a loss of 68m PLN in 2016. That was Bank's best financial result since 2000. Another Bank's success is also the result generated on interest in the last quarter 2018, which was a historical record and exceeded 100m PLN. The result generated on banking operations of over 505m PLN, versus ca. 489m PLN in 2017, also deserves a mention.
- 2) as part of executing the Recovery Proceedings Program the Bank carried out restructuring activities – it optimised its business model, which – to a major extent – was directed towards specialised operations (ecology and financing of pro-

ecology projects). The new model is characterised by a focus on corporate banking, particularly small and medium enterprises, and by a profile customised for individual clients;

- 3) in 2018 the Bank was developing its operations in the market of financing pro-ecology projects – the sales of pro-ecology loans increased by 17.3% versus 2017 and totalled 864.7m PLN. The pro-ecology loan balance as at 2018-end totalled over 4.4bn PLN, while the share of loans granted for environmental activities and pro-sustainable development projects constitutes 34.85 per cent of Bank's total loan balance (34.70 per cent as at the end of 2017);
- 4) the change of the business model enabled the Bank to significantly improve its effectiveness indexes – return on equity (ROE) increased from 1.4 per cent in 2017 up to 3.4 per cent in 2018 (despite a decrease in equity), return on assets (ROA) grew from 0.1 per cent in 2017 up to 0.3 per cent in 2018, while the costs/income ratio as at 2018-end totalled 57.9 per cent and was 3.5 p.p. lower than in 2017;
- 5) the Bank further limited the risk arising from its significant commitment to the financing of wind farms. Major factors mitigating the risk include:
 - gradually dropping share of this portfolio in the total loan portfolio;
 - gradual decrease of the balance of this portfolio – Bank's total commitment to financing wind farms totalled slightly more than 1.8bn PLN as at 31 December 2018;
 - improved structure of the wind farm portfolio, which results from better financial situation of individual entities, arising primarily from: 1) amendment of the ReS act restoring, from 1 Jan. 2018, rules of taxation of wind farms with property tax more beneficial to the investors, 2) growth of price indexes of green certificates at Energy Commodity Market listed since early 2018, 3) experts' forecasts of long-term continuation of the growing trend of electricity prices;
- 6) in 2018 the Bank significantly decreased its total overheads – as at 2018-end they were nearly 19m PLN (6.4 per cent) lower than the expenses incurred in 2017; the Supervisory Board issued a positive opinion on the fact that the conducted recovery activities, in the subsequent year, led to lower Bank's overheads. The level of incurred costs resulted, in particular, from: lower material costs, lower personnel costs, lower costs of taxes and fees, including lower Bank Guarantee Fund costs and lower costs of depreciation;
- 7) in 2018 the Bank successfully conducted a new stocks issue, which brought over 300m PLN and significantly strengthened Bank's capital base. The increase of the capital positively contributed to the enlargement of security buffer and liquidity margin, which allows the Bank to intensify its credit campaigns – the obtained funds are allocated mainly to wider loan campaigns in the pro-ecology project financing area. The total capital ratio increased up to 18.03 per cent at 2018-end from 15.27 per cent at the end of 2017, while new sales of loans and credits grew by 13.5 per cent (the Bank granted loans and credits for an amount of 2,540.7m PLN versus 2,238.5m PLN in 2017);

- 8) Bank's actions significantly affected ratings issued by Fitch Ratings Ltd – in February 2018 the Agency preserved its earlier ratings for the Bank, including long-term company rating of "B+" outlook stable, while in January 2019 it increased its ratings and kept Bank's stable outlook; the long-term rating was increased from 'B+' to 'BB-';
- 9) in 2018 the Bank performed actions to simplify the structure of the Capital Group, which now consists of a total of four entities – two direct subsidiaries (DM BOŚ SA, BOŚ Ekoprofit SA) and one company indirectly controlled by the Bank (MS Wind Sp. z o.o.);
- 10) Bank's selected products, designed to address customer needs but also to contribute to the Polish economy were granted the "Turbina Polskiej Gospodarki" award in a competition of "Gazeta Finansowa". Honourable mentions were granted to:
 - the *Kredyt dla Firmy* loan – modern financing facility which makes it easier for microbusinesses to pursue their everyday operations and make investments into development,
 - EKOfaktoring – specialised service allowing enterprises to gain quick access to cash "frozen" in invoice dues.

At the same time, however, the Supervisory Board draws attention to the fact that:

- the Bank's balance sheet total dropped and at the end of December 2018 equalled 18,082.0m PLN versus 19,405.4m PLN at the end of 2017,
- income from interest and similar income (in the amount slightly exceeding 627m PLN) dropped by about 5.3 per cent compared to 2017,
- the result on fees and commissions got stable at about 60m PLN and was ca. 0.6 per cent higher than in 2017,
- amounts due from customers dropped by over 530m PLN, or ca. 4.3 per cent versus 2017; the number of customers in all categories dropped – by a total of ca. 2.4% compared to the previous year,
- in 2018 BOŚ S.A. decreased its share in loans, credits and deposits of the non-financial sector and in the sector's balance sheet total. BOŚ S.A. share in the commercial banks' sector as at 2018-end totalled:
 - 1.0 per cent for the balance sheet total versus 1.1 per cent at the end of 2017,
 - 1.3 per cent for the deposits of the non-financial sector versus 1.4 per cent at the end of 2017,
 - 0.9 per cent for loans and credits versus 1.0 per cent as at 2017-end.
- Bank's operations in 2019 and potentially in the following years may be affected by unfavourable factors, among which the major ones include:
 - consequences of potential legislative solution to the issue of housing loans in foreign currencies, including CHF. Implementation of proposed initiatives regarding currency conversion of FX mortgage loans would negatively impact the financial results of both the Bank and the entire sector;
 - the risk of a significant weakening of PLN exchange rate to CHF and EUR, which would increase the volume of FX loans and consequently, the growth of the capital requirement for these loans;

- the risk of volatility in the global financial market and lower ratings – both the country rating and Bank’s company rating – which could result in higher costs of external financing as well as impairment of transactions involving foreign currency risk and interest rate risk management as well as more difficult access to foreign financing;
- the risk of interest rates staying at a low level or further lowering of interest rates both in PLN and foreign currencies, which would result in Bank’s interest rate results drop down.

When evaluating the Bank’s situation in 2018 the Supervisory Board stresses that what deserves a positive assessment is the consistent execution of the Recovery Proceedings Program, which brought positive, measurable results in multiple areas of Bank operations. The completed restructuring, including the change of the business model, translated into a major growth of the financial results and improved effectiveness ratios. Now, once the stages of cost restructuring, balance sheet optimisation and improvement of capital and liquidity positions have been completed, the Bank is entering the stage of sustainable development of its business. Having positively assessed the effects of the Management Board’s efforts and actions to improve the Bank’s situation, the Supervisory Board points to the areas in which the Bank – compared to other banks of the sector – still has some reserves to use. The Supervisory Board particularly recommended that the Management Board:

- further increase the Bank’s market activity, including intensify efforts to increase the number of customers and further improve the customer service (also via modern electronic channels);
- intensify sales actions to increase Bank’s income and consequently, further strengthen effectiveness of the Bank’s operations reflected, among others, in ROE, ROA and C/I figures.

These goals will better be achieved thanks to “Framework Development Strategy of Bank Ochrony Środowiska S.A. for 2016 – 2020” updated for the period of 2018-2021, approved by the Supervisory Board. The updated strategic goals provide, among others, for reaching ROE of over 7.7 per cent, net profits of over 180m PLN, C/I of below 47 per cent, growth of pro-ecology loans to exceed 40 per cent of the total loan portfolio. Factors to help achieve the set goals will include:

- growth of financing of pro-ecology investment projects and synergy of cooperation with partners, particularly with NFOŚiGW and WFOŚiGW. The strategy provides for further evolution of the business model involving specialisation towards ecology and capitalising on the expansion of pro-ecology investment projects through financing of pro-ecology projects and efficient distribution of funds for environment protection and sustainable development. The actions which will provide positive contribution include a new path of cooperating with NFOŚiGW, initiated in 2018, benefiting from the synergy of BOŚ Group entities by BOŚ Eko Profit S.A., which specialises in preparing applications for NFOŚiGW funds within the programs offered by the Fund. As part of cooperation with NFOŚiGW the Bank offers a financial facility covering the total costs of the undertaking (bridge, refinance, supplementary loan). With a comprehensive offer of the Capital Group, the Bank will be able in 2019 to effectively intensify cooperation with the National (NFOŚiGW) and Voivodship Funds for Environment Protection and Water Management (WFOŚiGW) and attract new customers;

- higher effectiveness of business operations, including transition from stabilisation and recovery activities in 2016-2018 to the stage of business development involving implementation of Bank's new business model and new role in the government's environmental campaigns;
- building a culture of high results and quality based on values promoted both internally within the Bank and externally.

The Supervisory Board approvingly acknowledges the activity of the Bank, which – according to its mission – in cooperation with other entities financing Poland's ecology, particularly with its strategic shareholder, plans to further strengthen its position in the market of financing environmental projects and aims at increasing the value of the Bank as an important stakeholder of Poland's system of financing ecology.

2. Evaluations of internal control system, risk management system, compliance system and internal audit function.

The purpose of these systems is to ensure effective and efficient operations of the Bank and compliance with relevant legal regulations in all aspects of the Bank's operations.

The Supervisory Board supervised the functioning and effectiveness of these systems in the Bank with active participation of the Internal Audit Committee and the Risk Committee.

2.1 Evaluation of the internal control system in the Bank and in BOŚ S.A. Capital Group

As a result of the exerted supervision, taking into account the Internal Audit Committee's recommendation, the Supervisory Board evaluated the effectiveness and suitability of the internal audit system in BOŚ S.A. and in BOŚ S.A. Capital Group in 2018 at level 2: "Adequate and effective with shortcomings"¹, which is unchanged and the same as in 2017.

The evaluation applies to the internal audit system, which – according to the Banking Act – consists in: the control function, the compliance unit and the internal audit unit.

In 2018 the Internal Audit Committee performed its function based on:

- internal tools specified in the Management Information System, i.e. reports and information presented, in particular, by the internal audit unit and the compliance unit,

¹ The adopted scale comprises the following grades of the internal control system:

- 1 – adequate and effective
- 2 – adequate and effective with shortcomings
- 3 – adequate and effective with reservations
- 4 – inadequate and ineffective

- external tools based mainly on KNF Supervision Audit and Assessment (BION), external auditor’s reports and opinions issued following audits of financial statements of the Bank and of BOŚ S.A. Capital Group and other reports on control and supervision activities in the Bank.

Assessment of suitability and effectiveness of the internal audit system was formulated upon consideration of the following elements:

- implementation and functioning, in the Bank, of a risk management system and internal control system organised at three independent levels (three lines of defence),
- implementation and functioning of a methodology of identifying and assessing control mechanisms in Bank’s major processes,
- updating and adjusting of Bank’s internal regulations regarding the Internal Control System to amended KNF Recommendation H,
- Risk Map results regarding internal control. Out of 125 processes listed in the Risk Map, no processes with inadequate and ineffective controls were identified,
- results of planned and unplanned audits conducted in the Bank and its subsidiaries, where risk areas were identified (BOŚ Capital, now BOŚ Eko Profit S.A.). Following the identified ineffectiveness, recommendations were made and actions were undertaken in 2018 to mitigate the identified risk factors,
- the results of horizontal and vertical tests of controls conducted by the Compliance Office and the results of compliance tests carried out in Bank outlets following which recommendations were presented to improve the functioning of controls within the internal control system,
- evaluation of the level of compliance risk contained in recurring information and reports of the Compliance Office regarding the compliance risk management in the Bank and in BOŚ S.A. Capital Group,
- the status of implementation of recommendations issued by: a) Internal Audit Committee as part of the exerted supervision, b) Internal Audit Department as part of conducted internal audits, c) Supervision and control bodies after conducted internal controls,
- results of comprehensive audits conducted by the KNF in September 2017,
- external ratings of the Bank and the results of the KNF’s BION assessment.

2.2. Evaluation of internal audit function

In the Supervisory Board’s opinion, the internal audit function is executed effectively and efficiently and covers all Bank units and its subsidiaries.

This assessment was formulated on the basis of:

- the results of the independent, external assessment, conducted in 2017, of the of the internal audit function of the Bank and of BOŚ S.A. Brokerage House. The external assessment confirmed compliance of the Bank’s Internal Audit Department with supervisory requirements (KNF Recommendation H, Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of

estimating internal equity in banks) and IIA International Standards for the Professional Practice of Internal Auditing and compliance of DM BOŚ S.A. Internal Audit function with the Regulation of the Ministry of Development and Finance,

- annual results of the monitoring of the internal audit unit's activity, i.e.: self-evaluation of the Internal Audit Department for 2018 affecting the Program of assuring and improving the quality of operations of the Internal Audit Department and assessment of the implementation status of the Internal Audit Department's Strategy for 2016 – 2020 compliant with the BOŚ S.A. Framework Development Strategy.

The internal audit area has relevant authorisations and an organisational structure that allow independent accomplishment of tasks. The established internal audit function provides full and free access to any and all information. The Internal Audit Department Director participates in Bank Management Board meetings, which gives the Director a view of actions of Bank's management bodies and allows him/her to present own opinions. The director is also continuously in touch with the Supervisory Board Chairman, who is also the Chairman of the Internal Audit Committee and participates in all the meetings of this Committee.

Internal auditors hired in the Bank have appropriate qualifications and salaries.

Annual planning of audits is based on the comprehensive risk assessment process and clearly defines the objectives and scope of audit works. According to the adopted methodology of the internal audit, the Annual Audit Plan for 2018 took into consideration both expectation of the Supervisory Board and the Management Board and the KNF requirements. The 2018 Audit Plan comprised all major issues, allowing independent and objective assessment of suitability and effectiveness of the risk management system and the internal audit system, including identification of irregularities and ineffective items in the audited processes and assessment of the risk level for individual processes/ issues.

The issued recommendations and post-audit guidelines were subject to monitoring, and the status of implementing them was regularly reported to relevant bodies – Bank Management Board, Internal Audit Committee and Supervisory Board.

2.3. Evaluation of compliance risk management system (compliance risk)

In the opinion of the Supervisory Board the compliance risk management system is effective and efficient and comprises all the Bank units and subsidiaries.

The Bank ensures compliance of operations with legal regulations, internal regulations and market standards through:

- 1) the control function (application of controls and monitoring of observance of those controls) and
- 2) the compliance risk management process, which comprises identification, assessment, control and monitoring of the compliance risk and relevant reporting to the Management Board and Supervisory Board.

The process of managing the compliance risk, construed as the risk of consequences of a failure to observe legal regulations, internal regulations and market standards, is carried out by the Compliance Office, which is a separate independent compliance unit, reporting directly to the Bank Management Board President, responsible for the

fulfilment of its control tasks and performance of compliance risk tasks. The Compliance Office has relevant authorisations, including full and free access to any and all information, and an organisational structure allowing independent task performance. The Compliance Office Director participates in Bank Management Board meetings, which gives the Director a view of actions of Bank's management bodies and allows him/her to present own opinions and also in the meetings of the Internal Audit Committee.

The basic principle of ensuring compliance in the Bank, as part of the control function and the compliance risk management process, have been set in the Compliance Policy of Bank Ochrony Środowiska S.A., prepared by the Management Board and approved by the Supervisory Board and in legislative acts referring to the Policy, including:

- 1) Compliance Risk Management Rules of Bank Ochrony Środowiska S.A.;
- 2) Internal Control Execution Rules of Bank Ochrony Środowiska S.A.

The purpose of Bank's compliance risk management is to:

- 1) identify, assess and control the possibility of occurrence of negative consequences of a failure to observe legal regulations, internal regulations and market standards, particularly occurrence of legal sanctions, financial losses or loss of reputation, which may result from a failure to observe legal regulations, internal regulations and market standards;
- 2) strengthening the image of the Bank as an institution acting legally, an honest, reliable, environment-friendly, credible and responsible business.

The Bank has distinguished the following key areas for ensuring compliance:

- 1) preventing the Bank from performing illegal activities, including money laundering and terrorism financing;
- 2) protection of information;
- 3) implementation and monitoring of observance of ethical standards;
- 4) receiving or giving benefits and gifts;
- 5) performance of advertising and marketing activities;
- 6) offering products;
- 7) customer complaints and claims;
- 8) management of conflict of interest;
- 9) countering money laundering and terrorism financing.

The compliance risk in the Bank is systematically monitored. Information on compliance risk events (and operating risk events) in the Bank are identified, collected and analysed with the use of an application dedicated to collection of operational risk events.

Information on compliance risk management in the Bank is regularly and timely presented to the Management Board, Internal Audit Committee and Supervisory Board.

In 2017 the Bank implemented changes in the compliance risk management and internal control areas arising from the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks and Resolution No. 141/2017 of the Financial Supervision Authority of 25 April 2017 on issuing Recommendation H applicable to internal control system in banks.

In 2018 the Bank implemented changes to:

- 1) the internal control system, involving introduction of additional form of independent vertical monitoring and adjustments to Bank's current organisational structure;
- 2) counter-money laundering and counter-terrorism financing system and a procedure for anonymous reporting of violations of the law, Bank's internal procedures and ethical standards, imposed on by the act on countering money laundering and terrorism financing of 1 March 2018.

Taking into account the information campaign initiated in 2017 by the KNF and NBP regarding the risks involved in investing in cryptocurrencies and caring for security of customers and safety of turnover, in 2018 the Bank continued actions undertaken before in this area, including refusal to conclude agreements with entities trading virtual currencies, termination of cooperation with such entities and implementing special monitoring of activities of other customers.

Based on periodic reports submitted in 2018 by the Compliance Office, the overall level of compliance risk in 2018 in the Bank was raised.

In 2018 there were no events which significantly affected the compliance risk level; the Bank focused its activities on counteracting compliance risk.

2.4. Evaluation of risk management system in operations of Bank Ochrony Środowiska S.A.

The Bank operates a risk management system which fulfils supervision requirements set forth, in particular, in the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks.

The purposes and rules of the System have been set forth in the Banking Risk Management Strategy of Bank Ochrony Środowiska S.A., which replaced the prior Rules (Strategy) of diligent and stable management of Bank Ochrony Środowiska S.A.

In 2018 the Supervisory Board, with active involvement of the Risk Committee, exerted supervision of the functioning and effectiveness of the risk management system and evaluated its suitability, particularly by:

- using internal tools, including management reports and information, and also the principle of acceptance of the risk appetite and tolerance levels arising from supervision recommendations and key systemic solutions specified in the policies of management of individual risk types, i.e.: a) approval of the general acceptable level of risk, determined by the Bank Management Board and monitoring of observance of this level, b) supervision of preparation, adoption, implementation of policies and procedures according to which the Bank's risk management system is to function, c) determination of rules for reporting to the Supervisory Board the types and volumes of risks in Bank operations, d) annual assessment of suitability and effectiveness of the risk management system;
- using external tools, including mainly: results of KNF's BION assessment, carried out in accordance with the Methodology of audits and supervisory assessment of commercial banks, associate cooperative banks and cooperative banks (BION assessment), recommendations issued after comprehensive and thematic audits

conducted in the Bank by the KNF, reports and opinions of an external auditor issued following examinations of the financial statements of the Bank and of BOŚ S.A. Capital Group and rating granted by Fitch Ratings Ltd.

As a result of the exerted supervision, taking into account the evaluation performed by the Risk Committee, the Supervisory Board evaluated effectiveness and suitability of the risk control management system in BOŚ S.A. at level 2: “Adequate and effective with shortcomings” (on the scale of 1 to 4, with 1 being the best). The grade granted to the risk management system for 2018 is one grade higher compared to the 2017 evaluation.

The evaluation was formulated primarily upon considering the results of the BION assessment conducted by the Financial Supervision Authority as part of an audit procedure as at 31 December 2017 (the results of the assessment were presented to the Bank in the KNF letter of 30 October 2018). Compared to the previous assessments, higher grades were given for: bank management, business model risk level, capital adequacy risk level and the liquidity risk level. Higher grades were given in relation to the Bank’s accomplishment of the Recovery Proceedings Program in accordance with the adopted assumptions and also in relation to the implementation of some of the recommendations issued following a comprehensive audit as at 30 June 2017.

Taking the above into account, the KNF did not formulate any separate recommendations as part of the conducted BION process.

Key factors on the basis of which the BION grades were awarded in individual areas include:

- capital adequacy, including, in particular, the following elements:
 - Bank’s capital ratios complied with the norms arising from the Capital Requirements Regulation (CRR) and recommendation for the Bank to maintain additional capital requirement to cover the risk arising from the portfolio of foreign currency mortgage loans for households (it must be stressed that the extra requirement imposed onto the Bank under KNF 2018 decision was lower than realised in 2017, which means that in KNF’s judgement the impact of this portfolio on Bank’s overall situation is gradually depreciating and that the Bank improved its management of the risk generated by this portfolio);
 - in 2018 the Bank increased its share capital through issuing new series V stocks. In April 2018 the KNF permitted to classify the V Series Stocks issued by the Bank as Tier I instruments. The amount of Bank’s share capital increased up to 929.5m PLN;
- liquidity adequacy, including, in particular, the following facts:
 - the Bank complied with the supervisory liquidity norms; the liquidity coverage ratio (LCR) remained at a secure level;
 - the primary source of financing Bank’s 2018 operations was the deposit base. Its term structure was dominated by term deposits, while the customer structure – deposits from individuals; the costs of obtaining the financing was higher than in the peer group;
 - the main liquidity buffer and source of security in the case of unexpected outflows were liquid assets (mainly securities of the State Treasury and the National Bank of Poland);

- Bank management and its business model, including, in particular, Bank’s deeper specialization in supporting environmental undertakings;
- credit risk, including, in particular, the following factors:
 - the share of impaired loans in Bank’s total loan portfolio, which at year equalled 12.8 per cent and the write-off coverage of impaired amounts due, which totalled 52.0 per cent, while it must be noted that the coverage at the end of 2018 was higher than one reported at 2017-end by 15.8 p.p.;
 - a significant portfolio of foreign currency loans, including FX housing loans – as at the end of 2018 foreign currency loans constituted 54.8 per cent of the total housing loan portfolio. However, it must be stressed that the extra requirement imposed onto the Bank under KNF 2018 decision was lower than realised in 2017, which has been mentioned in the section regarding Bank’s fulfilment of capital ratios;
 - high concentration in the corporate loan portfolio, including RES projects (at the end of December 2018 the RES loan portfolio dropped in comparison to last year’s results and constituted 16.5 per cent of the total loan portfolio). However, it must be pointed out that 2018 was the year of improvement of financial condition of companies in the wind energy sector, which translated into improvement of the quality of this portfolio. Centralised management of the portfolio of this sector’s loans implemented in 2018 is also worth pointing out in this context.

Additionally, when evaluating the Bank’s risk management system, the Supervisory Board took into account the following issues:

- In January 2018 Fitch Ratings Ltd raised Bank’s company rating up to BB- and kept outlook stable. As the main reasons for this decision, the Agency pointed to, among other things, strengthening of Bank’s capital buffers, realisation of assumptions specified in the strategy and mitigation of the risk of concentrating Bank’s commitment to wind farm exposures in comparison to the previous review. Among the factors which may contribute to increasing the rating the Agency mentioned further improvement of profitability and asset quality;
- the Bank’s risk management system consists in an extensive set of internal regulations compliant with external regulations adopted by the Management Board and approved by the Supervisory Board – according to the provisions of the Bank’s Articles of Association. Bank’s core document describing the risk management system is the “Banking Risk Management Strategy of Bank Ochrony Środowiska S.A.” while detailed methods of managing individual risks identified in Bank operations were set in dedicated regulations. The risk regulations were in 2018 regularly reviewed and adjusted to the Bank’s risk profile and the risk appetite as well as to the changes of the regulatory and economic environment within which the Bank operated;
- in order to ensure accomplishment of objectives of the risk management system the Bank defined roles, obligations and rights of bodies and individual organisational units within the risk management process and mutual interactions between the process stakeholders (among other things, the Bank implemented a model of three lines of defence against the risk and roles of individual Bank units in individual defence lines were more precisely defined). In particular, the Bank set responsibilities of its individual authorities, i.e. Supervisory Board, Supervisory Board’s Risk Committee and Bank Management Board, as well as of the

Management Board Member supervising Head Office organisational units in charge of identification and measurement of major risks and relevant Bank Head Office committees, in particular: Assets and Liabilities Committee (and ALCO Liquidity and Market Risk Committee supporting the Assets and Liabilities Committee), Operational Risk Committee, Credit Risk Management Committee and Head Office Credit Committee;

- Bank's risk management process was supported by a set of quantitative internal risk limits. This set comprises internal limits, proportionate to the scale and complexity of Bank operations, limiting the risk level. The internal limits are each year reviewed and adjusted to the Bank's risk appetite accepted by the Supervisory Board. In 2018 Bank's risk norms and internal limits, including appetite and tolerance norms approved by the Supervisory Board and supervision norms were not exceeded;
- the risks evaluated as significant are systematically monitored in the Bank. In 2018 the Bank evaluated the purposefulness of extending the list of identified and monitored risks, adding the risk of borrowers' collective default to the list. The risk was monitored as part of monitoring the FX credit risk;
- the Bank operated a formalized process of model risk management. The organisational solutions in place, dedicated to managing this risk were adjusted to its significance in the Bank's activity. In 2018 the Bank validated/ prevalidated significant models used in the Risk Area eight times. The conducted validations pointed to moderate risk of these models. The aggregated risk of all significant models was also identified as moderate and does not exceed the model risk tolerance limit adopted by the Bank Management Board, in compliance with the Risk Model Management Policy;
- the Bank, as the dominant entity, supervises the risk management system in BOŚ S.A. Capital Group. In order to work out a uniform risk management system in the Capital Group the Bank aims at introducing, in its subsidiaries, mechanisms allowing risk management based on solutions adopted in the Bank;
- the effectiveness of the risk management system in place was verified by the compliance unit as part of the internal control function and by the internal audit unit as part of the conducted audits, in accordance with the adopted audit plan. The final assessments of risk identified in planned systemic audits conducted in the Risk Area were satisfactory. Implementation of KNF recommendations, conclusions following audits and issued recommendations were reported to the Internal Audit Committee and to the Supervisory Board on a quarterly basis.

Report on the evaluation of the functioning of the 2018 Remuneration Policy including a draft of evaluation of the deciding authority to determine whether BOŚ S.A. Remuneration Policy favours development and security of Bank's operations.

According to the "Corporate Governance Rules for Supervised Institutions" issued under Resolution No. 218/2014 of the Financial Supervision Authority on 22 July 2014, the Bank Supervisory Board evaluated the functioning of the Remuneration Policy in BOŚ S.A. in 2018.

When performing its evaluation, the Supervisory Board took into account these facts, in particular:

1. The Bank has a Remuneration Policy in place which determines the form, structure and manner of setting remuneration for the members of the company bodies and its key managers.
2. Remuneration of members of a supervision and management body in BOŚ S.A. is set adequately to the position held and also to the scale of the Bank's activity.
3. Incentive programs for the members of BOŚ S.A. Management Boards and its key managers make the variable remuneration level dependent on the company's long-term financial condition and long-term growth of the Bank's shareholder value.
4. To attach the remuneration of the Management Board members and key managers with long-term business and financial objectives, the Bank executes the provisions of the Regulation of the Minister of Development and Finance of 6 March 2017 on the risk management system and internal audit system, remuneration policy and detailed manner of estimating internal equity in banks, including:
 - a. through payment of a part of the variable remuneration in BOŚ S.A. shares,
 - b. through deferral of a part of the variable remuneration in 3 equal annual payments and payment depending on the Bank's financial results generated for the past 3 years of BOŚ S.A. operations.
5. The Bank operates the Remuneration and Nomination Committee formed out of the Supervisory Board Members.
6. Remuneration of the Supervisory Board Members does not depend on options and other derivative instruments or any other variable remuneration components.
7. In 2018 remuneration of the Supervisory Board Members and of Management Board Members fulfilled the requirements of the Act of 9 June 2016 on the rules for calculation of remunerations of persons managing certain companies and was

adjusted to the Bank's financial condition. This fulfilled the requirement set forth in Par. 28 section 2 of the *Corporate Governance Rules for Supervised Institutions*, according to which the remuneration policy must take into account the institution's financial condition. This resulted in the following consequences:

- a. remuneration of BOŚ S.A. Supervisory Board Chairman paid in 2018 falls into 10 per cent of the lowest remunerations paid in 2017 to chairs of supervisory boards of banks within the peer group^{*)},
 - b. similarly, remunerations of BOŚ S.A. Supervisory Board Members paid in 2018 fall into 10 per cent of the lowest remunerations paid in 2017 to members of supervisory boards of banks within the peer group^{*)},
 - c. remuneration of BOŚ S.A. Management Board President paid in 2018 is more than three times lower (29 per cent) than the lowest remuneration of a management board president of the next bank from the peer group^{*)} paid in 2017,
 - d. average remunerations of BOŚ S.A. Management Board Members paid in 2018 is 1/3 lower (67 per cent) of the lowest remuneration of a management board member of the next bank from the peer group^{*)} paid in 2017.
8. Base remuneration of BOŚ S.A. senior management paid in 2018 constitutes ca. 77 per cent of the median of base salaries paid in 2018 to top managers in the banking sector, while the total remuneration – by ca. 66 per cent.
 9. Bank Ochrony Środowiska S.A. in its Annual Financial Statement and in the Report on the Management Board operations presents major information on the manner of remunerating the Bank Supervisory Board and Management Board Members and other key managers.
 10. Bank Ochrony Środowiska S.A. periodically reports, to the Supervisory Board and management Board Members, on the status of the remuneration policy, both with regard to key managers and employees working on individual positions, allowing for the assessment of the Remuneration Policy from the perspective of accomplishment of the policy goals, particularly, long-term growth of the company shareholder value and stability of the Bank's operations.
 11. Average total monthly remuneration of BOŚ S.A. employees (excluding remunerations of the Management Board and the Supervisory Board) paid in 2018 constitutes 88 per cent of average gross monthly remuneration in the insurance and financial sector in the period of 1-3Q2018 according to the Central Statistical Office (GUS) data.

^{*)} The peer group defined by the KNF as at 31 December 2018 comprises, in addition to BOŚ S.A., 13 other banks: PKO BP, PEKAO S.A., Bank Handlowy, ING Bank Śląski, Santander, mBank, Millenium, Raiffeisen, Deutsche Bank, BGŻ Paribas, Getin Noble, Alior, Idea Bank.

The paper analyses:

- remunerations of supervisory board chairs paid in 2017 in the following 11 banks: PKO BP, PEKAO S.A., Bank Handlowy, ING Bank Śląski, mBank, Millennium, Deutsche Bank, BGŻ Paribas, Getin Noble, Alior, Idea Bank,
- remunerations of supervisory board members paid in 2017 in all the 13 banks in the peer group:
- remunerations of presidents/ members of management boards holding their positions for 12 months in 2017, as a result, the paper takes into account data from the following 9 banks: PKO BP, Bank Handlowy, ING Bank Śląski, Santander, mBank, Millennium, Raiffeisen, Deutsche Bank, Getin Noble Bank.

The total remuneration offered to BOŚ salesforce employees revolves around 78 per cent of average gross monthly remuneration in the insurance and financial sector in the period of 1-3Q2018 according to the Central Statistical Office (GUS) data.

These data are deemed adequate in the context of Bank's lower effectiveness against the background of the sector and due to the Bank's continued execution of the Recovery Proceedings Program. As the financial results are growing, the Bank will be aiming at adjusting the total remunerations to market standards through the development of variable remuneration systems in order to remain capable of acquiring and retaining personnel with qualifications necessary to accomplish Bank's Strategy and goals.

12. Directors of the internal audit unit, compliance unit, legal unit, organisational units responsible for 2nd level risk management, HR unit, are paid salaries – in the scope of the variable salary part – for the achievement of goals arising from their positions and the variable remuneration of these persons is not dependent on the financial results of areas of Bank operations these persons control.

Draft of evaluation of the deciding authority to determine whether BOŚ S.A. Remuneration Policy favours development and security of Bank's operations.

Bank's General Meeting, as part of execution of the provisions of Resolution No. 218/2014 of the Financial Supervision Authority of 22 July 2014 on the "Corporate Governance Rules for Supervised Institutions" as well as:

- following the principle of prudent and stable management of risk, capital and liquidity, and special care for long-term good of Bank Ochrony Środowiska S.A. and shareholders' interest,
- taking into account the results of the Supervisory Board's evaluation of the functioning of the Remuneration Policy in BOŚ S.A. in 2018, confirming its transparency and compliance with regulations,

hereby concludes that in the judgement of the deciding authority the Remuneration Policy in BOŚ favours the development and security of Bank's operations.

Evaluation of rationale of the Bank's policy of sponsoring, charitable or similar activity or information on the absence of such a policy.

The policy of sponsoring, charitable or similar activity pursued by the Bank is based on the Sponsoring Policy of Bank Ochrony Środowiska which was given a positive opinion by the Bank Supervisory Board on 12 July 2016. It supports the execution of the Framework Strategy of Development of Bank Ochrony Środowiska S.A. for 2016-2021 with regard to building long-term value of Bank's operations for: the shareholders, customers, partners, employees and the society. Detailed rules for undertaking sponsoring activities are regulated in the "Rules for organisation of marketing activity of Bank Ochrony Środowiska". The direct executor of these rules is the Communication and Marketing Department. Additionally, Bank's charitable activities focused on the abovementioned goals are performed by the BOŚ Foundation.

Sponsoring activity

Evaluation of received sponsoring offers and the purchase and performance of sponsoring services in BOŚ S.A. is carried out upon consultation with the managers of the Corporate Market Area and the Retail Market Area and/or Management Operating and Finance Area. Cooperation with the sponsored entity is based on an agreement or sponsoring order which precisely define the scope of cooperation within the sponsored project and specify the rights and obligations of the parties.

In 2018 sponsoring activities were directed at supporting retail and corporate businesses through of the Bank as an expert in financing ecological projects, a business partner and a socially engaged institution present at the scenes of events which are important in the light of the Bank's mission, interests of its owners and the values specified in the Framework Strategy of Development of Bank Ochrony Środowiska S.A. for 2016-2021. In particular, the sponsoring activity supported the following three values:

- responsibility – our ambition is to create a socially focused and responsible in terms of environment protection. We feel responsible for the creation of solutions ensuring continuous development and market advantage of the Bank and satisfaction of its Stakeholders. We keep our promises and always fulfil our obligations. In our work we are driven by honesty and reliability.
- engagement – through our engagement, knowledge and work we build an effective and efficient organisation for our Shareholders, Customers, Partners and Employees.
- trust – we are a Polish bank which guarantees stability and protection of Customer values, supporting economic and social development of the country.

By accomplishing the above-mentioned goals, the Bank engaged in the following sectoral conferences and cultural events in order to improve the Bank's image among opinion-makers:

Item no.	Event, conference, seminar	Date in 2018
1	Seminar "Clusters, Cooperatives and Virtual Power Plants in Poland"	February
2	Bankers for Financial Education of the Youth Project, BAKCYL	March
3	Holzbau-Forum Polska	March
4	National Energy Summit 2018	April
5	"Wood construction" Event	April
6	"Easter without Borders" Event	April
7	National Competition FARMER OF THE YEAR	May
8	Premiere of "Złączyć się z Narodem" movie	May
9	European Congress of Local Governments	May
10	Finale Gala "Ekoinspiracja 2017"	May
11	19 th Warmia and Mazury Ecology Forum	May
12	European Economic Congress 2018	May
13	National Scientific Conference "Security, regulation and competition in energy market"	June
14	Knowledge of Poland and Contemporary World Olympics	June
15	Property Administrators Forum	June
16	"Economic Sovereignty" Conference	June
17	Family Picnic "World Earth Day for Family"	June
18	Harvest Festival – Bełchatów Gmina	August
19	Economic Forum in Krynica	September
20	Harvest Festival – Widawa Gmina	September
21	Harvest Festival – Zadzim Gmina	September
22	Family Picnic "Environment Protection Days"	September
23	"Green Gas Poland 2018" Conference	September
24	National Biomethane Congress	September
25	Kashubian Agricultural Autumn in Lubań	September
26	"Discussions about economy" Conference	September

27	"Baltic Biogas Forum" Conference	September
28	Scientific Conference "Northern Masovia's Road to Independence"	September
29	Family Festival in Choroszcz	September
30	"Renewable Energy Ereopag" Conference	September
31	Autumn Fair of Gardening and Seeds in Stare Pole	September
32	12 th PR Forum 2018 Conference	October
33	"Life without Borders" Conference	October
34	Polish National Economic Summit 2018	October
35	Training for SME "Roadshow Tour de Pologne"	October
36	POL-ECO SYSTEM Fair	October
37	Business Week in SGH Warsaw School of Economics	November
38	24th Conference of the Parties to the United Nations Framework Convention on Climate Change	November
39	International Environment Protection Congress Envicon	December
40	Biogas Congress	December
41	National Farming Exhibition in Poznań	December
42	St. Nicholas Day Tournament 2018 Potok Ladies Pszczółki	December
43	11 th International Financial and Banking Forum	December
44	"Christmas Eve without Borders" Event	December

In 2018 the budget spent on activities in this area totalled 357,230.65 PLN.

BOŚ SA Supervisory Board's Evaluation of:

- 1) Bank's application of "Corporate Governance Rules for Supervised Institutions", issued by the Financial Supervision Authority on 22 July 2014, and**
- 2) 2) the manner of the Bank's fulfilment of informational obligations regarding application of corporate governance rules, specified in the Rules of the Warsaw Stock Exchange and regulations on current and periodic information in 2018 provided by issuers of securities.**

Executing obligations specified in Par. 27 of the *Corporate Governance Rules for Supervised Institutions* and the detailed rule II.Z.10.3. of *Good Practices of Companies Listed on WSE 2016*, as well as of Par. 4 section 4 of the Rules of the Supervisory Board, an analysis was conducted to evaluate the application, by Bank Ochrony Środowiska S.A. („Bank”) in 2018 of *Corporate Governance Rules for Supervised Institutions* issued by the Financial Supervision Authority on 22 July 2014 and of the manner of Bank's fulfilment of informational obligations regarding the application of the corporate governance rules set forth in the Rules of Warsaw Stock Exchange („Stock exchange”) and regulations applicable to current and periodic information provided by issuers of securities. The results of this analysis are as follows:

1. 1. Bank's application of *Corporate Governance Rules for Supervised Institutions*, issued by the Financial Supervision Authority on 22 July 2014

The Bank, since 1 January 2015, has been applying and observing “Corporate Governance Rules for Supervised Institutions” (“Corporate Governance Rules”), introduced under Resolution No. 218/2014 of the Financial Supervision Authority of 22 July 2014.

The Corporate Governance Rules have been adopted for application by individual Bank bodies:

- BOŚ S.A. Management Board – in Resolution No. 108/2018 of 8 May 2018 on the scope of BOŚ S.A. application of “Corporate Governance Rules for Supervised Institutions” issued by the Financial Supervision Authority;
- BOŚ S.A. Supervisory Board – in Resolution No.31/2018 of 16 May 2018 on the scope of application, by BOŚ S.A. Supervisory Board, of “Corporate Governance Rules for Supervised Institutions” issued by the Financial Supervision Authority;
- BOŚ S.A. General Meeting – in Resolution No. 28/2018 of the Ordinary General Meeting of BOŚ S.A. on the scope of BOŚ S.A. Shareholders' application of “Corporate Governance Rules for Supervised Institution's” issued by the Financial Supervision Authority.

Information on adoption, for application by Bank Ochrony Środowiska S.A. of “Corporate Governance Rules for Supervised Institutions” issued by the Financial Supervision Authority” was presented by the Bank on its web site in section Investor Relations.

In 2018 all the Corporate Governance Rules were applied with the exception of one specified in Par. 8.4, saying: “*The supervised institution, when justified by the number of shareholders, should aim at making easier for all the shareholders to participate in a meeting of a decision-*

making body of the supervised institution by, among other things, ensuring the possibility of electronic active participation in the meetings of the decision-making body.”

The Bank analysed the possibility for the shareholders to participate in the sessions of the Ordinary General Meetings of the Bank by electronic means on the example of the Bank's Ordinary General Meeting in 2018.

Taking into account the structure of shareholders as well as logistic and technical issues, the Bank Management Board upheld the so-far position on the departure from application of Par. 8 section 4 of the Corporate Governance Rules, thus, the Bank does not broadcast the sessions of the general meetings in real time, when the Shareholders, using electronic communication means, could make statements and vote without being present on the site of the session. The Bank's Articles of Association and the Rules of Bank's General Meetings do not provide for the possibility of Shareholders to participate in a general meeting session using electronic communication means. In the future, once this form of Shareholders' participation in General Meetings' sessions becomes popular among the listed companies, BOŚ S.A. Management Board will consider Bank's application of this particular corporate governance rule.

The Bank ensures transparency of its information policy regarding the course of the general meeting sessions by registering the session and publishing audio records on its web site, in section General Meeting.

So far, the Bank has not received any information from its shareholders on non-application of the rules, except for a statement of a majority shareholder (NFOŚiGW) submitted during an Ordinary General Meeting, in relation to the adoption of Resolution No. 35/2015 of Ordinary General Meeting of 10 June 2015 that *“the terms and conditions of granting support, both with regard to financial liquidity and additional capitalisation, in the case of NFOŚiGW are set forth in common legal regulations in force, particularly in the Act on the protection of environment and Act on public finance. The actions provided for in the Rules are regulated by these norms”*.

In order to ensure observance and appropriate application of the Corporate Governance Rules in the Bank, organisational units were established which are responsible for the implementation and execution thereof.

The text of the “Corporate Governance Rules for Supervised Institutions” is available at Bank's website www.bosbank.pl section Investor Relations.

2. Evaluation of the manner of the Bank's fulfilment of informational obligations regarding application of corporate governance rules, specified in the Rules of the Warsaw Stock Exchange and regulations on current and periodic information provided by issuers of securities

2.1 Application of Good Practices of Companies Listed on WSE 2016 with reference to informational obligations arising from the Rules of the Warsaw Stock Exchange

“Good Practices of Companies Listed on WSE 2016” (“Good Practices”), issued under Stock Exchange Supervisory Board's Resolution No. 26/1413/2015 of 13 October 2015 have been applied and observed in Bank Ochrony Środowiska S.A. since 1 January 2016. They have been adopted for application by:

- BOŚ S.A. Management Board – in Resolution no. 491/2015 of 29 December 2015 within the extent applicable to the competence and duties of the Management Board, i.e. managing the Bank’s matters and representation, in accordance with legal regulations in force and with Bank’s Articles of Association;
- BOŚ S.A. Supervisory Board – Resolution No. 6/2016 of 7 January 2016 to the extent applicable to the competence scope and duties of the Supervisory Board, in accordance with legal regulations in force and with Bank’s Articles of Association;
- General Meeting of BOŚ S.A. – in Resolution No. 20/2016 of the Ordinary General Meeting of 23 June 2016 on the scope of corporate governance rules included in “Good Practices of Companies Listed on WSE 2016”.

The Rules of the Warsaw Stock Exchange (“Stock Exchange Rules”) set forth informational obligations regarding the application of corporate governance rules. Par. 29 Section 3 of the Stock Exchange Rules states that when a given detailed corporate governance rule is not applied in a permanent manner or is violated incidentally, the issuer is obligated to publish a report on that matter on an official website and in a manner equivalent to the one applicable to the publication of current reports, via the Electronic Information Database (EBI) in accordance with the rules set forth in the WSE Management Board’s Resolution No. 1309/2015 of 17 December 2015.

Good Practices were adopted for application by the Management Board, Supervisory Board and General Meeting, with the exception of the Rules which the Bank Management Board publicised by publishing a current report on 24 July 2016 via the EBI system and by making it available on its website. With regard to the Rules applied by the shareholders, Good Practices adopted for application by BOŚ S.A. General Meeting were additionally published in Current Report No. RB 36/2016 of 24 June 2016.

The Bank does not apply, in a permanent manner, the following corporate governance rules specified in “Good Practices of Companies listed on WSE 2016” valid since 1 Jan. 2016.

- 1) Rule I.Z.1.15. applicable to diversity policy with regard to the company authorities and its key managers.
The diversity rules applicable to employees (including key managers) have been included in the Rules of Work of BOŚ S.A.; with regard to the company authorities, there is no such a solution.
- 2) Rule “IV.Z.2. applicable to ensuring real-time transmission of the general meeting session.”

Explanation of non-application of rules I.Z.1.15, IV.Z.2 and information on the status of implementation of recommendations and detailed rules by BOŚ S.A. according to rule I.Z.1.13. has been published on Bank’s website www.bosbank.pl section “Investor relations”

In order to ensure observance and appropriate application of Good Practices in the Bank, organisational units were established to implement and execute them. The conducted analysis of the Bank’s application, in 2018, of the corporate governance rules included in Good Practices confirms the fact of appropriate fulfilment of this obligation by the Bank.

2.2 Bank's application of Good Practices of Companies Listed on WSE 2016 with regard to informational obligations set forth in regulations on current and periodic information provided by issuers of securities.

In accordance with Par. 91 section 5 (4) Finance Minister's Regulation of 29 March 2018 on current and periodic information presented by issuers of securities and on the terms of acceptance as equivalent of information required by the laws of a non-member state („Regulation”), the report on the issuer's activity should contain a declaration on the application of the corporate governance rules, constituting a separate part of that report. The Regulation also specifies the scope of information which must be contained in the declaration on the application of the corporate governance rules.

The Bank, by executing the abovementioned obligations in 2018, included, in the Management Board's Report on the Activity of Bank Ochrony Środowiska S.A. for 2017 and in the Report on the Activity of Bank Ochrony Środowiska S.A. Capital Group for 2017 “Declaration on Application of Corporate Governance Rules” containing all the elements set forth in Par. 91 Section 5 (4) of the Regulation.

When drawing the declaration on application of the corporate governance rules the Bank also applied (European) Commission Recommendation of 9 April 2014 on the quality of corporate governance reporting ('comply or explain').

Additionally, as part of execution of detailed rule I.Z.1.12 of Good Practices, the Bank's Declaration on Application of Corporate Governance Rules in 2017 was published on Bank's website.

Summary

Summary

The requirement of the Supervisory Board's evaluation of the manner of the Bank's fulfilment of its informational obligations to apply Corporate Governance Rules arises directly from Rule II.Z.10.3 of “Good Practices of Companies Listed on WSE 2016”.

During the course of the evaluation no violation of the Rules in 2018 was revealed within the extent adopted for application by Bank Ochrony Środowiska S.A. Taking into account the results of the abovementioned analyses of the Bank's application of Corporate Governance Rules for Supervised Institutions issued by the Financial Supervision Authority on 22 July 2014 and the manner of fulfilment by Bank Ochrony Środowiska S.A. of informational obligations regarding the application of corporate governance rules set forth in the Stock Exchange Rules and regulations applicable to current and periodic information provided by issuers of securities, the Supervisory Board positively evaluates the Bank's activities in this area, as adequate and compliant with the requirements of these regulations.