



Nest Bank S.A.

The Management Board Report on the activities of the Bank
for the year ended 31 December 2021

(This document is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail. English version is presented only for internal purposes of the Bank)

Nest Bank SA with its registered office in Warsaw ul. Wołoska 24, 02-675 Warszawa,
entered into the registry of entrepreneurs kept by the District Court for the capital city of Warsaw,
13th Commercial Division of the National Court Register.
Share capital, paid up in full, of PLN 319,357,000.00.

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1. Introduction

The following report of the Management Board of the Nest Bank Spółka Akcyjna ('Nest Bank S.A.', 'Bank') includes information about the Bank's activities in 2021 as well as events significantly affecting these activities which occurred after the year 2021 ended. The report should be read in conjunction with the separate financial statements of the Nest Bank S.A. as of 31 December 2021.

2. Main events affecting the activities of the Bank in 2021

In 2021, despite the limitations due to the COVID-19 pandemic, the Bank continued the implementation of the main premises of the strategy developed in 2019 and 2020. As a part of the revised strategy, the Bank focused on the micro-business segment as a strategic area of the Bank's lending activity. The new strategic direction was also related to the optimisation of the Bank's cost base and the distribution channels used. The Bank's strategy was entered also into the updated Recovery Plan of Nest Bank S.A., approved with the decision of the Polish Financial Supervision Authority ('KNF') of 17 December 2021 and is being formally executed within the implemented recovery measure in the area of profitability. The key elements of the strategy have been described further on in this report.

The most important events affecting the Bank's operations in 2021 included:

- the continued COVID-19 pandemic which broke out in 2020,
- positive effects of protective schemes, mostly shields offered by state institutions,
- the financial sector discontinuing its offer of general 'credit holidays' and the return of most of the customers to regular credit repayments,
- continuation of BGK aid schemes in the form of guarantees for entrepreneurs which enable the development of the Bank's offer in terms of financing entrepreneurs,
- increase of liquidity buffer and the increasing level of savings in the banking sector,
- further dynamic growth in the number of customer accounts and deposit activity that made it possible for the Bank's deposit base to grow with simultaneous optimisation of the financing cost,
- decreased demand for credit products resulting in a lowered volume of new credits,
- further improvement of the risk management system and the management information systems and further optimisation of the pricing strategy,
- continued optimisation of the Bank's distribution network affecting the change in the number of own and franchise branches of the Bank,
- further growth of the Faktoria Sp. z o.o. portfolio – a 100% subsidiary of the Bank dedicated to offering factoring services,
- surge of inflation and initiation by the National Bank of Poland ("NBP") in the 4th quarter 2021 a series of interest rate increases, supporting the tightening of the monetary policy.

3. Bank's business strategy

In the coming years, the Bank plans to strengthen its position by developing its product offer for customers in the micro-business and small business segment and to continue the withdrawal from the consumer finance credit portfolio. The Bank's strategic orientation on the micro-business segment means its focus on credit products offered to customers with a lower risk profile, secured with guarantees, with the necessary support of efficient operational processes, quick decision-making, and modern IT solutions.

At the same time, the Bank will continue the strategy of building a cheaper retail financing model. To this end, the Bank actively acquires customers interested in the product – personal accounts, and develops relationship banking for a mass retail customer, who will act as the primary source of financing. The Bank will continue the development of its product offer and online and mobile banking for such customers.

As a part of its actions, the Bank is implementing and planning the further optimization of operational costs. An element that improves the cost efficiency and building the competitive advantage of the Bank is the further digitization of customer services and product sales processes, by enhancing the availability of the Bank's offer in remote channels and in online and mobile banking within self-service, without the need to use traditional sales channels.

The continuation of the implemented strategy is aimed at the further limiting of credit risk, improving the stability of the deposit base, enabling deconcentration of exposure and reducing costs of funding.

The Bank's treasury operations are still focused on the ledger and involve in particular liquidity investment, market risk hedging, acquisition of corporate deposits and development of regarding foreign exchange for the micro-business and retail segments.

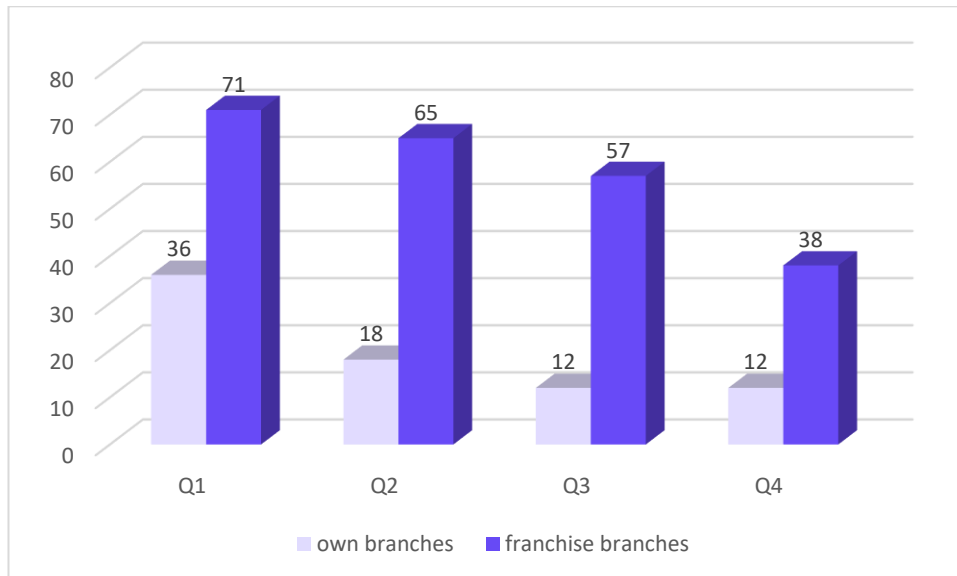
4. Business development in 2021

4.1 Distribution channels

The Bank provides services to its customers using both traditional channels and modern digital solutions. The customers of the Bank are also served to by local own and franchise branches, intermediaries and via digital and remote channels (contact centre, internet and mobile channels).

Projects carried out in 2021 were aimed at optimising the Bank's distribution network and made it possible to conclude the year with 12 local branches and 38 franchise branches located throughout Poland. As at 31 December 2021, the Bank also cooperated with 6 major Integrators and about 674 local-level intermediaries.

Chart 1 Number of the branches in 2021



In Q1 2021, 18 least effective local branches of the Bank were closed and in Q3, another 6 local branches of the Bank were closed. Limiting the scope of the brick-and-mortar network was also driven by the strategy to develop in digital channels and by the increasing share of customers acquired remotely, i.e. by phone and online. As at 31 December 2021, the sales within the own network were generated by about 110 customer consultants (credit consultants) working in the Bank's own branches, providing their services to customers from the micro-business and retail segments. The sales of investment and insurance products carried out by consultants specialising in such products was continued. Their number achieved the level of 22 (Personal Finance Managers) at the end of 2021.

Electronic communication channels allowed the Bank to continue its strategy of acquiring new customers and creating affordable retail financing. Throughout 2021, the Bank consistently developed and automated online processes for account sales to consumers and micro-businesses and processes for opening deposits within the framework of online and mobile banking. The option to remotely place the majority of after-sales instructions via online and mobile banking was also introduced.

4.2. Development of the micro-business segment in the Bank

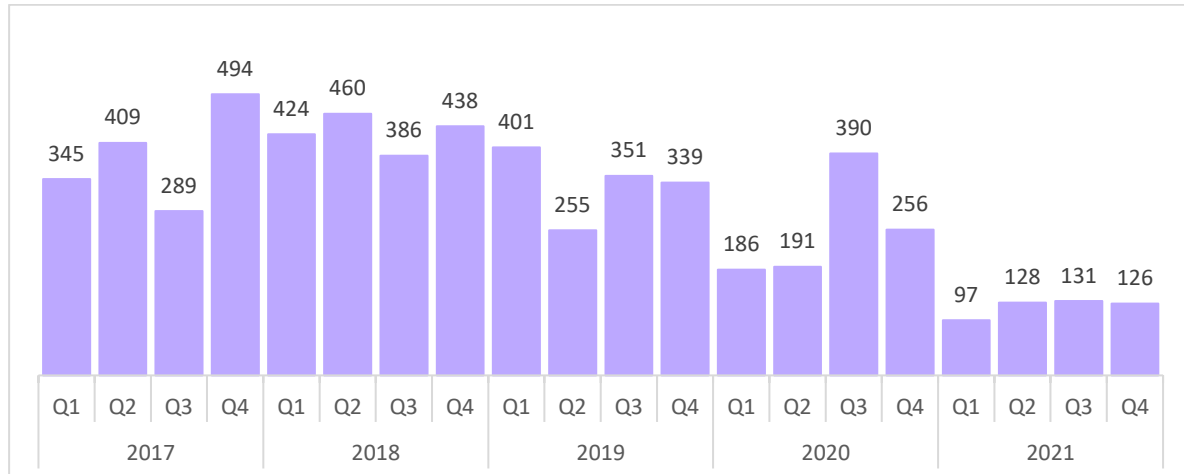
The year of 2021 saw the continuation of changes in the Bank that took place in the preceding year. The continuation was motivated by the intention to reduce a credit risk and improve the Bank's profitability. To this purpose, the Bank focused on its specialised segment, namely business customers, mostly self-employed micro-entrepreneurs as well as professionals who are a part of this segment.

The year of 2021 was marked by the struggle with the COVID-19 pandemic and the resulting sense of uncertainty. Fighting against the virus forced global economies, including Poland, to close or limit the activity of numerous sectors, which affected directly businesses, economic situation, and needs of the Bank's customers. The bank in its 2021 strategy focused its attention on greater integration of existing customers and began to rapidly develop the new Digital

distribution channel. This resulted in a qualitative improvement of the MICRO loan portfolio and a reduction of new sales, which is noticeable in the results presented in Chart 2. By supporting entrepreneurs affected by the pandemic, the Bank continued its cooperation with the Polish Development Fund (PFR). In 2021, at Nest Bank nearly 500 customers benefitted from the cooperation within a so-called Financial Shield,, receiving the support for almost PLN 34 million. To meet the expectations of the self-employed customers and professionals from the micro segment, in Q1 2021, the Bank successfully introduced a new price offer that has been already used by over 1.7 thousand customers.

In 2021, the Bank continued its close collaboration with Bank Gospodarstwa Krajowego (BGK), offering credits on preferential conditions with the *de minimis* PLD guarantee. In order to minimize the undesired effects of the pandemic, BGK maintained the increased security levels of *de minimis* guarantee and stopped to charge a commission from a borrower, which had a positive influence on customers served by Nest Bank. Taking advantage of this cooperation with BGK, the Bank continues the action to support credit customers, called 'Entrepreneurship Support Programme'. The Programme, initiated in 2020 and continued in 2021, was dedicated to self-employed customers and professionals from the micro segment. Customers who were eligible for the programme received individual preferential crediting terms, which could be used after filing an application for a business credit. Almost 4.3 thousand customers took advantage of the Programme offered by Nest Bank. The assistance enable them to secure their financial stability, not only for the period of the pandemic, but in a longer term as well.

Chart 2. Sales of credit products in the micro-business segment in 2017-2021 [PLN million]



4.3. Segment Consumer Finance

In 2020, the Management Board of Nest Bank took a decision to discontinue offering credits dedicated to retail customers, after a major limitation of sales in 2019. In 2021, as regards credits for the retail segment, the measures focused only on managing the current portfolio of credits granted in the past. The Bank does not sell new credits in this segment..

4.4. Deposit customer base development

In 2021, the Bank saw a continued success in the development of the payment accounts base for individual and corporate customers, acquiring 20 thousand new customers with payment accounts. It is worth noting that over 2/3 of the new accounts were opened in the online

channel. The acquisition of new accounts was due to: (i) the attractive Bank offer concerning free personal and company accounts, (ii) attractive interest rates on saving products for new customers, (iii) fast and easy online account opening processes (also for entrepreneurs). In 2021, the balance on current accounts continued to grow rapidly. As at the end of 2021, the balance on the current accounts amounted to PLN 2.8 billion and increased by more than PLN 500 million, and the share of current accounts in the deposit base increased from 38% to 50% during the year. The dynamic growth of balances on the current accounts significantly reduced the Bank's costs of funding.

As at the end of 2021, the Bank served 411 thousand customers, including 328 thousand retail customers (of which 289 thousand had a current account with the Bank), and 82 thousand entrepreneurs, including 24 thousand credit customers and 58 thousand transaction customers.

In order to meet customer expectations, the Bank continued the development of its account and deposit product portfolio in 2021 by introducing e.g. as the first Bank in the world the piloting programme for a new service to pay online with a VISA Mobile card. In 2021, the Bank transferred the payment card service to a new supplier, which allowed it, i.a. to limit card-related costs, accelerate the implementation of new card solutions and change the image of payment cards. Throughout 2021, the Bank actively reacted to the changing market and competition environment, by adjusting the Table of Fees and Commissions and actively managing deposit fees. The attractiveness of the Bank's offer was also appreciated by the media, which helped the Bank's account and deposit products achieve top positions in the 2021 rankings of banking portals.

4.5. Development of investment product offer

In 2021, the Bank developed its offer of investment and saving products, both in insurance and products subject to MIFID.

The Bank continues a distribution strategy of open-end investment funds (FIO) and specialist open-end investment funds (SFIO), managed by Ipopema TFI and Skarbiec TFI. In total, the offer includes 27 FIOs/SFIOs of both TFIs as well as 'Skarbiec Pakiet Emerytalny' (a combination of IKE/IKZE/PSO based on FIO/SFIO Skarbiec TFI). Moreover, the customers can invest their funds in systematic saving plans based on investment funds, Ipopema TFI and model portfolios managed by Skarbiec TFI.

The Bank's offer also includes investment insurance with a single payment, prepared in cooperation with Vienna Life Towarzystwo Ubezpieczeń na Życie S.A. Vienna Insurance Group. In 2021, insurance parameters were adjusted to the requirements resulting from the KNF decision on product intervention on insurance market with regard to life assurance with insurance capital fund.

In 2021, the total sales of investment products subject to MIFID/MIFID II amounted to PLN 101.6 million and of insurance products – PLN 30.0 million. 1,932 customers benefited from products subject to MIFID/MIFID II in that period, and 362 customers from insurance solutions.

As regards security insurance products, in 2021, the Bank continued its cooperation with Towarzystwo Ubezpieczeń na Życie Cardif Polska S.A. and MetLife Towarzystwo Ubezpieczeń na Życie i Reasekuracji S.A. In addition to offering security insurance products that secured credit products, in 2021, the Bank offered security insurance products Nest for accident [Nest

na wypadek] and Nest na zdrowie [Nest for health] as a co-founder of insurance products used by 692 customers at the end of the year.

4.6. Marketing activities and Nest Bank brand development

In 2021, Nest Bank continued to focus on strengthening the image of a modern Bank for micro and small businesses and promoting digital sales channels and online solutions.

Change of visual identification

In 2021, the Bank decided to change its visual identification. In December 2021, it informed its customers and the public about this decision. The Bank presented the new logo and the website design, and presented the schedule of the planned changes. The new visual identification of Nest Bank will emphasise the strategy implemented already for two years and specialist services for micro and small businesses. 'Business Power' ['Siła przedsiębiorców'] will be the brand's motto, and visual changes respond to the digital development taking place in businesses. The brand will be modern and dynamic, to stand out against other banks and also fintechs. The first changes are planned to be scheduled for late Q1 and Q2 2022.

Online acquisition of customers

In 2021, Nest Bank significantly developed its marketing activity within the online channel. The Bank launched its official profile on Facebook.com and initiated active communication with customers via Facebook.com. In June 2021, Nest Bank introduced the option to remotely verify the identity of a business customer and to sign a credit agreement online. Thus, it completed the key phase of digitalising its credits and made the first credit application available that allows for obtaining a business credit entirely online. Upon launching the application, the Bank directed targeted paid traffic sourced and launched promotion on the internet. In May 2021, the Bank launched performance marketing activities aimed at the application. Thanks to the campaign, application traffic increased over 30 times in the period from December 2020 until December 2021.

PR activities

In 2021, the Public Relations activities of the Bank focused on reinforcing the image of a modern bank for micro-businesses and retail customers. The Bank issued 20 press releases to media. In 2021, Nest Bank appeared in media 3,938 times in total. Moreover in 2021, the Bank actively communicated with the market and the media also via the LinkedIn social portal.

Within its PR activities, the Bank got involved in Poland-wide educational and development programme for women named '*Top Women in e-business*'. The programme is dedicated to women from all over Poland who intend to launch their business activity in the area of e-commerce in its broad sense. The Bank became one of the major partners of this programme and one of the Bank's management board members became a member of the programme's jury. The programme received broad media and social media coverage.

In 2021, the Bank joined the working group on plain language operating within the Polish Bank Association and joined works on good practice in plain bank communication and promotion of plain language in the banking sector. The Bank signed also a declaration of banks on plain language norms.

Awards and Recognition

In 2021, Nest Bank was rewarded as Most Innovative Digital Transformation Bank 2021 in the ranking of Global Banking & Finance Awards. The competition jury appreciated the Bank for its overall activity, including for streamlining electronic banking and online processes, and introducing new e-products that facilitate remote use of funds. *The European* magazine organises Global Banking & Finance Awards.

In 2021, Nest Bank became the Leader of Bankier.pl rankings for the fourth time in categories of business account and personal account. The Bank declassified its rivals, by winning all monthly account rankings.

In 2021, the Bank completed many important projects related to corporate social responsibility and sustainable development, including the preparation of a complete Human Rights Policy, Code of Conduct, Supplier Code of Conduct, and updated documents related to environmental responsibility. Moreover, in 2021 the Bank joined the United Nations Global Compact. Thanks to these actions, the Bank achieved a high score in the EcoVadis survey (71/100) and was awarded the EcoVadis Gold Medal. EcoVadis is a rating agency that evaluates companies activities and practices in terms of their corporate social responsibility. Clients are rated from 0 to 100 points awarded across four themes: environment, social action, ethics and supply chain.

5. Bank Organisation

5.1. Organization of the Bank

As at 31 December 2021, in organisational terms, the Bank consisted of five divisions composed of departments subordinate to specific Board Members and local branches.

In 2021, the banking sales network was further transformed and adjusted in terms of the size of own /local branches and franchise branches to the sales strategy of the Bank's services. As at 31 December 2021, the Bank owned 12 active local branches, 38 franchise branches and cooperated with 6 major Integrators at the central level.

As at 31 December 2021, the Bank's Management Board consisted of the following persons:

- Piotr Kowynia, President of the Management Board,
- Janusz Mieloszyk, Management Board Member responsible for the Financial Division,
- Karolina Mitraszewska, Management Board Member responsible for Operations, Logistics, Transformation and IT Division.

As at 31 December 2021, the Supervisory Board of the Bank was composed of the following persons:

- Jacek Kseń, President of the Supervisory Board,
- Jamal Ismayilov, Vice-Chairman of the Supervisory Board,
- Tod Alan Kersten, Supervisory Board Member,
- Błażej Kochański, Supervisory Board Member,
- Marcin Szewczykowski, Supervisory Board Member,
- Marek Kulczycki, Supervisory Board Member.

As at the day of signing the present report, the Bank's Management Board consisted of the following members:

- 1) Piotr Kowynia, President of the Management Board; supervises the Management Board President Division (CEO).
- 2) Janusz Mieloszyk, First Vice-President of the Management Board, supervises the Financial Division (CFO).
- 3) Karolina Mitraszewska, Vice-President of the Management Board, supervises the Operations, Logistics, Transformation and IT Division. (COO),
- 4) Marek Szcześniak, Vice-President of the Board, supervises the Distribution and Business Development Division (CCO).

In 2021, there were the following changes in the composition of the Management Board:

- 1) On 28 April 2021, Mr. Jamal Ismayilov resigned from his function of a Member of the Management Board, effective on 30 April 2021 at the end of the day.
- 2) Upon resolution No 32/2021 of the Supervisory Board dated 29 April 2021 Ms. Piotr Kowynia was appointed the President of the Management Board (CEO) under a condition precedent (obtaining the KNF approval and expiry of Mr. Marek Kulczycki's term as the President of the Management Board).
- 3) On 24 August 2021, Ms. Agnieszka Porębska-Kość resigned from her function of a Member of the Management Board, effective on 24 August 2021 at the end of the day.
- 4) On 22 November 2021, the Bank received the KNF's approval to appoint Piotr Kowynia the President of the Bank's Management Board.
- 5) On 23 November 2021, Mr. Marek Kulczycki resigned from his function of the President of the Management Board and his membership in the Management Board, effective on 23 November 2021 at the end of the day.
- 6) In view of the KNF decision and the resignation of Marek Kulczycki, on 24 November 2021, Piotr Kowynia took up the post of the President of the Management Board of the Bank.
- 7) On 19 November 2021, the Supervisory Board appointed Mr. Aleksander Gosk Member of the Management Board of the Bank and entrusted him with the supervision over the CRO Division, subject to receiving the KNF approval for Mr. Aleksander Gosk taking up the post of the Management Board Member supervising material risks.
- 8) On 20 December 2021, Mr Aleksander Gosk submitted a statement on terminating the employment contract concluded with the Bank, subject to the termination notice. The Bank did not submit to KNF a request for approval for Mr. Aleksander Gosk taking up the position of the Management Board member supervising material risks.

In 2022 (as at the date of signing this Report), the composition of the Management Board changed as follows:

- 1) Upon resolution No 6/2022 of the Supervisory Board dated 1 February 2022, Mr. Marek Szcześniak was appointed to the Bank's Management Board to supervise the Distribution and Business Development Division (CCO) and was entrusted with the function of the Vice-President of the Management Board.
- 2) Upon resolution No 7/2022 of the Supervisory Board dated 1 February 2022, Mr. Janusz Mieloszyk was appointed the First Vice-President of the Management Board.
- 3) Upon resolution No 8/2022 of the Supervisory Board dated 1 February 2022, Ms. Karolina Mitraszewska was appointed the Vice-President of the Management Board.

As at the day of signing this report, the Bank's Supervisory Board consisted of the following members:

- 1) Mr. Jacek Kseń – Chairman of the Supervisory Board,
- 2) Mr. Jamal Ismayilov – Vice-Chairman of the Supervisory Board,
- 3) Mr. Marcin Szewczykowski – Member of the Supervisory Board,
- 4) Mr. Tod Alan Kersten – Member of the Supervisory Board,
- 5) Mr. Błażej Kocharński – Member of the Supervisory Board,
- 6) Mr. Marek Kulczycki – Member of the Supervisory Board.

As at the day of signing this report, the Committees of the Bank's Supervisory Board consisted of the following members:

Audit Committee of the Supervisory Board:

- a) Mr. Jacek Kseń – Chairman of the Committee,
- b) Mr. Błażej Kocharński – Member of the Committee,
- c) Mr. Marcin Szewczykowski – Member of the Committee.

Risk Committee of the Supervisory Board:

- a) Mr. Błażej Kocharński – Chairman of the Committee,
- b) Mr. Marcin Szewczykowski – Member of the Committee,
- c) Mr. Jamal Ismayilov – Member of the Committee,
- d) Mr. Marek Kulczycki – Member of the Committee.

Appointments and Remuneration Committee (RemCo) of the Supervisory Board:

- a) Mr. Jamal Ismayilov – Chairman of the Committee,
- b) Mr. Błażej Kocharński – Member of the Committee,
- c) Mr. Jacek Kseń – Member of the Committee.

In 2021, the composition of the Supervisory Board of the Bank changed as follows:

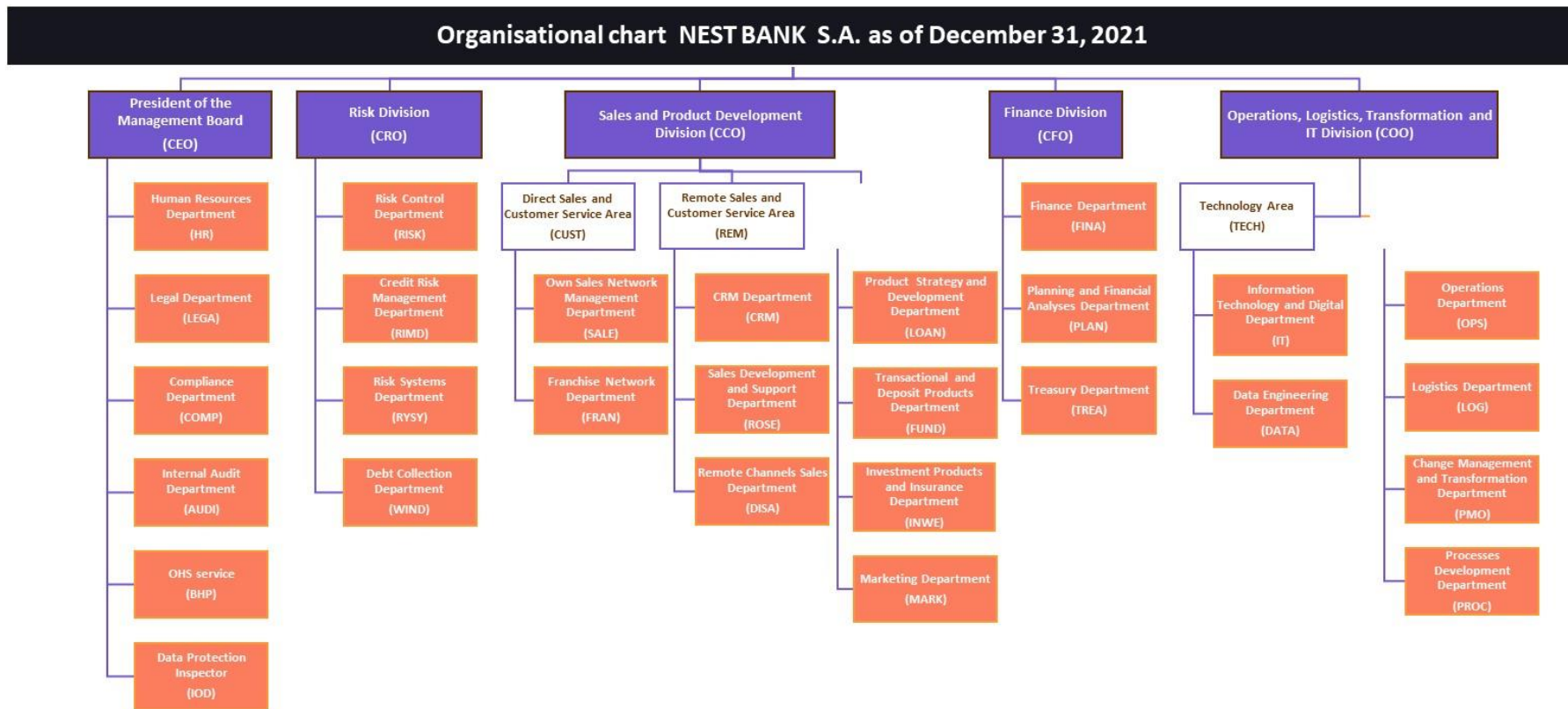
- 1) On 15 April 2021, Mr. Piotr Stępnik resigned from his function as Member of the Supervisory Board, effective as of the day of the next General Meeting of Nest Bank S.A.'s Shareholders that concludes the financial year 2020.
- 2) On 28 April 2021, Mr. Ben Hollowood resigned from his function as Member of the Supervisory Board, effective on 5 May 2021 at the end of the day.
- 3) On 5 May, upon resolution No 5 of the Extraordinary General Meeting of Nest Bank S.A. dated 5 May 2021, Mr Jamal Ismayilov was appointed to the Supervisory Board.
- 4) On 26 May 2021, upon resolution No 42/2021 of the Supervisory Board, Mr Jamal Ismayilov was appointed to the Appointments and Remuneration Committee of the Supervisory Board of Nest Bank S.A. and was entrusted with the function of the Chairman of the Committee.
- 5) On 26 May 2021, upon resolution No 43/2021 of the Supervisory Board, Mr Jamal Ismayilov was appointed to the Risk Committee of the Nest Bank S.A. Supervisory Board as a Member of the Committee.

- 6) On 18 June 2021, the term of Mr. Piotr Stępniaak in the Bank's Supervisory Board expired due to his earlier resignation effective on the day of the General Meeting of the Bank's Shareholders that concludes financial year of 2020. The General Meeting approving the Bank's financial statements for 2020 took place on 18 June 2020.
- 7) On 18 June 2021, upon resolution No 22 of the Ordinary General Meeting of Nest Bank S.A. of 18 June 2021, Mr. Marcin Szewczykowski was appointed to the Supervisory Board.
- 8) On 21 June 2021, upon resolution No 45/2021 of the Supervisory Board, Mr Marcin Szewczykowski was appointed to the Risk Committee of the Supervisory Board of Nest Bank S.A. as a Member of the Committee.
- 9) On 21 June 2021, upon resolution No 46/2021 of the Supervisory Board, Mr Marcin Szewczykowski was appointed to the Audit Committee of the Supervisory Board of Nest Bank S.A. as a Member of the Committee.
- 10) On 21 June 2021, upon resolution No 47/2021 of the Supervisory Board, Mr Jacek Kseń was appointed the Chairman of the Audit Committee of the Nest Bank S.A. Supervisory Board.
- 11) On 24 June 2021, upon resolution No 48/2021 of the Supervisory Board, Mr Jamal Ismayilov was appointed the Vice-Chairman of the Supervisory Board.
- 12) As of 22 December 2021, upon resolution N 5 of the Extraordinary General Meeting of Nest Bank S.A., Mr Marek Kulczycki was appointed to the Supervisory Board.

In 2022 (as at the date of signing this report) the composition of the Nest Bank S.A. Supervisory Board changed as follows:

- 1) On 24 February 2022, upon resolution No 14/2022 of the Supervisory Board, Mr Marek Kulczycki was appointed to the Risk Committee of the Supervisory Board of Nest Bank S.A. as a Member of the Committee.

Diagram No 1 Organisational structure of Nest Bank S.A.



5.2. Bank employment structure

At the end of 2021, the Bank employed 829 per TFJs, of whom 56% were women. The age structure of employees of the Bank demonstrates the highest number of employees aged 36 and more (50%).

The largest group of employees were those with over 2 years of work experience.

From among the Bank's employees employed at the end of 2021, 32% were assigned to direct sales functions and 43% to direct sales support. Other employees held functions related to organization support and operations.

Chart 3 Employment structure by age

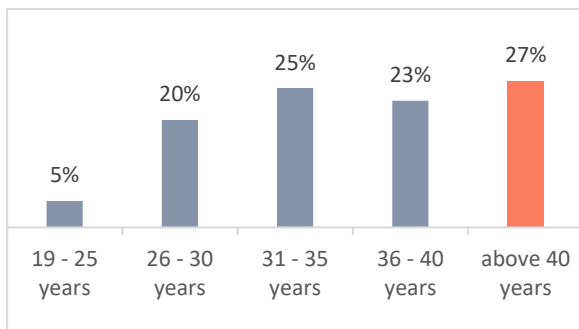


Chart 4 Employment structure by work experience

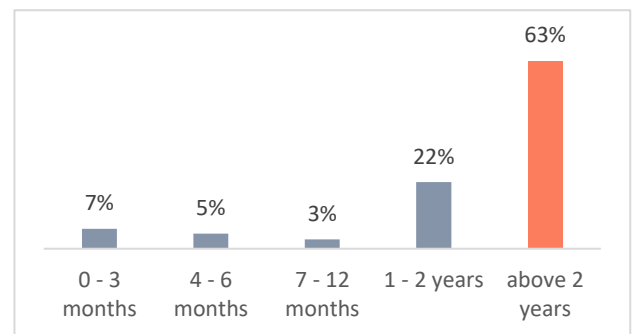


Chart 5 Employment structure by gender

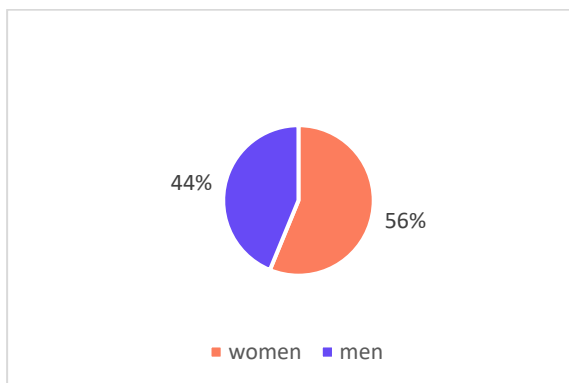
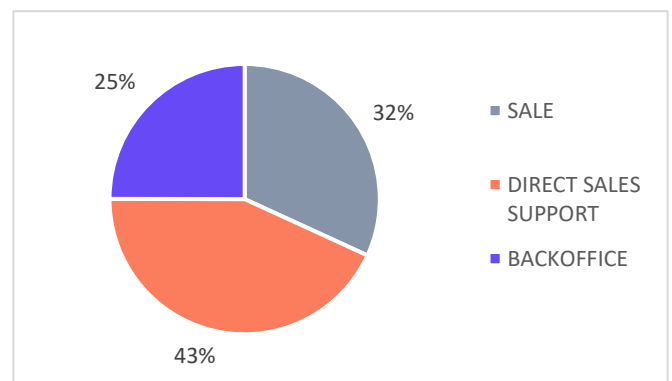


Chart 6 Employment structure by main areas of the Group's activity



6. Risk management

The purpose of the risk management system in Nest Bank S.A. is to provide a set of practical rules, processes and tools that will ensure a prudent and stable management of the Bank.

The Bank identified the following risks as material:

- credit risk,
- liquidity risk,
- market risk,
- operational risk,
- compliance and reputation risk,
- macroeconomic risk,
- strategic risk,
- model risk.

Credit risk means a possibility of incurring a loss as a result of debtor defaulting on principal, interest or other receivable. Credit risk is also manifested by a decrease in the value of assets and contingent liabilities, resulting from deterioration in the debtor's credit quality assessment. Credit risk includes the following sub-categories of risk: base risk (insolvency of the debtor), counterparty risk (pre-settlement), concentration risk (concentration of common risk factors) and residual risk (collateral ineffectiveness). The purpose of credit risk management is to limit losses resulting from the materialisation of credit risk, including impairment risk, while maintaining the expected level of profitability and meeting assumptions of the Bank's business plans.

Table No 1. Credit portfolio quality of the Bank as at 31 December 2021¹:

| [PLN thousand] | Bank's credit portfolio | | | including: Stage 3 | | |
|----------------------------------|---------------------------|------------|-------------------------|---------------------------|-----------|-------------------------|
| | Gross balance sheet value | Write-off | Net balance sheet value | Gross balance sheet value | Write-off | Net balance sheet value |
| <u>Credits and loans granted</u> | | | | | | |
| - to companies | 3,616,116 | -673,863 | 2,942,253 | 611,450 | -496,893 | 114,557 |
| - to individuals | 1,235,288 | -383,563 | 851,725 | 356,342 | -296,368 | 59,974 |
| Total | 4,851,404 | -1,057,426 | 3,793,978 | 967,792 | -793,261 | 174,531 |

In 2021, the Bank sold the NPL portfolio of the total gross balance sheet value of PLN 676 million.

The value of write-offs created in 2021 is lower than in 2020 due to the improvement of the credit portfolio quality resulting from the revised strategy for credit risk implemented in 2019, change in the segment in which the Bank carries out its activity, the withdrawal from consumer loans, the implementation of new scoring tools, the higher share of credits secured with guarantees and the intensification of debt collection processes.

¹ Credit portfolio includes loans measured at amortized cost and measured at fair value through profit or loss.

Liquidity risk is the risk of losing the ability to finance assets (risk of refinancing) and timely pay liabilities in the normal course of business or under other foreseeable circumstances resulting in unacceptable losses. The primary objective of liquidity risk management is to ensure that liabilities can be fulfilled on a daily basis, with the ability to maintain liquidity in the short, medium and long term both under normal circumstances and in the event of crisis.

| Liquidity measures | | 2021 | 2020 |
|--------------------|--------------------------|--------|--------|
| NSFR | Stable funding ratio | 165% | 145% |
| LCR | Liquidity Coverage Ratio | 1,566% | 1,290% |

Market risk is the risk of losing the value of assets, increase in the level of liabilities or changes in profit or loss as a result of sensitivity to market parameters volatility (foreign exchange rates, interest rates, prices of assets and contracts). Market risk refers to both balance sheet and off-balance sheet items. Market risk includes the following risk sub-categories: interest rate risk (IR), including interest rate risk in the trading book and banking book, foreign exchange risk (FX), debt securities price risk, equity securities risk, commodity price risk and credit valuation adjustment risk. The objective of market risk management is to limit possible losses resulting from changes in market rates to an acceptable level by shaping an appropriate structure of balance sheet and off-balance sheet items.

Operational risk is the possibility of a loss resulting from inadequacy or unreliability of internal processes, people and systems or from external events. Operational risk includes in particular: technological and technical risk, outsourcing risk, abuse risk, money laundering risk, human resources and security risk, legal risk, transactional risk and personal data security risk. The primary objective of operational risk management is to optimise the Bank's operational efficiency by minimising operational losses and increasing the Bank's adequacy and responsiveness to internal and external events, both in respect of events occurring at the Bank and in its subsidiaries.

Compliance risk is the risk of negative consequences, including legal or regulatory sanctions, material financial losses or loss of good reputation, to which the Bank is exposed as a result of failure to comply with generally applicable laws, supervisory regulations, internal regulations or the standards and codes of conduct applicable to its operations. The objective of risk management is to ensure the Bank's compliance with applicable regulations and adopted operational standards.

Reputation risk is the current or future risk to the financial result, own funds or liquidity, resulting from a damage to the Bank's image. The purpose of reputation risk management is to limit the negative impact of image-related events on the Bank's financial result, own funds or liquidity level through prevention and protective activities.

Macroeconomic risk is the risk arising from the fact that internal risk models do not take into account an impact of economic cycle, with the result that capital/internal capital requirements are dependent on the economic cycle phase. The objective of this risk management is to limit

possible losses resulting from the incomplete recognition of the current business cycle phase in internal models.

Strategic risk is related to making unfavourable or incorrect strategic decisions, lack of or defective implementation of an adopted strategy, as well as changes in the external environment and inappropriate response to these changes. The objective of this risk management is to ensure correctness of decisions taken and their proper implementation.

Model risk is the risk of a potential loss that may be incurred by the Bank as a result of decisions that might be primarily based on data obtained using internal models, due to errors in the preparation, implementation, or application of such models. The objective of managing this risk is to ensure the proper functioning of models at the Bank.

The Bank adheres to the following general principles of risk management:

- the risk management system is based on written rules found in the 'Strategia zarządzania ryzykiem' ('Risk management strategy') as well as detailed rules for the management of individual types of risk;
- the range of responsibilities of individual organisational units within the risk management area is strictly defined, while maintaining the separation of the functions of risk measurement, control and reporting from the sales and operational activities;
- risk management is part of a holistic process of the Bank management;
- the level of risk tolerance is defined in relation to economic capital as well as by means of strategic risk limits and is approved annually by the Supervisory Board;
- the Bank focuses its activities on areas in which its experience allows it to accurately assess risk; the introduction of new products is preceded by an assessment of the risks associated with them.

The risk management process is carried out within a strictly defined range of responsibilities, in accordance with the internal rules and using the appropriate IT infrastructure. In order to ensure its up-to-datedness, the process is subject to periodic inspections and reviews by the Bank's internal audit.

Diagram No 2 Organisational structure in the field of risk management in the Bank



The process of risk management at the Bank involves:

- the Supervisory Board together with dedicated committees,
- the Management Board together with dedicated committees,
- organisational units within the Bank structure.

As part of their risk management process supervision, the Supervisory Board established the following Board Committees:

- Risk Committee,
- Audit Committee.

Risk management is inscribed in the organisational structure of the Bank, particularly thanks to appointing one of the Board Members as being responsible for risk management as well as defining a Risk Management Division. Each organisational unit of the Bank has specific roles assigned for risk monitoring, measurement and reporting. The structure of the Bank includes the following committees: Risk Committee, ALCO Committee, Security Committee and Business Projects Committee.

The additional line of defence in the Bank's risk management process is formed by two independently functioning departments: Compliance Department and Internal Audit Department.

The division of duties ensures a separation of the sales functions from the credit decision-making functions. Furthermore, the Bank also implemented the separation of competencies in terms of credit decision-making functions from the credit decision-making policy determination functions and the credit risk monitoring and control functions. The above-mentioned diversification allows to manage credit risk effectively and to continuously monitor the credit process. This, in turn, ensures a proper operation of the individual elements of risk management as well as a quick diagnosis and correction of possible deficiencies.

In 2021, the Bank continued to improve its credit risk management system. In the area of products for micro-enterprises an improved scoring card was introduced, and PLD-guaranteed credits constituted over 95% of the new volume. Changes in the credit policy were implemented on an ongoing basis and took account of current observations of portfolio default ratio in order to improve the quality of risk management.

The portfolio credit risk monitoring system for microbusiness and retail customers was also subject to further development. The automation and expansion of management information allows for the comprehensive monitoring of credit risks from the point of view of both the portfolio and the quality of the newly granted loans.

7. Development of operational activities and the support function

Strategic IT projects

In 2021, Nest Bank developed and implemented in collaboration with VISA an innovative payment service – VISA MOBILE. This is a pioneering implementation in the Polish market that allows for secure online payments (and ultimately also via VISA payment terminals). The implemented Click to Pay service offers the following functionality: to make a payment transaction, you need to know only your mobile phone number and to have a mobile app for secure payment authorisation. The solution is currently promoted among VISA partners on the Polish market, and its official launch is scheduled for the first half of 2022.

In the area of payment services, Nest Bank implemented also the project of migrating the service of payment cards to the new supplier, i.e. to First Data Polska S.A. Currently, the Bank can be more flexible in responding to the customer needs regarding payment cards and faster in implementing changes regarding their issue, as well as running services.

In 2021, Nest Bank was an active participant of projects implemented within the framework of support for businesses, organised by Polski Fundusz Rozwoju [Polish Development Fund]. The Bank initiated the distribution of aid within the Polish government shield scheme Tarcza 2.0 addressed to micro-, small- and medium-sized enterprises, as well as performed a number of system modifications in the area of the service process for the Polish government shield scheme Tarcza 1.0. The implementation of assumptions of aid schemes was a significant value provided to the Nest Bank customers.

Also, the Bank prepared the update of the technological and operational service of the Rodzina 500+ family aid scheme, following the change of the aid scheme operator into Zakład Ubezpieczeń Społecznych [the Polish Social Insurance Institution]. In line with its digitalization strategy and the forecast intensity of developing essential IT systems, the Bank consistently developed systems for fully digital service of credit products.

In 2021, a fully remote credit application for businesses was launched at the Bank. The digital process allows for fully automatic issue of credit decisions. The service employs services based on the PSD2 standard, which allows for downloading account history data and confirming the customer's identity (via the AIS service). The service of the application is completed upon logging into the account and signing the credit agreement. The entire service takes 10 minutes.

In 2021, the Bank also migrated the application and database servers of the main sales system of the Bank (Ferryt) to the latest versions of the Microsoft Windows systems and the software of the Microsoft SQL database engine. Thanks to this project, the stability of the system functioning was significantly improved.

Monitoring of IT systems and providing service level agreements (SLA)

In 2021, further improvements to the monitoring of IT systems were completed:

- update and expansion of the external monitoring system for verifying the quality of the functioning of the Bank's services. The applied control mechanisms, located outside the Bank's infrastructure, provide for the possibility to detect functioning disruptions at an early stage, i.a. the services of Internet and Mobile Banking from the perspective of the Bank's customers;
- improvement of the method for monitoring test environments, with the use of the APM Dynatrace monitoring system, allowing for early detection of irregularities in the operation of systems, as early as at the stage of testing new functionalities;
- development and implementation (with the use of the Apache JMeter tool) of new methods for monitoring and testing the Internet and Mobile Banking which allowed for significant improvement of efficiency parameters of the system.

The early detection of interruptions and defects of essential IT processes and systems enabled the effective IT environment management and fast reactions to failures. Owing to this, the average availability of critical IT systems was maintained above the expected value of 99.5% in 2021.

Network and telecommunications infrastructure

In 2021, significant works in the area of Data Center co-location were performed. Space used in one of the processing centres was reduced by half and thus, both the co-location costs incurred by the Bank and the costs of energy utilised and needed to maintain the environment conditions in the server room were optimised. During the works, the structure of hardware was reorganised and arranged, which will allow for better allocation of IT infrastructure hardware and for faster diagnosing and removal of hardware failures.

In order to ensure the uninterrupted performance of critical and essential business processes in the conditions of the mass remote work of the Bank's employees, anti-DDoS protection was launched on an additional, backup internet link. Currently, all internet links are covered by full

anti-DDoS protection, which is activated upon detection of attacks (suspicious or redundant traffic related to attacks is filtered out).

Cyber security

In 2021, the implementation of a tool for monitoring privileged accounts and recording administrative sessions was completed. Thus, the security level of processed data in indicated IT systems for operational and business service addressed to Bank's products was increased. In terms of increasing detection possibilities and quality of handling threats and IT security incidents, the Bank initiated the implementation of the platform for:

- passive and active scanning of vulnerabilities and detecting incompatibilities of the configuration with security standards in the IT infrastructure,
- automatic protection from XDR threats.

In the area of protecting electronic banking systems and IT services, the software version of the WAF (Web Application Firewall) tool was updated, reducing thus exposures to network threats. Additionally, project works in the area of cybersecurity systems related to the migration of SIEM and DLP tools into more efficient platforms were initiated.

In 2021, due to the SWIFT organisation requirement for meeting standards defined in 'Customer Security Controls Framework x2021 & Customer Security Programme', the Bank underwent an independent audit and scored a positive result.

Operations and logistics

As regards operations, the year of 2021 focused on initiatives improving customer experience in the area of after-sales service and on automation and robotics.

As far as the area of robotics is concerned, 47 robots to optimize business processes were introduced, mainly in the area of Operations and Logistics. The total number of robots working in 2021 was 106.

To ensure the possibly efficient service, the Bank handled customer inquiries and instructions at the average SLA level of 80%, which reached 90% at the end of the year. At the same time, the needs related to overtime were significantly reduced down to PLN 26 thousand of the annual cost for the Operations Department.

The Bank implemented numerous changes to the cash service and reduced the number of branches. Thus, in order to facilitate access to cash, in cooperation with Euronet, the limit of one withdrawal was increased to PLN 4 thousand.

In 2021, as regards outsourcing agreements, the Bank implemented a set of changes resulting from the respective EBA regulation. The changes concerned both internal policies and regulations, and annexes with key suppliers.

In terms of complaint processes, the Bank maintained the reduction of the number of received complaints, thanks to actions taken at their sources and the cooperation with business and product units.

Due to the adjustment of the employment structure and the increase in effectiveness in 2021, employment in the Operations Department was reduced by approx. 8%.

In 2021, in the area of Logistics the restructuring process was continued of the network of own branches, aimed at improving the efficiency of the network of own branches, and hence reducing operational costs and the development of remote distribution channels. In addition, in 2021, the process of optimising the surface of the Bank's Headquarters in Warsaw and Gdańsk, so as to adapt the surface size to the current needs related to the hybrid work model adopted at the Bank that should be understood as remote work combined by the employees with office work, to the advantage of remote work. These measures allowed for significant reduction of costs of office space rental and maintenance.

Another major aspect in 2021 was to continue ensuring the safe working conditions for all employees of the Bank, both in the Headquarters and in the network of own branches, due to the ongoing COVID-19 pandemic. Actions taken in this area included, but not limited to, providing the non-stop access to disinfectants, masks, and gloves. Moreover, the process of ozonizing spaces in case of suspected hazards was introduced.

Management Information System

In 2021, the Bank focused on further process improvement in the MIS area. In particular on the following:

- further development of performance management at the Bank, in order to support the implementation of strategic goals at the level of the Bank,
- improving the process and tools in the area of budgeting and financial planning, in particular tools used for financial planning,
- considering regulatory changes in the area of budgeting and financial planning
- as regards price offer management, further improvements to the price management process, depending on the risk profile and service costs,
- further improvements to the management and cost control process,
- updating and extending the internal reporting process related to the change of the Bank's strategy,
- the process of regular monthly financial forecasting,
- the works relating to the development of reporting tools, and
- ongoing monitoring of the outcomes of restructuring measures.

HR

The most important changes and projects executed in 2021 in the area of HR are as follows:

- the development and implementation of projects that create the involvement and satisfaction among personnel: Nest Family Programme and Fitnest Programme;
- the extension and execution of the Nest University development programme;
- actions taken for diversity at workplaces;
- conducting research of employee satisfaction and their sense of security;
- preparing and implementing the Nest Bank S.A. Code of Conduct;
- preparing and implementing the Nest Bank S.A. Human Rights Policy;
- preparing and implementing the Rules of awarding for the use of the holiday leave for Nest Bank S.A employees.

8. Summary of the Bank's financial results in 2021

Nest Bank S.A. closed the financial year 2021 with a net profit of PLN 4.0 million as compared to the loss for the financial year 2020 in the amount of PLN 135.7 million. The above result is better than the result for the previous year by PLN 139.7 million. When analysing the profit generated by the Bank, it is necessary to consider that it was achieved despite low interest rates persisting throughout most of 2021 and the decreasing Bank's loan portfolio that had an adverse effect on the net interest revenues. Lower costs of interest and risk significantly affected the improvement of the Bank's results. The reduction of financial expenses results not only from lower interest rates, but also from a structural change of funds deposited in payment accounts and deposit accounts, among other things of transferring funds from term deposits to savings accounts. The lower risk costs result from the introduced changes aimed at improving the quality of the credit portfolio with changes of credit policies to acquire customers with a lower credit risk profile and the withdrawal from financing the segment of consumer loans, which is characterised by the highest default rate.

In 2021, the result on interest income was PLN +348.3 million (compared to PLN +429.0 million in 2020) and the result on commission income was PLN +37.3 million (compared to PLN +37.4 million in 2020). The high decrease of result on interest is caused primarily by the reduction of interest rates, which occurred at the beginning of 2020 and lasted until Q4 2021, as well as the reduction of the loans' portfolio value. The result on financial instruments measured at fair value through profit or loss and from revaluation in 2021 amounted to PLN +7.4 million and was lower than the result in corresponding items in 2020 by PLN 0.6 million. The result on the derecognition of financial assets and liabilities not measured at fair value through profit or loss was PLN +10.7 million in 2021 which means an increase in this item by PLN 9.9 million. This increase results from realising the profit from sales of securities measured at fair value through other total income.

In 2021, the costs of remuneration and other operating costs together with depreciation amounted to PLN -226.1 million (in 2020 PLN -250.2). Cost of risks amounted to PLN -176.8 million in 2021 compared to PLN -384.9 million in 2020. This amount includes write-offs due to expected credit loss (PLN -192.3 million in 2021, -400.2 million in 2020) and a result on the sales of credit portfolios and other receivables.

Table No 2. Change in the basic categories of the profit and loss account of the Bank y/y

| [PLN thousand] | 2021 | 2020 | y/y | y/y [%] |
|---|----------|----------|---------|---------|
| Interest income | 348,264 | 428 980 | -80,716 | -19% |
| Commission income | 37,253 | 37 442 | -189 | -1% |
| Result on financial instruments measured at fair value through profit or loss and from revaluation | 7,426 | 7 989 | -563 | -7% |
| Result on derecognition of financial assets and liabilities not measured at fair value through profit or loss | 10,709 | 798 | 9,911 | 1,242% |
| Cost of risk | -176,841 | -384,869 | 208,028 | -54% |

| | | | | |
|--------------------------|----------|----------|---------|-------|
| Operating costs | -194,651 | -214,771 | 20,120 | -9% |
| Depreciation | -31,492 | -35,475 | 3,983 | -11% |
| Other costs and revenues | 8,303 | 1,522 | 6,781 | 446% |
| Gross result | 8,971 | -158,385 | 167,356 | -106% |
| Tax | -4,947 | 22,705 | -27,652 | -122% |
| Net result | 4,024 | -135,680 | 139,704 | -103% |

The Bank's administrative costs decreased in 2021 in relation to the previous year by PLN 20.1 million and amounted to PLN -194.7 million. A significant decrease was recognised in other material expenditures (decrease by PLN 10.7 million) as an effect of lower marketing costs and lower cost of court and enforcement actions as well as payments to the Bank Guarantee Fund (decrease by PLN 5.4 million). Personnel costs stayed at the level analogous to the previous year and at the end of 2021 amounted to PLN -109.5 million and decreased by 2.8 million by 2020.

A balance of the other costs and revenues item was higher by PLN 6.8 million compared to 2020 and amounted to PLN +8.3 million. The better result in this line results primarily from lower other operating costs, in particular due to the Bank's recognition in 2020 of the provision for reimbursements of commissions on consumer credits which were prepaid prior to the judgment of the European Court of Justice.

The Cost Income Ratio (CIR) for 2021 was 98.0% (including the cost of risk). The indicator calculated as a percentage of the Bank's operating costs (without the costs of risk) in relation to the sum of the interest income, commission income and financial operations result before the cost of risk for 2021 was 58.1%. Financial projections of the Bank predict that an increase in operational effectiveness will lead to an increase in cost efficiency and thus, it will contribute to the improvement of CIR.

Due to the profit recorded by the Bank in 2021, the return on assets (RoA) for 2021 was positive and amounted to +0.06%.

The balance sheet total at the end of 2021 was PLN 6,407.3 million compared to PLN 6,784.9 million at the end of 2020. The change was primarily a result of the lower value of the credit portfolio, as the Bank discontinued to grant consumer loans, and the limitation of new lending in the segment of micro-businesses. The largest items of assets were cash and operations with the Central Bank (PLN 208.1 million), interbank receivables (PLN 319.0 million), securities (PLN 1,656.4 million), credits and loans (PLN 3,799.1 million). The value of fixed assets was PLN 86.2 million.

The assets were financed basically from equity of PLN 576.7 million and customer deposits (current and term deposits) of PLN 5,703.6 million.

The off-balance sheet liabilities for open credit lines and guarantees granted amounted to PLN 85.1 million at the end of 2021 compared to PLN 90.8 million at the end of 2020.

The figures presented in this part of the report with regard to the profit and loss statement and the statement of financial position correspond to relevant items of the Bank's financial statements for the financial year ended 31 December 2021.

9. Bank's capital adequacy

The Bank's capital adequacy ratio was 12.29% at the end of 2021, and the overall risk exposure was PLN 3,926.4 million. The structure of the total capital requirement is shown in the table below:

Table No 4. Amount of capital requirements at the end of 2021

| Capital requirement by way of: | Value in PLN thousand |
|--|-----------------------|
| Capital requirement for credit risk and counterparty credit risk | 243,818 |
| Credit valuation adjustment (CVA) risk | 11 |
| Market risk | 0 |
| Operational risk | 70,279 |
| Total capital requirements | 314,108 |

The Bank's regulatory capital (capital requirements) is calculated in a strictly defined way for the risk types listed in legal provisions, in accordance with the principles stipulated in the CRR Regulation (*Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, as amended*). In the process of determining capital adequacy, each of the exposure classes is classified to a particular exposure class as per Article 112 of the CRR Regulation. In the structure of the Bank's credit exposures, the dominating ones are those classified as retail exposures.

Table No 5. Requirements in terms of the Bank's own funds as at 31 December 2021

| | Value in PLN thousand |
|---|-----------------------|
| Common equity Tier I (CET I) | 482,410 |
| Additional Tier I | - |
| Tier 1 (CET I + additional Tier I) | 482,410 |
| Tier II | - |
| Total capital (total capital = Tier I + Tier II) | 482,410 |
| Risk-weighted assets in total | 3,926,360 |
| Capital ratios | |
| Common equity Tier I ratio (expressed as a percentage of the total amount of risk exposure) | 12.29% |
| Tier I ratio (expressed as a percentage of the total amount of risk exposure) | 12.29% |
| Total capital ratio (expressed as a percentage of the total amount of risk exposure) | 12.29% |

Profit for 2021 is not included in own funds until the General Shareholders' Meeting decides to approve the financial result. Until the time the financial result for 2021 is approved, the Bank

includes in the calculation of risk exposure the exposure value of the asset with adjustments for specific credit risk included in own funds.

Table 6. The Bank's total capital adequacy ratio after approval of the financial result for 2021

| 31 grudnia 2021 | |
|--|-------------|
| Total capital adequacy ratio of the Bank after the approval of the financial result for 2021 | 13.80% |
| Bank's own funds | 487,390,532 |
| Total capital requirements | 282,482,138 |

10. The impact of external factors on the development of the Bank

On 13 March 2020 the Regulation of the Minister of Health on announcing the state of epidemic in the Republic of Poland due to the COVID-19 pandemic was published. The state of epidemic has a significant impact on the macroeconomic environment in which the Bank operates. It is still commonly expected that the risk of a strong economic slowdown on a Polish and global scale will materialise and a risk premium will increase. In view of the situation, the Bank monitors its financial situation on a current basis, taking into account the impact of external factors.

At the same time, in 2021, the positive impact of shielding schemes is visible, predominantly of shields offered by state institutions. Most of the customers returned to normal credit repayment after the financial sector stopped offering general credit holidays. Simultaneously, a large part of the Bank's customers still uses the BGF aid schemes in the form of guarantee granted for entrepreneurs.

The acceleration of inflation in Poland in the second half of the year translated into the initiation of a series of interest rate increases. In Q4 2021, NBP performed three increases of interest rates. At the end of the year, the reference rate amounted to 1.75%. According to market expectations, interest rates hikes also continue in 2022 until the approval of this report.

Due to Russia's military attack on Ukraine in February 2022 and sanctions imposed on Russia and Belarus, one can observe a significant deterioration of the macroeconomic environment, including increased insecurity in the markets and decreased prices for shares, weakening of the Polish currency, the increase of prices for energy fuels, energy and food, higher than hitherto prognosed increase of inflation and interest rates. At the same time, it is impossible to precisely predict at the moment the further course of the conflict and its impact on global economies and the Bank's customers.

The Bank closely monitors the developments both in Poland and abroad. Dedicated additional meetings of the ALCO and Security Committees for ensuring elevated level of IT, physical and liquidity security take place on a regular basis. The Bank also participates in dedicated sectoral works and in direct communication with financial oversight. The Bank immediately responds to any symptoms of elevated or potential risk. As at the date of publishing this report, the Bank does not observe any events that would directly, significantly affect the disruption of the Bank's activity.

As at 31 December 2021, the Bank did not have any counterparties in the area of assets and liabilities from Russian and Belarussian markets, nor any sanctioned counterparts. The Bank has a small group of deposit customers who are Ukrainian citizens staying in Poland.

In view of the Management Board, as at the date of publishing this report, there is no significant impact on the values of assets, liabilities and capital, and the financial result for the year finished on 31 December 2021. At the same time, it is impossible to predict the impact of the military conflict in the values of assets, liabilities and capital, as well as the financial result in the subsequent periods.

11. Non-financial statement

11.1. Legal basis

The legal basis for this statement is the Accounting Act, in particular Article 49b and Article 55. Apart from this statement constituting a separate part of the Management Board report on the activities of the Bank, the Bank does not publish a separate non-financial statement.

11.2. Description of the business model of the Bank

Nest Bank S.A. is a universal bank focused on micro-entrepreneurs within the credit offer and micro-entrepreneurs and retail customers within saving and deposit account offer. The owner of the Bank is Porto Group Holdings Limited, whose mother company is AnaCap Financial Partners III, L.P. (hereinafter referred to as: "AnaCap").

The major elements of the Bank's business model are specified in the Recovery Plan, formally approved with the decision of the Polish Financial Supervision Authority (UKNF) of 30 November 2020 and the updated Recover Plan approved by the decision dated 17 December 2021. According to the approved Recovery Plan, the main objectives of the Bank remain: the restoration of profitability and the reinforcement of capital position.

The business model of the Bank is based on two key segments of customers: micro-businesses and retail customers (within savings and transaction products as part of the Funding business line). In 2020, the Management Board took a decision to withdraw credit products for retail customers from its offer. At the same time, the existing portfolio of already granted credits remains to be operated by the Bank.

The strategic goals of the Bank include in particular:

- creation of a business model allowing for achieving solid profitability of the Bank,
- ensuring price-competitive funding for the remaining business lines by further development of the retail segment with respect to savings and transactional products in the model based mostly on online processes,
- regular development and expansion of the strategic micro segment, by regularly addressing the identified customer needs
- development of relationships with the Bank's customers and sustainable increase of the role of cross-selling,

- further digitization of customer service and product sales processes, by increasing the availability of the Bank's offer in remote channels and in electronic and mobile banking in the self-service model, without the need to use traditional sales channels,
- optimisation of the credit risk cost via a better analysis of customers' creditworthiness on the basis of stronger relationships with the customers and effective use of data and credit risk modelling.

The Bank offers products and services which are innovative and competitive on the Polish market, high quality of customer service and availability of products via a network of its own local and its partner's branches, a professional call centre and dynamically developed online sales.

Faktoria Sp. z o.o. renders factoring services dedicated to the segment of SMEs and micro-businesses, which sell their products and services with payment terms.

11.3. Key non-financial performance indicators related to the activities of the Bank

Table No. 7 Key non-financial performance indicators as at 31 December 2021

| | 2021 | 2020 |
|--|--------|----------|
| Net result for the period (in thousands of PLN) | 4,024 | -135,680 |
| RoE (net) | 0.70% | -23.40% |
| Loans / Deposits | 66.61% | 75.24% |
| Solvency ratio | 12.29% | 13.34% |
| Bank's capital adequacy ratio after approval of financial result for 2021* | 13.80% | 13.34% |

* Profit for 2021 is not included in shareholders' funds until the General Shareholders' Meeting decides to approve the financial result. Until the 2021 financial result is approved, the Bank includes in the calculation of risk exposure the exposure value of the asset with adjustments for specific credit risk included in own funds.

11.4. Values and organizational culture

The organisational culture of the Bank is based on five key values: resourcefulness, optimism, cooperation, thinking out of the box, and commitment.

The Bank believes that respect, trust, compliance with goals and a sense of responsibility for the group are the key conditions for effective cooperation. Numerous successes and the dynamic development of the organisation is a credit to the Bank's employees, who thanks to their resourcefulness can find themselves in any situation and in each will find a solution.

Optimism, a positive outlook on the world and the ability to see advantages not disadvantages are the attitudes that create a pleasant atmosphere at Nest Bank. Due to the constant search for new inspirations and best solutions, the Bank's employees go beyond the scheme, this way showing their out-of-the-box thinking.

Our recipe for success is to put your heart and soul in what you do; therefore; commitment is one of the core values of the Bank's employees.

The Management Board of the Bank believes that only by acting in accordance with the values of the Bank, we are able to create a cohesive and effective team that will successfully achieve the set business goals.

The Bank builds its organisational culture based on values, e.g. by acknowledging employees who use the values of the Bank when performing their daily tasks. An example can be our quarterly contest 'It is good to act in accordance with values'. Every employee has an opportunity to nominate their co-worker for the contest, who in their opinion represents an attitude compliant with the values of the Bank. Once a quarter, two of nominated employees get a competition prize.

11.5. Relationships of the Bank with its environment

Actions taken by Nest Bank are dedicated to various groups of stakeholders. All social groups affected by and affecting the Bank's activities are stakeholders of Nest Bank.

Nest Bank identified its stakeholders based on the analysis of operational and business activities, as well as interviews with its employees.

Nest Bank divided its stakeholders into two groups: key stakeholders (customers, employees, suppliers, business partners (including franchise partners), regulators and financial market supervision, supervisory board, investors and shareholders, natural environment), and the other stakeholders (competition, auditors, media and public opinion, NGOs and industry organisations, financial analysts and CSR).

Key stakeholders of Nest Bank

Customers

The Bank cares for high standards of service and communication with its customers. It follows special rules in formulating its mailing and information for customers. It makes sure that informative and marketing materials are simple, clear and comprehensible. It takes non-stop activities aimed at simplifying the language and way of communicating with customers and thus raising the level of customer service standards. The Bank developed the internal Manual of Simple Writing, which sets the standards of formulating messages to customers. Finally, the Bank is a member of a task force for communication between banks and their customers, operating within the Association of Polish Banks. Within the framework of its cooperation on the project, the Bank signed the *Declaration of banks on plain language norms*. The project aims at simplifying the communication between the bank and the customer, mainly by using simple and easily comprehensible language.

Personnel

The Bank values opinions of its employees. It consults with them many issues that concern the organization of work using internal questionnaires. A work satisfaction questionnaire is carried out annually as Nest Puls, where employees can express their opinions about working for the Bank. Personnel are frequently requested to participate in various tests and projects, in which they can directly affect the development of working conditions at the Bank. Interests of employees are represented by the Works Council and a trade union active in the Bank.

Regulators and financial market supervision

Nest Bank continually monitors legislation in order to implement new and amended laws and supervisory regulations in a timely manner. As a part of the Internal Control System, it verifies the conformity of its bylaws to the law. The Bank tries to maintain a high level of cooperation with supervisory authorities and, if necessary, also law enforcement agencies, including but not limited to by providing access to required information, giving explanations and answers within limits set by law, and carrying out follow-up instructions, if it receives any. The aim of the Bank is to ensure the transparency of cooperation with each and every supervisory authority.

Supervisory board, investors and shareholders

The Supervisory Board regularly supervises the Bank’s activities. The Bank is in continuous contact both with the Supervisory Board, and the investors.

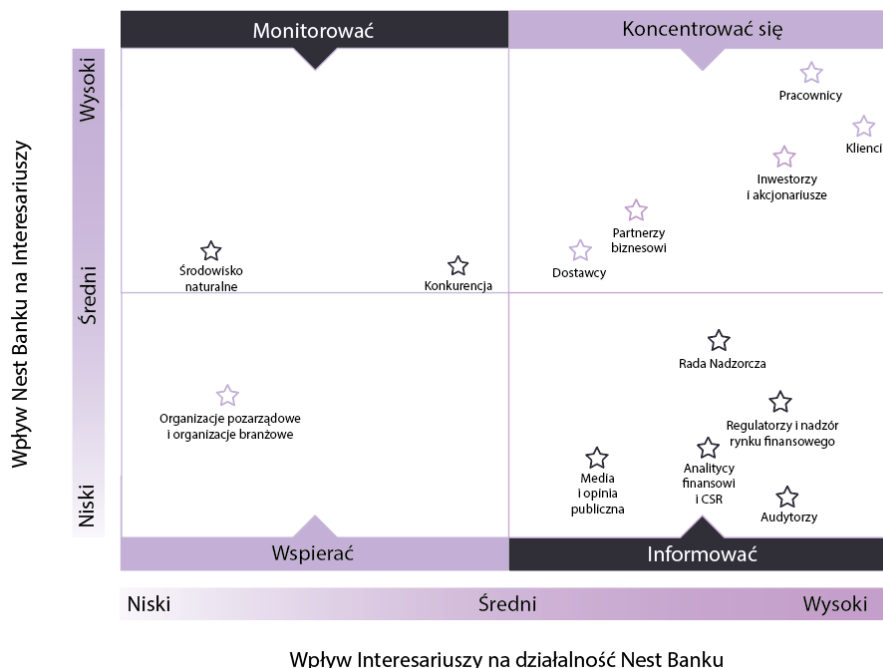
Natural environment

The Bank regularly optimises its processes to reduce the consumption of natural resources and plastics. Operational processes, including acquisition decisions of the Bank, are executed with regard to the Bank’s impact on the natural environment. Except from sensible management of resources, the Bank educates its employees in the area of environmental responsibility.

Suppliers and partners (including franchise partners)

Suppliers of goods and services who start to cooperate with the Bank are awarded in tender procedures, which set forth clearly all conditions and criteria of the process. Owing to rules given in the official internal procedure, every process is introduced in a transparent manner, which provides all suppliers with the same access to information and materials that concern the procedure. Additionally, in 2021, the Code of Conduct of Nest Bank S.A. Suppliers has been implemented. It describes both the above rules and criteria for selecting suppliers, and defines conduct expected from suppliers that they should show when running their business and cooperating with the Bank.

Diagram No 3. Map of Nest Bank S.A. stakeholders



11.6. Actions of the Bank for the Sustainable Development Goals

Financial security of its customers is a priority for Nest Bank S.A. The Bank devotes all efforts to make its credit offer favourable for developing businesses and value of firms owned by our customers. However, as a public trust institution, the Bank feels responsible not only for its customers, but also for building the value for the society and the environment. It always tries to take measures that will affect its environment in a positive manner.

As of October 2021, the Bank is a signatory of the United Nations Global Compact (UNGC) – the leading initiative for development, implementation and promoting responsible and sustainable corporate policy. Within the framework of its cooperation, the Bank undertook to take actions supporting the implementation of the Sustainable Development Goals.

Fighting poverty | Zero famine

'Become St. Clause' campaign

In 2021, the Bank executed the 'Become St. Clause' project for the sixth time. As a part of collaboration with *Fundacja Dobrych Inicjatyw* (Good Initiative Foundation), employees of the Bank received Christmas cards from children and young people living in educational care facilities and addressed to St. Clause. In 2020, employees of the Bank fulfilled dreams of 65 children. In total, since the start of the project, personnel of the Bank met Christmas wishes of 379 children.

Christmas support for the 'Pomorze dzieciom' foundation

For Christmas, the Bank decided not to buy traditional gifts for its counterparties and to donate financial support for the 'Pomorze dzieciom' foundation and hospice.

Package for seniors

Within the collaboration with *Fundacja Dobrych Inicjatyw*, employees of Nest Bank S.A. took part in the project #PaczkaDlaSeniora in 2021. The Foundation received a number of cardboard boxes filled up with food, protective equipment, cosmetics, cleaning products and books, which were sent to impoverished seniors who cannot rely on the support of their families. In total, the aid was received by 350 seniors.

Bikes for Kids

As a part of collaborating with the Happy Kids foundation, the Bank's employees took part in the 'Bikes for Kids' bike challenge. The Bank sent two 5-member teams representing it and composed of its employees. The goal of the campaign was to raise funds for buying sport equipment for children from foster family houses. The Bank donated for this aim an amount equal to the number of kilometres rode by bike during the campaign by employees representing the Bank in the challenge. Each of them could also support the campaign by donating funds to the moneybox of the Foundation on the www.siepomaga.pl website. The campaign was reported by the Bank both in its internal communication and in social media.

Good food and quality of life

Additional healthcare for personnel

The staff are provided with a broad package of private medical care, financed by the Bank.

Additional life insurance

Employees may take advantage of additional life insurance financed by the Bank.

FitNest Programme

This is the Bank's original wellness programme for employees, aimed at instilling in employees the need for a healthy lifestyle, diet and exercise. As a part of the programme, we invite employees to all sorts of activities, to share useful knowledge in the field of healthy lifestyle and to organise thematic pro-health campaigns. The programme has been implemented since 2016. The activities of the programme focus on five areas: sport, nutrition, regeneration, prophylactics and fun at work, i.e. a number of factors that affect our wellness at work. Until and including 2019, initiatives implemented within the FitNest Programme have been focused on preventive check-ups, massages for employees, as well as other stationary projects designed to promote healthy lifestyle. In 2020, due to COVID-19, it was necessary to change the formula of the project. Since then also in 2021, the Programme has been focusing on online activities, for example webinars with experts (e.g. a physiotherapist, an ophthalmologist, a virologist and a cosmetologist), educational articles that concerned wellness and competitions. All employees of the Bank are covered by the programme.

Co-financing a sport-recreation programme

The Bank subsidises employees for the purchase of a sports card that gives them the right to use a wide range of most popular sports facilities. Due to the COVID-19 pandemic, the programme has been extended to include an online offer, e.g. consultations with trainers, preparation of nutrition plan, training sessions and yoga.

Nest Family Programme

The purpose of the Programme is to support employees in combining private and professional life. As part of the programme, a website is launched on the company intranet dedicated to families, with numerous inspirations for families and a section with articles, webinars and subcasts on how to support your family during the pandemic. The Bank celebrated the International Family Day again in 2021. On that day, employees finished work 2 hours earlier, to celebrate it with their families. A permanent element of the Nest Family Programme are competitions for employees' children, in which they can win awards. The Bank is also present during important moments of its personnel, such as a birth of a child. A layette for children packed in a personalised eco box with a congratulation letter is received by new Nest Parents. In 2021, 59 parents received layettes, and since the start of the programme, 288 parents. On the Children's Day in 2021, the Bank offered additional points in the café platform to every parent working for the organization. Points may be exchanged for a product or service available on the platform.

Benefit café

The employees have access to online café platform. The Bank tops up employees' accounts on the said platform with points that can be exchanged for products and services offered within

the framework of the benefit café. The number of points awarded every month to employees depends on their time of employment at the Bank. The points are also awarded for participation in a number of internal projects, initiatives and contests. Regardless of the number of points held, each employee can benefit from discounts for products and services available on the platform.

Health in the times of COVID-19

In 2021, due to the COVID-19 pandemic, the Bank continued the policy for work organisation and working scheme adopted in 2020. Most of the employees of the Bank performed their duties remotely or within the hybrid model. The customer service, personnel issues and recruitment were performed remotely. To provide our customers with full access to banking services of local branches, work was continued in the hybrid model, while most staff of the bank's HQ worked fully remotely.

To enhance the safety of personnel and customers, the Special COVID-19 Team continued its works aiming at monitoring the epidemiological situation in Poland, taking decisions concerning the ongoing organization of work at the Bank and responding to suspected COVID-19 infections among the personnel. Moreover, an effective monitoring system was applied and reporting the presence of employees in the Bank's HQ, to improve safety in offices. Additionally, the professional risk assessment performed on groups of positions present at the Bank, i.e. an administrative and office and managerial group, has been updated to include the biological factor such as SARS-COV-2.

Good quality of education

'Bug' educational project

As a safe financial institution operating on the Polish market, Nest Bank gives a priority to building awareness within managing finances among Poles. Educational campaigns of the Bank are dedicated to a younger generation, who receive important knowledge during classes conducted by volunteers at their schools concerning the management of their own budget, investing funds and risks due to the unreasonable management of money. Classes are given by the Bank's staff under the banner of 'BUG' (*Bakcył*) project, whose sponsor is the Foundation Warsaw Banking Institute (*Fundacja Warszawski Instytut Bankowości*).

Nest University Programme

This is an internal programme of knowledge sharing, in which employees get an opportunity to carry out trainings for other personnel of the Bank. Every employee of the Bank may become a coach and share his or her interests, experiences and knowledge with others. Trainings are open to everyone, and attending classes offers an opportunity to acquire knowledge and develop skills. The programme is used not only by trainees, but also employees who decide to become trainers and thus develop their coaching and public speaking skills. The programme is dedicated to all employees of the Bank. In 2021, 9 trainings took place, with 4 employees of the Bank as coaches. The total of 708 participants took place in all trainings within the framework of the programme.

Gender equality

Lady in Nest Programme

Lady in Nest is a programme dedicated to women in managerial positions in the Bank. The purpose of the project is to create space for female managers that will enable them the unrestricted regular exchange of ideas and experiences and the development of leadership qualities and, consequently, will contribute to their personal and professional development. The Lady in Nest is a grass root initiative. From its start, it has been created by the participants, ladies in executive positions. A tab in intranet hosts a site of the project with inspiring films and articles, aimed at supporting, reinforcing, and developing women who work in the organization.

Gender equality in terms of employment

The *Policy for remuneration of employees at Nest Bank S.A.* and the *Policy of variable elements of remuneration of persons whose professional activity has significant impact on the Bank's risk profile at Nest Bank S.A.* are gender neutral, i.e. they are based on the principle of equality of remuneration for remunerated persons – for the same work or for work of the same value.

At the same time, the Work Rules at Nest Bank S.A. is a document guaranteeing the equality of employees, i.a. regardless of gender. Also, the *Manual of rules of initiating, changing, and terminating employment relations with employees*, which clearly specifies the path for processing recruitment, change of terms of employment and remuneration in the term of employment and dissolution of employment relationship. In turn, the *Manual of recruitment process at Nest Bank S.A.* ensures fair and transparent rules for organising recruitment to the Bank and its process.

TOP Women in e-business

The Bank got involved into a Poland-wide educational and development programme for women. The TOP Women in e-business programme is dedicated to women from all over Poland and aims at prompting professional activity of women in the area of e-commerce. As far as bank products are concerned, the Bank supported the programme in financial and expert terms.

Clean and available energy

Purchase of clean energy

Nest Bank S.A. continues its cooperation for electricity supply to locations where it has direct contracts for electricity supply in place, for electricity from renewable sources, hydro power plants and wind farms. Nest Bank S.A. has obtained a certificate of energy purchases, 'ECO Premium'. The source of energy is guaranteed with a certificate issued by the Polish Association of Electricity Certification (PTCE). Buying 'green energy' by the Bank contributes to reducing the emission of carbon dioxide, sulphur dioxide, nitrogen oxide and particles (PM). In this manner, the Company implements the strategy of banking that supports climate protection and the development of renewable energy globally.

Economic growth and fair work

Financing the development of Polish economy

Since 2013, Nest Bank S.A. has actively participated in the *de minimis* guarantee programme implemented by *Bank Gospodarstwa Krajowego*. The programme is aimed at improving the availability of financing firms from the small- and medium-sized enterprises sector and ensuring credit solutions for entrepreneurs having no sufficient assets to secure a credit. In 2021, the Bank continued its actions consisting in active support of customers, offering, within deadlines consistent with their validity, assistance tools aimed at preventing, counteracting and fighting effects of the pandemic caused by the SARS-CoV-2 virus, such as a so-called moratorium for repayment of credit instalments, in line with the guidelines of the Association of Polish Banks as well as the PFR Financial Shield 2.0.

Fair remuneration for work

A map of positions developed in cooperation with external consultants is in place at the Bank, where relevant families and subfamilies of positions were assigned to individual positions (so-called position codes assigned to relevant positions). At the same time, job grading takes place according to a score-profile methodology which is the most commonly applied methodology for job valuation in the world. The used map enables referring positions in the organization to their market equivalents and an internal and external analysis of the cohesion of salaries in the organization.

Stable employment

A basic form of employment at Nest Bank S.A. is a contract of employment. This form of work guarantees the security and stability of employment. Both the Bank and employees are obliged to follow the Labour Code, which governs rights and obligations of the parties to an employment relationship. Thanks to a transparent contract of employment and the Bank's bylaws that concern working conditions, employees are guaranteed with fair and stable working conditions.

Innovation, industry, and infrastructure

Online banking

Nest Bank S.A. focuses in its business strategy on the development of digital sales channels and customer service. In 2021, Nest Bank introduced a number of enhancements in online and mobile banking, such as the possibility to display enforcement seizure or to file applications and instructions concerning the change of crediting parameters, the manner of delivering bank statements or establishing a proxy for a business account. To secure online card payments, the Bank implemented also 3D Secure 2.0.

In 2021, the Bank piloted an innovative payment service Visa Mobile. This is a new solution prepared by the Visa payment organisation. Within the framework of the pilot, the Bank – as the first bank in the world – made it available to selected customers. The solution was devised to eliminate such obstacles as manual introduction of card data or the need to provide the full password for login. In order to pay, it is enough to provide one's telephone number when paying on the store's website or in the app, and to validate the payment on the smartphone.

In June 2021, Nest Bank introduced the option of remote verification of business customer's identity and of online signing the credit agreement. Thus, it completed the key phase of

digitizing its credits and made available the first application allowing for obtaining a business credit entirely online. A digital credit application of Nest Bank was created on the basis of opportunities of open banking, introduced by the PSD2 EU directive. The application uses the Account Information Service (AIS) made available by Blue Media S.A. and allows the entrepreneur to confirm their financial standing and identity by logging into an account held in another bank. Thus, the business may obtain credit via the internet – without phone contact or meeting with a consultant.

Innovation and automation

The Bank invests also in the automation and robotization of its processes. The year of 2021 was another year of stable development in this area. This year, 47 robots were implemented that optimise business processes in the area of Operations and Logistics. Eight of them carried out directly tasks in the area of the PFR Financial Shield.

Fewer inequalities

Diversity at a workplace

As part of promoting the diversity policy in 2020 and 2021, the Bank offered regular webinars for all employees dedicated to diversity issues. Trainings were given by external experts from the Association of Legal Intervention and encompassed issues related to social injustice, social exclusion, prejudice and micro-aggression, focusing on the promotion of diversity and creating a friendly, diversified and respectful workplace, in which representatives of all nationalities, ethnic groups and religions feel comfortable.

The total of 369 employees attended the webinar,, i.e. nearly 40% of all personnel.

The purpose of the Bank is to reach to all employees; therefore, in addition to webinars given with experts, making additional relevant materials available in the intranet, where they may be used by every employee, an additional mandatory e-learning training was introduced: 'Diversity at a workplace'. As at 31 December 2021, 89% of employees completed the mandatory training.

Training in counteracting mobbing and discrimination

Training in counteracting mobbing and discrimination is obligatory for every employee. The training enables the identification of an inappropriate form of contact and teaches how to act, to protect oneself and others against wrong behaviour. As at 31 December 2021, 99% employees completed the training.

Human rights

From November 2021, *Human Rights Policy* is at place at the Bank. It was prepared on the basis of the Universal Declaration of Human Rights announced by the UN Global Assembly, Bank's by-laws, the Ten Principles of the UN Global Compact and the Nest Bank S.A. Code of Conduct. The Policy includes the Bank's obligation to counteract any discrimination in the area of employment by respecting diversity and equal treatment.

'Cashless dla równości' ranking

Nest Bank ranked fifth in the 'Cashless dla równości' [Cashless for equality] ranking. This is a ranking of institutions caring for professional and social equality of LGBT+ persons. It was developed on the basis of data obtained in spring 2021 from companies operating in Poland, as well as from financial and financial-related organisations.

Responsible consumption and production

Saving and investment products

The Bank is involved in promoting sustainable consumption, by offering saving and investment products. The Bank promotes saving, offering monthly instalment plans, both to customers and employees. The Bank's offer includes a whole range of saving-investment products that encourage saving, thus promoting sustainable consumption. The Bank offers 3 types of saving accounts (standard, purpose, and long-term family saving accounts). In addition, the Bank's offer includes investment insurance as well as saving open-end investment funds (UCITS), systematic saving plans, including an individual pension security account (IKZE), an individual pension account (IKE) and a systematic saving plan (PSO).

Actions for the climate

Excluded sectors

Environmental protection is very important for the Bank. Therefore, Nest Bank S.A. does not offer any products and does not start cooperation with any counterparties from sectors whose activity may, either indirectly or directly, cause hazard to life and health or cause negative effects in the natural environment. Such sectors include, among others, the production of leather from fur animals and fur products, hunting and acquiring wild game, mining of uranium and thorium ore, distillation, rectification and mixing of alcohol, tobacco growing, production of tobacco goods, production of technical gases, production of explosives, production of nuclear fuels, and production of weapons and munition.

Reduction of office spaces

The COVID-19 pandemic has influenced significantly work organization at Nest Bank S.A. For example, the working mode has changed. At present, most HQ employees fulfil their tasks in a hybrid or remote mode. There is no doubt that remote work, which is perceived positively by employees, will be a predominant working mode also after the pandemic. Therefore, the Bank continues to reduce its office spaces in the Bank's HQs in Warsaw and Gdańsk. Such actions will result, among others, in the reduction of electricity consumption and will indirectly result in lower CO2 emission, due to the reduction of commuting.

Reduction of plastic use

Personnel rooms of the Bank, i.e. kitchens and café islands, are fitted with multi-use cutlery and sets. Instead of buying drinking water in plastic bottles, the Bank uses office distributors that filter water. This solution offers pure water to employees, without contributing to the contamination of the environment with plastic.

Reduction of paper and ink consumption

The number of printers has been falling systematically, depending on business needs. In addition, the Bank has introduced internal processes, such as the electronic documentation

flow and monitoring personal printouts. The Bank has limited the use of printers and accessories by ~60% compared to the previous year.

Bank's customers have an option to open an individual and business account through a video chat with a consultant and applying for a credit for a business with an online form. Customers may transfer any necessary documents by e-mail.

In 2021, Nest Bank S.A. continued the current monitoring of processes related to sending post to customers, to keep reducing the volume of paper correspondence. As a result, a large part of paper documentation has been replaced with electronic documentation, and mailing with customers has changed its form to electronic or been replaced with contacts by phone.

The Bank applies an electronic signature to the turnover of documents in the organization, e.g. payment orders, settlements of personnel, settlements of business trips and a qualified signature used by the Management Board to sign documents, for example contracts with counterparties.

Saving water

To reduce the use of water in toilets and personnel rooms in local branches of the Bank and the HQs, aerators were installed. Aerators (an overlay installed at the end of a tap) optically increases the flow of water through its aeration, and hence reduces its consumption. Most taps have a movement sensor, which cuts off water flow when a person stops to use it.

Saving energy

When arranging business spaces at the Bank's HQs, the energy consumption has been taken into account by all appliances installed in personnel rooms. Equipment with energy efficiency from A+ to A++ has been applied.

To care for the environment and reduce energy consumption at places that are used most often by employees in the buildings of the HQs, a lighting system has been applied with movement sensors, which turn on lights only when they detect the presence of persons in a room. This solution has been applied in toilets, canteens and changing rooms. Moreover, all ceiling lamps installed in HQ buildings are LEDs, which significantly reduces electricity consumption.

The air-conditioning system in the Warsaw HQ has the modes that enable the effective management and reduction of energy consumption. The system is fitted with sensors that switch it to the minimum use if an open window is detected in the area.

To raise ecological awareness of personnel and their real influence on energy consumption, posters have been displayed in HQ rooms that promote ecological attitudes, including switching off lights after finishing work, and mandatory training on environmental issues was introduced, which encompasses such issues as saving energy.

Waste segregation and recycling

All kitchens in the HQs have been fitted with baskets for waste segregation labelled with specific types of waste.

The Bank has an active agreement with an external supplier of containers for the recycling of paper documentation.

Toners and ink inserts are recycled under contracts made by the Bank with external suppliers.

The Bank carries out regular revisions of its hardware. All used equipment and their elements are transferred to external companies that recycle them.

Limitations of business trips

Thanks to the decision of the Management Board on remote work, the number of business trips has fallen significantly. Business meetings are organised mostly using applications dedicated to remote communication. As a result, the number of business trips has been minimised, which contributes to the lower CO2 emission.

Peace, justice and strong institutions

Justice and legitimate business

The Bank cooperates with law enforcement agencies and regulators, providing timely answers to questions received from state authorities. In line with applicable regulations, the Bank has appointed an independent Compliance Officer, whose duties include monitoring the correctness of conformity assurance by organizational units that operate according to regulatory requirements. The Compliance Department headed by the Compliance Officer, as a second defence line unit, operates as an advisory and consulting body in implementing products and processes as well as preparing offers for customers. There is also an independent Data Protection Inspector appointed in the Bank and the Customer Ombudsman, to ensure objectiveness in examining applications of customers.

Dispute resolution

As regards resolving disputes with counterparties and customers, the Bank first of all analyses an option of an amicable solution, which must have a positive impact on the sense of justice of a solution for both parties to a dispute. Initiating a litigation is a final act. The Bank uses services of mediators, in order to resolve a dispute amicably, and participates in the out-of-court mode of resolving disputes with customers, with the participation of the Banking Arbitrator at the Association of Polish Banks and the Financial Ombudsman. The Bank has also been successful when appearing before the Mediation Court at the Financial Supervision Authority.

Excluded sectors

The Bank does not offer any products or start cooperation with counterparties from sectors whose activity may pose a threat to world peace, for example businesses involved to the production and sales of weapons and munition.

Partnership for goals

In 2021, Nest Bank became a signatory of the United Nations Global Compact. UNGC is a leading initiative for development, implementation and promoting responsible and sustainable corporate policy. Within the framework of this cooperation, the Bank undertook to take actions supporting the implementation of the Goals of Sustainable Development.

Taking actions for sustainability is an effect of consultation and cooperation with various groups of our stakeholders. The partnership with NGOs, such as the Association of Polish Banks, the

Lewiatian Confederation, and the Polish Organization of Franchisors, enables us sharing of knowledge and business experiences.

Working together with public interest organizations, such as *Warszawski Instytut Bankowości*, *Fundacja Happy Kids* and *Fundacja Dobrych Inicjatyw*, gives us the space for fulfilling social functions.

The Bank is engaged in an open dialogue with its franchisees and is actively involved in actions for the franchise. We hold regular meetings of the Franchise Council, aiming at the exchange of experiences between the Bank and its franchisees. We welcome opinions and comments from our partners and respond to them in an ongoing manner.

Partners of the Bank in all actions aimed at sustainability are employees of the Bank and their representatives, i.e. the Works Council. Employees are consulted usually in the form of questionnaires and group projects.

Changes to bylaws within a scope required by labour law are consulted with the Works Council at Nest Bank S.A. and a trade union active in the Bank.

11.7. Description of the policies applied by the Bank in relation to social and labour issues, issues concerning natural environment, respect for human rights and combating corruption, as well as a description of the results of applying them

Bank's policies applying to social issues

Nest Bank is a brand created for the whole family. It offers safe, stable, and transparent financial products, both for retail customers and micro-businesses. The Bank wants to be of real support for its customers in their daily life. Therefore, actions of the Bank concern mostly local communities. According to the philosophy of being close to people, the Bank tries to improve the quality of education and living standards of persons in its environment. It focuses on financial education of children and fighting poverty.

Education

As a partner of the Warsaw Banking Institute in the project Bankers for Financial Education of Youth (Bakcyl), the Bank is involved in raising awareness of the young generation of practical financial matters. Employees acting as volunteers teach children at selected schools basics of finance and entrepreneurship. Volunteers fulfil their social mission during working time.

Fighting poverty

In the Christmas period, the Bank organises an annual 'Become St. Clause' project, in which employees prepare presents for children from care educational facilities. In 2021, the Bank included seniors in the programme as well. The Bank is supported in this project by a selected public benefit organization. In 2020, it was the Foundation of Good Initiatives (*Fundacja Dobrych Inicjatyw*).

Moreover, the Bank supports activities of various public benefit organizations within education and fighting poverty with donations, both in kind and financial ones. As a part of *Manual on rules*

of purchasing goods and services and the turnover and control of accounting documents concerning in-house economy at Nest Bank S.A., rules of giving donations at the Bank have been set out.

Family values

Family values are an inherent element of the organizational culture of Nest Bank S.A. With the Nest Family project and a number of campaigns carried out within this programme, the Bank pays attention to various important social roles played by every person every day. Living in non-stop hurry and a desire to find time for all duties are not conducive to building family bonds and reinforcing relations. We stop to know our origin, value multi-generation homes and diversity in our families. Therefore, for five years, the Bank has participated in the campaign organised by Humanities Institute, 'Two Hours for Family'. Two Hours for Family is a social campaign for deeper family relations, to be together, not 'next to each other' To emphasize the role of families, every year on 15 May, the International Family Day, all employees of the Bank finish work two hours earlier, to spend more time with their family members that day.

Bank's policy relating to labour issues

The purpose of the Bank's policy concerning employment issues is to provide good working conditions for its personnel, with the guarantee of respecting their rights and dignity, as well as ensuring safe working conditions and fair pay. Safety, respectful and fair treatment of employees and comfort of their work are the Bank's priorities. Therefore, the Bank cares for the conformity of its operations with labour law and H&S regulations, trains personnel within diversity and counteracting mobbing and discrimination, provides them with professional development opportunities and initiates projects in the area of wellness, aimed at raising the comfort and satisfaction of personnel.

Rights and duties

Nest Bank employs 829 persons (as at 31 December 2021). The effective and efficient management of human resources requires the implantation and application of numerous bylaws. The most important of them are the *Work Rules at Nest Bank S.A.* The document presents all the rights and duties of the employer and employees. Every newly employed worker is obliged to become acquainted with the Rules.

Salaries and benefits

Another document that concerns working conditions are the *Salary Rules at Nest Bank S.A.* and the *Salary policy of employees at Nest Bank S.A.* The documents detail the rules of remunerating and granting other benefits to workers. There are salary scales in the Bank covering all positions, based on job grading and market competition of salaries for a group of positions.

Rules of granting additional non-salary benefits to employees, including benefits café, private healthcare, additional insurance coverage, sports and leisure programme cards, company cars, are given in the *Policy of Benefits at Nest Bank S.A.*

Diversity and ethics

An important element of the Bank's organizational culture is the promotion of diversity, equality, tolerance, and mutual respect. Nest Bank S.A. applies the policy of zero tolerance for discrimination and any behaviour that might violate the freedom or dignity of another person. The document that guarantees respect for human rights, including but not limited to the equality of personnel, especially regardless of sex, age, disability, race, religion, nationality, political convictions, union membership, ethnicity, denomination, sexual orientation as well as the employment for a definite or indefinite term or in a full or part time job, is the above-mentioned *Work Rules at Nest Bank S.A.*, *Human Rights Policy* and *Code of Conduct at Nest Bank S.A.* According to the above documents, it is an explicit obligation of the employer to counteract any discrimination in employment. Every newly employed person is obliged to become acquainted with the *Work Rules at Nest Bank S.A.* and confirm this fact in writing. Moreover, there is the *Manual of rules of initiating, changing, and terminating employment relations with employees*, which clearly determines the path of processing the employment of an employee, changes of working conditions and salary in the course of employment and the termination of an employment relation. Moreover, *the Manual of recruitment process at Nest Bank S.A.* guarantees the fair and transparent rules of organising and conducting the recruitment process at the Bank.

The position and actions of the Bank within diversity and respecting employment rights have been presented in detail in the *Diversity Policy at Nest Bank S.A.*, the *Code of Bank Conduct*, being an enclosure to the *Conformity Policy of Nest Bank S.A.*, and the *Rules of Counteracting Mobbing and Discrimination at Nest Bank S.A.*, which is enclosed to the *Work Rules at Nest Bank S.A.*

Every new employee is obliged to attend a training in counteracting mobbing and discrimination.

The Rules of Counteracting Mobbing and Discrimination at Nest Bank S.A. govern also the rules of the Anti-Mobbing and Anti-Discrimination Committee, its task being the analysis of notices of mobbing, discrimination or other forms of violating rights or dignity of an employee, hearing the explanation of the parties, collecting evidence and taking a decision if a complaint should be handled formally and how to proceed.

Another authority that guards equality in employment is the Works Council at Nest Bank S.A. Every employee has an opportunity to report any and all forms of discrimination or violations within equal treatment in employment. The Works Council may represent an employee in any disputes or act as a mediator. The rules of the Works Council are given in the *Regulations of Works Council at Nest Bank S.A.*

The Bank has an active trade union, which is involved in processes within HR as a part of its rights that result from law, including in employment matters, when determining conditions of remuneration and working conditions.

There is an anonymous mail box in the Bank, to which employees may send any and all notices of violations within banking law, safety, labour law, human rights, etc.

Safety and health of employees

The Bank is responsible for protecting health and life of its staff, by ensuring safe and healthy working conditions. An ultimate objective in this respect is to make sure that employees feel safe and comfortable at their workplace. The Bank takes a number of measures aimed at creating and monitoring safe working conditions. The Bank orders regular medical examinations

for any hazards present in occupied positions and fitness for work. It trains employees in current laws and bylaws concerning safety. The Bank employs a full-time Main H&S Officer, whose primary task is to ensure the safety of employees and guarantee that all personnel follow H&S rules. All issues related to H&S are included in the *H&S Rules at Nest Bank S.A.*

There is a special committee at Nest Bank S.A. to monitor the epidemiological situation and take relevant actions concerning every branch and the HQs. The Committee meets regularly, verifies any reported instances of COVID-19 infections among employees, and introduces counteractive measures at branches and the HQ.

To ensure health and wellness of employees, the Bank's own wellness programme is implemented, based on four health pillars: sport, nutrition, regeneration, and prophylactics. The programme is supplemented with actions for wellness at work.

Training and development

The development of employees is the Bank's priority. Therefore, the Bank takes various measures and initiatives to ensure that its staff have opportunities of professional development, acquiring new knowledge and competences. Personnel of the Bank attend regular custom-made trainings. The Bank focuses on equal and fair access to its training offer. The rules of attending courses and raising qualifications by personnel of the Bank's HQ are given in the *Procedure for raising professional qualifications by personnel of the HQ of Nest Bank S.A.*

Moreover, the Bank has an own internal unit dedicated to implementing the training policy for personnel of the own Sales Network. Rules of training for the staff of sales channels are determined in the *Procedure for the process of adapting new employees of distribution channels.*

The Bank has its own internal Development Zone platform to which e-learning training sessions were uploaded for the Bank's employees.

The training offer addressed to employees is complemented by the Nest University programme developed in 2018, which includes internal training sessions carried out by Bank employees for their colleagues. Every employee of the Bank may attend courses organised within the Nest University, either as a trainee or a coach. Fair and equal rules of participating in the programme as a coach are given in the Rules of Nest University Competition.

Career paths

Building career paths in the organisation is one of the key factors determining its future. The Bank firmly believes that in order to be successful in the market, you need to provide employees with the opportunity of development and self-realization. This is the only way the organisation can fully exploit the potential of their employees. One way to make this happen is to create a system for career advancement. It is built on the career path.

The rules of developing career paths for personnel of the Bank's HQ are given in the *Manual of rules for creating organizational units, jobs and career paths at the Bank's HQ.* The rules for creating career paths for employees of local branches are presented in the *Rules for creating professional growth* at the Department for Managing the Own Sales Network 'Career Paths' enclosed to the *Rules of Organisation at the Department for Managing the Own Sales Network.*

Employee assessment

To ensure the development of its staff, the Bank carries out an annual process of assessing employees. The rules of conducting the process are given in the *Rules of conducting an annual assessment of employees at Nest Bank S.A.* The purpose of the process is an objective assessment of attitudes and competences of employees. The assessment is made through the value for the Bank. The assessment also covers the way of fulfilling one's duties and, in case of executives, competences in managing a team. Every employee is assessed based on a standardised score card. In the course of the assessment process, the Bank takes into account the development and individual needs of employees. In the course of an interview, a line manager determines an individual professional development plan for every employee.

Rules of collaborating with minors and pregnant women

One of the essential elements of the employment policy of the Bank is to respect human rights and build the working environment that is free of any forms of abuse.

Nest Bank S.A. is strongly against any forced labour or using the work of children.

The Bank does not plan to employ minor workers. If a decision is taken to employ a minor person, the rules of such collaboration are determined in the *Work Rules at Nest Bank S.A.* The rules include a list of prohibited work for minor employees.

The Bank provides special care to pregnant and breast-feeding women. The *Work Rules at Nest Bank S.A.* explicitly define the scope of work prohibited for pregnant and breast-feeding women due to the inconvenience of such work, its hazardous nature or harm to health.

Policy concerning the natural environment

Nest Bank S.A. is aware that conservation is one of the essential elements of sustainability. It also recognizes that its actions may affect the environment. Therefore, the Bank has undertaken a number of actions aimed at raising the conservation awareness among its personnel and minimising the negative impact of the Bank on the environment by taking green initiatives within the operational activity of the Bank and in cooperation with third parties. The Bank's environmental policy has been detailed in the internal document entitled *the Environmental Protection Policy at Nest Bank S.A.*

Exclusion from financing

The Bank is against activities that may harm the natural environment and does not offer any products that may be used for financing:

- trading of wild animals and products that come from wild animals (CITES Convention),
- the production or turnover of radioactive materials,
- the production or sale of wood that comes from forests not designated for falling,
- the production and sale of substances that cause ozone depletion in the atmosphere and if their production or turnover is illegal,
- sea fishery using nests longer than 2.5 km,

- the activity that involves the production, storage, transport, turnover or use on an industrial scale of hazardous chemicals, and
- the production and turnover of products that contain pesticides/herbicides, if their production or turnover is illegal.

A full list of exclusions, including sectors that are not served by the Bank, has been given in the *Environmental Protection Policy at Nest Bank S.A.*

Procurement

In 2021, the Code of Conduct of Nest Bank Suppliers was implemented. It specifies the Bank's expectations towards its future suppliers, among other things in the area of:

- respecting human rights, safety and labour standards,
- ethics in business,
- environmental responsibility.

In addition, apart from specifying expectations towards its suppliers, in 2021, the Bank implemented the *Policy for Sustainable Procurement* that presents a set of underlying assumptions and guidelines with respect to the organisation of the procurement process at Nest Bank S.A. The main goals in the *Policy for Sustainable Procurement* include:

- implementation of the Procurement Policy with regard to the Ten Principles of the UN Global Compact,
- management of procurement in a sustainable and responsible manner.

Monitoring and mitigating a negative impact on the natural environment

In 2021, the Bank continued to monitor its electricity consumption in terms of impact on the natural environment. Additionally in 2021, the Bank started to monitor water consumption at HQs and local branches, where the settlement is based on the consumption.

Table No 8. Electricity consumption at the Bank's HQs

| Location | 2021 [kWh] | 2020 [kWh] |
|---|------------|------------|
| Warsaw HQ (including air-conditioning) | 161,984 | 214,639 |
| Gdańsk HQ (excluding air-conditioning) | 60,342* | 119,372 |
| Gdańsk HQ (air-conditioning) | 63,331 | 58,431 |

*It has not been possible to report complete data for the whole 2021, due to different settlement periods of electricity suppliers.

Table No 9. Water consumption at Bank's locations

| Location | 2021 [m ³] |
|-----------------|------------------------|
| Warsaw HQ | 495 |
| Gdańsk HQ | 150 |
| Local Branches* | 194 |

*For those locations where the Bank pays according to consumption

The Bank is trying to minimise its negative impact on the natural environment by choosing, whenever possible, ecological, environmentally-friendly solutions.

One of such actions is continuing by the Bank of a contract with a supplier of electricity that comes from renewable sources. ECO energy supplies all local branches of Nest Bank S.A. where the Bank has signed direct contracts for electricity supplies.

Moreover, most waste generated by the Bank is subject to recycling.

The Bank is also trying to raise the awareness of its employees of environmental issues and encourage them to act for the environment with communication campaigns, including poster projects at HQs and mandatory trainings for employees on environmental issues.

Policies within respect for human rights

The Bank strongly opposes the violation of human rights and any and all harmful activities and hazards to life, health and freedom. The Bank conducts its activity in a responsible, fair, transparent manner, respecting human rights. The Bank treats all individuals with respect and dignity they deserve and expects the same from its employees, persons cooperating, suppliers, business partners and customers. The Nest Bank S.A Human Rights Policy introduced in 2021 is a continuation of actions aiming at systematising principles and ethical standards that guide the Bank.

In its Human Rights Policy, the Bank undertook to observe the Ten Principles of the UN Global Compact:

1. To respect and support the protection of internationally proclaimed Human Rights.
2. To eliminate all cases of Human Rights violations by the company.
3. To uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. To support the elimination of all forms of slavery and forced labour.
5. To contribute to the effective abolition of child labour.
6. To counteract discrimination in respect of employment.
7. To support a precautionary approach to environmental challenges.
8. To undertake initiatives to promote greater environmental responsibility.
9. To encourage development and diffusion of environmentally friendly technologies.
10. To work against corruption in all its forms, including extortion and bribery.

Exclusions from financing

The Bank expresses its objection to violating human rights by not offering products that might be used to finance, among others:

- activities in which forced labour or work of children may be used in a manner contrary to the regulations of law applicable in Poland,

- the production and trading of weapons and munition,
- activities involving the production and exclusive sales of tobacco products or alcoholic beverages,
- casinos and gambling,
- the production and sales of radioactive materials,
- the production and sales of pharmaceutical products, whose production or turnover is illegal according to regulations applicable in Poland or according to rules of international law, international agreements or conventions,
- the production and turnover of products, whose production or turnover is illegal according to regulations applicable in Poland or according to rules of international law, international agreements or conventions, and
- activities that violate any title to land of native communities, without a fully documented consent of such people.

A full list of exclusions, including sectors not served by the Bank, has been given in the *Environmental Protection Policy at Nest Bank S.A.*

Diversity and ethics

An important element of the Bank's policy within respecting human rights is the creation of the working environment that is free of discrimination, aggression and any forms of physical or mental violence. There are a number of regulations that determine the rules in this area. They include: the *Nest Bank S.A. Human Rights Policy*, the *Nest Bank S.A. Code of Conduct*, the *Code of Banking Ethics* enclosed to the *Conformity Policy at Nest Bank S.A.*, the *Work Rules at Nest Bank S.A.*, including the *Rules of counteracting mobbing and discrimination at Nest Bank S.A.*, enclosed to the *Work Rules at Nest Bank S.A.* and the *Diversity Policy at Nest Bank S.A.*

In the case of suspicion and/or certainty of violating human rights, employees are under the duty to notify their supervisors or directly the Compliance Department thereof. A suspected violation or a violation should be notified by sending an e-mail to a dedicated e-mail address. In order to send a notification on an anonymous basis, one should use the form available in the intranet in the 'Whistleblowing' tab. The process is described in detail in the *Manual for Accepting, Verifying and Analysing Anonymous Notifications within the Whistleblowing System*. Another way to get support is to address directly the Anti-Mobbing and Anti-Discrimination Commission, the Works Council or the trade union organization active in the Bank.

The Bank protects every employee who in an honest manner and in good faith reports their doubts concerning suspected violation of human rights. The person notifying the violation in good faith is under special protection and cannot be subject to repercussions. Whoever takes any revenge actions towards the whistleblower, discourages or prevents the whistleblower from seeking help, is subject to disciplinary sanctions.

Bank's policy applied in relation to anti-corruption issues

Ethics in business is of essential importance for Nest Bank S.A.. It is the foundation of building reliability as a financial institution towards stakeholders. The Bank applies the Code of Conduct (being a part of the Compliance Policy), which determines the desired ethical attitudes of

employees, the code of conduct in business, the management of confidential information and the policy of the Bank towards corruption and bribery. Every employee of the Bank is obliged to complete an obligatory training in the "Policy of Compliance" and "Counteracting Money Laundering and Financing of Terrorism". There are whistleblowing systems in the Bank, including anonymous reporting of potential violations of law, applicable procedures and ethical standards. The Nest Bank Code of Conduct was implemented, which is a summary of the essential principles and ethical standards applied by the Bank and its employees.

Any forms of corruption and bribery are strictly forbidden. In accordance with the adopted Compliance Policy at Nest Bank S.A., the Bank's employees must not provide or receive any material benefits, which could adversely affect business relationships with customers or counterparties, facilitate the occurrence of a conflict of interest or harm the reputation of the Bank. No presents in the form of cash can be given or received. A gift cannot be seen by its recipient as a favour, which could affect the adoption of business decisions. Compliance with the current compliance policy is one of the main priorities of the corporate governance in force at the Bank.

The Bank's employees may accept gifts from third parties to the extent compliant with widely accepted practices, if they represent an expression of sympathy or courtesy. Employees shall not, directly or indirectly, offer, give, accept or demand bribes (or similar benefits), regardless of their amount, form or nature. One cannot receive any presents of the value in excess of PLN 600 per one giver and one person related to the Bank. The Bank also keeps a register of gifts given and a register of gifts received.

11.8. Description of significant risks associated with the activities of the Bank that might negatively influence social, environmental, labour issues, issues concerning respect for human rights and combating corruption

The Bank has a risk management system, which is compliant with the standards applicable in the banking sector, as well as the recommendations contained in supervisory regulations and recommendations. Separate units of the Bank are responsible for the identification, measurement, monitoring and reduction of risk. The level of acceptable risk to carry out labour activity is annually approved by the Management Board and accepted by the Supervisory Board of the Bank.

Full description of material risks as well as risk management system is included in chapter 6 of this report.

From the point of view of negative influence of risks on social, environmental, labour issues, issues concerning respect for human rights and combating corruption, operational risk and compliance risk are of special importance. The potential impact of these risks on these issues is presented in the following table.

Table No 10. The potential impact of individual risks on the issues

| Risk | Description of risk | Risk management |
|------------------|---|--|
| Operational risk | The risk is defined as losses arising from the incompatibility or unreliability of internal processes, people and systems or external events; it does not include reputation risk and strategic risk, which are associated with business risk, but includes issues related to technological risk and technical risk, outsourcing risk, fraud risk, money laundering risk, safety risk, legal risk, personnel risk and trading risk. | <p>The risk management process was defined within the "Risk Management Strategy" (approved by the Supervisory Board), "Operational Risk Management" bylaw (approved by the Management Board), as well as in the detailed procedures for the separate operational risk areas.</p> <p>A major role in the operational risk management process is fulfilled by the management of the Bank - the Supervisory Board (which supervises the process of operational risk management) and the Management Board (defines the process of operational risk management).</p> <p>In the organisational structure of the Bank there are:</p> <ul style="list-style-type: none"> • The Risk Committee (monitors the overall level of risk at the Bank and coordinates the activities associated with risk management), • The Security Committee (monitors the current operational issues of the Bank; assesses the operational risk level and scale of threats in crisis situations; formulates conclusions and recommendations for the Board; takes measures to mitigate the consequences of the operational risk that occurred). |

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| | | <ul style="list-style-type: none"> The Compliance Department, responsible for the central functions associated with operational risk management within the 2nd line of defence, including also areas such as the detection and prevention of internal and external frauds, data quality management, and business continuity planning (BCP), while the Risk Control Department fulfils functions related to operational risk reporting. |
| Compliance risk | The risk of negative consequences, including legal or regulatory sanctions, material financial losses or loss of reputation, that the Bank is exposed to as the result of non-compliance with generally applicable laws, regulations and supervisory regulations, internal regulations or adopted standards and codes of conduct applicable to its activities. | The compliance function is one of the elements of the risk management system at the Bank. In addition, the compliance function supervises the internal control system. |
| | | The Bank's Supervisory Board supervises the compliance risk management. |
| | | The Management Board is responsible for the adequacy and effectiveness of compliance risk management at the Bank, including the adequacy and effectiveness of procedures for anonymous reporting of violations. |
| | | The Management Board is responsible for developing a compliance policy, ensuring its application and reporting to the Supervisory Board on the compliance risk management at the Bank. |
| | | In case of detection of violations in the application of compliance policy, the Management Board takes remedial or disciplinary steps. |
| | | The Compliance Department is designed for continuous, efficient, and effective management of compliance risk. |
| | | The Compliance Department is an independent unit subordinate to the President of the Management Board. |

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| | <p>The Bank adopted a hybrid model of compliance risk management. This means that the Compliance Department is responsible for the system process of compliance risk management (including monitoring business units for compliance risks), while the business units perform individual tasks related to compliance risk management in their fields, including in particular, acting in accordance with laws, supervisory regulations, internal regulations and accepted standards.</p> <p>The compliance risk management process consists of five stages:</p> <ul style="list-style-type: none"> • Identification of compliance risks, • Assessment /analysis of the identified compliance risk, • determination of actions that reduce the compliance risk / control measures, • Monitoring of the identified compliance risk and its management, • Reporting on compliance risk management, in particular, corrective measures taken in case of possible violations. <p>The Bank has a risk management system and internal control system, organised at three independent levels, where:</p> <ul style="list-style-type: none"> • the first line of defence is the management of risks in the Bank's operations, • the second line of defence is, at least, risk management by personnel at specially designated positions or in organisational units, |
|--|--|

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| | | regardless of the risk management on the first line of defence, and the activities of the Compliance Policy Department, |
| | | <ul style="list-style-type: none">• the third line of defence consists of activities of the Internal Audit Department. |
| | | On all three lines of defence, within the risk management system and internal control system, the Bank's employees apply in their duties control mechanisms, risk control mechanisms or monitor independently the correctness of processes and established control mechanism in the form of verification and testing |

Signatures of the Members of the Board.

| | | |
|---------------|-----------------------|-----------------------------------|
| 31 March 2022 | Piotr Kowynia | President of the Board |
| 31 March 2022 | Janusz Mieloszyk | First Vice-President of the Board |
| 31 March 2022 | Karolina Mitraszewska | Vice-President of the Board |
| 31 March 2022 | Marek Szczęśniak | Vice-President of the Board |