INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CAPITAL GROUP BANK OCHRONY ŚRODOWISKA S.A.

AND INTERIM CONDENSED FINANCIAL STATEMENTS OF BANK OCHRONY ŚRODOWISKA S.A.

FOR THE 6-MONTH PERIOD ENDED 30 JUNE 2019 WITH THE INDEPENDENT AUDITOR'S REPORT

Warsaw, August 2019

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I. Interim condensed consolidated financial statements of BOŚ Group

Interim consolidated income statement of BOŚ Group

Continued operations	Note	for the period of 3 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 3-month period ended on 30-06-2018 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Interest income and similar income, in which:	6	160,117	313,979	160,352	315,079
financial assets measured at amortized cost		134,476	264,086	127,352	256,509
assets measured at the fair value through other comprehensive income		24,625	47,880	30,990	55,820
financial assets carried compulsorily at the fair value through the financial result		1,016	2,013	2,010	2,750
Interest expense and similar income, in which:	6	- 53,370	- 104,373	- 66,690	- 132,567
financial liabilities measured at amortized cost		- 50,947	- 99,552	- 64,294	- 127,801
financial liabilities carried compulsorily at the fair value through the financial result		- 2,423	- 4,821	- 2,396	- 4,766
Net interest income		**106,747**	**209,606**	**93,662**	**182,512**
Fee and commission revenue	7	34,336	70,589	33,937	70,199
Fee and commission expense	7	- 9,070	- 18,356	- 8,788	- 17,928
Net fee and commission income		**25,266**	**52,233**	**25,149**	**52,271**
Dividend income	8	84	5,531	5,846	5,846
Result on financial instruments measured at fair value through financial result (in which receivables from clients)	9	13,935	18,888	33,321	43,988
Result on investment securities	10	290	591	1,711	1,644
Result on hedge accounting		17	136	344	833
Foreign exchange result		2,449	7,862	7,828	14,486
Other operating revenues	11	6,475	11,830	2,828	7,750
Other operating expenses	12	- 5,281	- 9,605	- 7,539	- 12,038
Net impairment losses	13	- 31,121	- 39,065	- 57,289	- 66,418
General administrative expenses	14	- 84,153	- 195,033	- 86,926	- 186,893
Gross profit		**34,708**	**62,974**	**18,935**	**43,981**
Tax charges	15	- 7,673	- 18,855	- 1,103	- 9,802

Interim condensed consolidated financial statementsin PLN thousand

Net profit		**27,035**	**44,119**	**17,832**	**34,179**
attributable to:					
equity holders of the parent			44,119		34,179
Profit per share attributable to the equity holder of the parent during the period (in PLN)	**16**				
– basic			0.47		0.54
– diluted			0.47		0.54

There were no discontinued operations during 6-month period ended 30 June 2019 and in 2018.

Notes on pages 14 to 111 are an integral part of these consolidated financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim consolidated statement of comprehensive income of BOŚ Group

Continued operations	for the period of 3-months ended on 30-06-2019 unaudited	for the 6-month period ended 30-06-2019 unaudited	for the period of 3-month ended on 30-06-2018 unaudited	for the 6-month period ended 30-06-2018 unaudited
Net profit	**27,035**	**44,119**	**17,832**	**34,179**
Items that may be reclassified subsequently to profit or loss:	**3,866**	**- 9,176**	**- 10,666**	**- 1,812**
Fair value of financial assets carried at fair value through other comprehensive income gross	4,773	- 11,328	- 13,148	- 2,237
Deferred tax	- 907	2,152	2,482	425
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	**-**	**-**
Fair value of equity instruments carried at fair value through other comprehensive income (gross)	-	-	-	-
Deferred tax	-	-	-	-
Revaluation of liabilities due to employee benefits	-	-	-	-
Deferred tax	-	-	-	-
Total comprehensive income	**30,901**	**34,943**	**7,166**	**32,367**
Attributable to:				
equity holders of the parent	30,901	34,943	7,166	32,367

Notes on pages 14 to 111 are an integral part of these consolidated financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim consolidated statement of financial position of BOŚ Group

Assets	Note	30-06-2019 unaudited	31-12-2018
Cash and balances with the Central Bank		212,505	186,736
Receivables from other banks	**17**	149,707	196,104
Financial assets held for trading, in which:	**18**	158,963	87,761
equity securities		21,495	9,131
debt securities		66,806	2,903
derivatives		70,662	75,727
Receivables from clients, in which:	**20**	11,649,346	11,809,527
measurement at amortized cost		11,559,575	11,704,874
measured at fair value through financial result		89,771	104,653
Investment securities:	**21**	5,760,744	5,476,293
equity securities measured at fair value through other comprehensive income		85,026	85,027
debt securities measured at the fair value through other comprehensive income		4,292,154	4,015,998
debt securities measured at amortized cost		1,383,564	1,375,268
Intangible assets		113,507	120,050
Property, plant and equipment		66,593	68,396
Right to use – lease agreements IFRS 16		85,650	-
Income tax assets:		95,706	99,867
current		727	1,124
deferred		94,979	98,743
Other assets		186,216	206,291
Total assets		**18,478,937**	**18,251,025**

Notes on pages 14 to 111 are an integral part of these consolidated financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Liabilities	Note	30-06-2019 unaudited	31-12-2018
Amounts due to the Central Bank and to other Banks		551,783	571,784
Financial derivative instruments held for trading	**18**	60,087	54,336
Derivative hedging instruments		29,386	18,298
Amounts due to customers	**22**	14,857,991	14,799,109
Liabilities related to the issue of bank securities	**23**	46,590	46,590
Subordinated debt	**24**	371,535	370,672
Provisions	**25**	32,754	35,773
Income tax liabilities:		1,671	4,972
current		1,034	4,497
deferred		637	475
Liabilities due to leasing IFRS 16		87,662	-
Other liabilities		266,912	211,925
Total liabilities		**16,306,371**	**16,113,459**

Equity	Note	30-06-2019 unaudited	31-12-2018
Own equity attributable to equity holders of the parent:			
Core capital:	**26**	1,461,036	1,461,036
Share capital		929,477	929,477
Own shares		-1,292	-1,292
Share premium		532,851	532,851
Revaluation capital		48,214	57,390
Retained earnings		663,316	619,140
Total equity		2,172,566	**2,137,566**
Total equity and liabilities		18,478,937	**18,251,025**

Notes on pages 14 to 111 are an integral part of these consolidated financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim consolidated statement of changes in equity of BOŚ Group

	Equity attributable to shareholders of the Bank								
	Core capital				Retained earnings				Total equity
	Share capital	Own shares	Share premium	Revaluation reserve	Other supplementary capital	Other reserve capital	General risk fund	Retained profit	
As at 01-01-2019	**929,477**	**-1,292**	**532,851**	**57,390**	**624,393**	**23,605**	**48,302**	**- 77,160**	**2,137,566**
Net profit	-	-	-	-	-	-	-	44,119	44,119
Other comprehensive income	-	-	-	- 9,176	-	-	-	-	- 9,176
Total comprehensive income	**-**	**-**	**-**	**- 9,176**	**-**	**-**	**-**	**44,119**	**34,943**
Sales result - securities reclassified according to IFRS 9	-	-	-	-	-	-	-	57	57
Profit distribution, including:	**-**	**-**	**-**	**-**	**65,012**	**-**	**-**	**65,012**	**-**
Transfer of net profit to other capital	-	-	-	-	65,012	-	-	- 65,012	-
As at 30-06-2019	**929,477**	**-1,292**	**532,851**	**48,214**	**689,405**	**23,605**	**48,302**	**- 97,996**	**2,172,566**
As at 01-01-2018	**628,732**	**-1,292**	**532,851**	**59,652**	**594,874**	**23,605**	**48,302**	**- 112,005**	**1,774,719**
Net profit	-	-	-	-	-	-	-	63,728	63,728
Other comprehensive income	-	-	-	- 2,262	-	-	-	-	- 2,262
Total comprehensive income	**-**	**-**	**-**	**- 2,262**	**-**	**-**	**-**	**63,728**	**61,466**
Sales result - securities reclassified according to IFRS 9	-	-	-	-	-	-	-	2,223	2,223
Issue of V series shares	300,745	-	-	-	-	-	-	-	300,745
Share issue costs								- 1,587	- 1,587
Profit distribution, including:	**-**	**-**	**-**	**-**	**29,519**	**-**	**-**	**- 29,519**	**-**
Transfer of net profit to other capital	-	-	-	-	36,482	-	-	- 36,482	-
Covering the costs of issuing shares (U series)	-	-	-	-	- 6,963	-	-	6,963	-
As at 31-12-2018	**929,477**	**-1,292**	**532,851**	**57,390**	**624,393**	**23,605**	**48,302**	**- 77,160**	**2,137,566**
As at 01-01-2018	**628,732**	**-1,292**	**532,851**	**59,652**	**594,874**	**23,605**	**48,302**	**- 112,005**	**1,774,719**

Interim condensed consolidated financial statementsin PLN thousand

Net profit	-	-	-	-	-	-	-	34,179	34,179
Other comprehensive income	-	-	-	- 1,812	-	-	-	-	- 1,812
Total comprehensive income	**-**	**-**	**-**	**- 1,812**	**-**	**-**	**-**	**34,179**	**32,367**
Sales result - securities reclassified according to IFRS 9	-	-	-	-	-	-	-	2,224	2,224
Profit distribution, including:	**-**	**-**	**-**	**-**	**29,519**	**-**	**-**	**- 29,519**	**-**
Transfer of net profit to other capital	-	-	-	-	36,482	-	-	- 36,482	-
Covering the costs of issuing shares (U series)	-	-	-	-	- 6,963	-	-	6,963	-
As at 30-06-2018	**628,732**	**-1,292**	**532,851**	**57,840**	**624,393**	**23,605**	**48,302**	**- 105,121**	**1,809,310**

There were no non-controlling interest during 6-month period ended 30 June 2019 and in 2018.

Notes on pages 14 to 111 are an integral part of these consolidated financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim consolidated statement of cash flows of BOŚ Group

Indirect method	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**62,974**	**43,981**
Total adjustments:	**133,137**	**1,175,256**
Depreciation and amortization	19,318	19,747
Interest on investing activities	- 36,547	-
Profit / loss from investing activities	- 136	19
Interest on financial activities	9,551	25,112
Dividends received:	- 5,531	- 5,846
- from securities held-for-trading	84	50
- from investment securities	5,447	5,796
Change in:	156,892	1,147,411
receivables from other banks	- 13,689	- 28,724
securities held-for-trading	- 76,267	- 17,823
assets and liabilities due to valuation of derivative financial instruments and derivative hedging instruments	21,904	94,462
from investment securities	- 47,655	105,155
receivables from clients	160,181	292,529
right to use – leases IFRS 16	- 85,650	-
other assets and income tax	19,693	77,469
amounts due to Central Bank and other banks	- 20,001	52,858
amounts due to customers	58,882	679,748
provisions	- 3,019	10,504
liabilities due to leases IFRS 16	87,662	-
other liabilities and income tax	54,851	- 118,767
Income tax paid	- 15,941	- 17,033
Net cash flow from operating activities	**196,111**	**1,219,237**

Interim condensed consolidated financial statementsin PLN thousand

CASH FLOW FROM INVESTING ACTIVITIES		
Inflows	**28,586**	**2**
Disposal of property, plant and equipment	335	2
Interest received on securities measured at amortized cost	28,251	–
Outflows	**- 10,555**	**- 14,317**
Purchase of securities measured at amortized cost		
Acquisition of intangible assets	- 6,499	- 12,034
Acquisition of property, plant and equipment	- 4,056	- 2,283
Net cash flow from investing activities	**18,031**	**- 14,315**
CASH FLOW FROM FINANCIAL ACTIVITIES		
Inflows	–	–
Inflow from the issue of shares and additional capital contributions	–	–
Inflow from bonds issued by the BOŚ Group	–	–
Outflows	**- 8,688**	**- 728,667**
Redemption of bonds issued by the BOŚ Group	–	- 700,000
Interest paid on bonds issued by the BOŚ Group, of which:	- 8,688	- 28,667
subordinated bonds	- 7,904	- 14,675
Other financial outflows	–	–
Net cash flow from financial activities	**- 8,688**	**- 728,667**
TOTAL NET CASH FLOW	**205,454**	**476,255**
BALANCE SHEET CHANGE IN CASH AND CASH EQUIVALENTS	**205,454**	**476,255**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,733,481**	**2,530,339**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,938,935**	**3,006,594**
Cash and cash equivalents with limited availability for use	197,190	464,746

Notes on pages 14 to 111 are an integral part of these consolidated financial statements.

Additional explanatory notes to the interim consolidated financial statements

1. Basic information – Bank Ochrony Środowiska S.A. and the Bank Ochrony Środowiska S.A. Capital Group

1.1. Bank Ochrony Środowiska S.A.

The parent entity of BOŚ S.A. Capital Group (hereinafter referred to as: BOŚ Group) is Bank Ochrony Środowiska S.A. (hereinafter referred to as: The Bank or BOŚ S.A. or a parent entity). The Bank, with its registered office in Warsaw, ul. Żelazna 32, was incorporated based on the decision No. 42 of the President of the National Bank of Poland ('NBP') dated 15 September 1990 and the Notarial Deed of 28 September 1990 on the establishment of the Bank. The Bank was entered into the National Court Register of the District Court in Warsaw, 12th Commercial Department, with the reference number KRS 0000015525 and the statistical number REGON 006239498.

According to the Polish Classification of Activities (PKD), the Bank's activities fall within the category PKD 6419Z.

The Company was established for an indefinite duration.

The key purpose of the BOŚ Group is the effective management of shareholders' capital and cash entrusted by customers, ensuring the profitability of operations and safety of entrusted funds.

The BOŚ Group's area of activity is banking including: accumulating cash funds, lending, clearing, granting loans, performing cash settlements, providing other banking services as well as financial advisory and consulting services.

BOŚ Group realized its mission mostly by:

1) providing bank services to the customers of individual and institutional segments, especially those customers who undertake pro-ecological ventures or operate within the environment protection and water management segment and persons who value Eco lifestyle,
2) efficient participation in distribution of funds for environment protection investments and sustainable development in Poland.

Starting from 24 January 1997, in accordance with the decision of the Management Board of the Warsaw Stock Exchange (WSE), the Bank's shares were admitted to trading on the Warsaw Stock Exchange and classified to 'finances/banking sector' category.

These interim condensed consolidated financial statements of the Bank Ochrony Środowiska S.A. Capital Group for the 6-month period ended 30 June 2019 were authorized on 12 August 2019 by the Management Board of the parent company for publication to be made on Warsaw Stock Exchange on 13 August 2019.

Interim condensed consolidated financial statementsin PLN thousand

1.2. List of the Bank Ochrony Środowiska S.A. shareholders

As at 30 June 2019, structure of shareholders holding directly or indirectly (through subsidiaries) at least 5% of the total number of votes at the General Meeting of the Bank:

	30-06-2019 unaudited		31-12-2018	
Shareholder	**Number of votes at the AGM (shares)**	**% share in total number votes at the AGM (in share capital)**	**Number of votes at the AGM (shares)**	**% share in total number votes at the AGM (in share capital)**
National Fund for Environmental Protection and Water Management	53,951,960	58.05%	53,951,960	58.05%
Investment Fund of Polish Enterprises Closed-End Fund for Non-Public Assets	8,000,000	8.61%	8,000,000	8.61%
General Direction of State Forests	5,148,000	5.54%	5,148,000	5.54%

1.3. The list of the BOŚ S.A. Capital Group entities subject to consolidation.

The list of BOŚ S.A. Capital Group related entities subject to consolidation as at 30 June 2019:

No.	Subordinated entities	Registered office	Share % in share capital as at	Percentage (%) in number of votes as at	Consolidation method
Direct subsidiaries					
1.	Dom Maklerski BOŚ S.A.	Warsaw	100%	100%	Consolidation using full consolidation method
2.	BOŚ Eko Profit S.A.	Warsaw	100%	100%	Consolidation using full consolidation method
Indirect subsidiary (subsidiary of BOŚ Eko Profit S.A.)					
1.	MS Wind sp. z o.o.	Warsaw	100%	100%	Consolidation using full consolidation method

Dom Maklerski BOŚ S.A.– is a directly related entity which operates on the capital market and in particular offers brokerage services;

BOŚ Eko Profit S.A. – is a directly related entity with leasing activity financing ecological projects and financial and advisory services supplementary to the Bank's offer;

MS Wind Sp. z o.o. – is an indirectly related entity (100% of the BOŚ Eko Profit S.A. engagement) leading the activity regarding wind farms projects' realization.

As at 30 December 2019 the Bank's interest in the share capital and in the voting rights at the General Meetings of Shareholders of above-mentioned entities equaled:

- 100% in Dom Maklerski BOŚ S.A.,
- 100% in BOŚ Eko Profit S.A.,
- 100% in MS Wind sp. z o.o.,

1.4. Composition of the Management Board and the Supervisory Board of BOŚ S.A.

Composition of the Bank's Management Board

The composition of the Bank's Management Board as at 30 June 2019 was as follows:

- Bogusław Adam Białowąs – President of the Management Board,
- Arkadiusz Garbarczyk, Vice-President – First Deputy of the President of the Management Board,
- Emil Stanisław Ślązak - (Member of the Bank's Supervisory Board delegated to act temporarily as Member of the Management Board),

The composition of the Bank's Management Board as at 01 June 2019 was as follows:

- Bogusław Adam Białowąs – President of the Management Board,
- Arkadiusz Garbarczyk, Vice-President – First Deputy of the President of the Management Board,
- Konrad Raczkowski – Vice-President of the Management Board.

In the first half of 2019 the composition of Management Board has changed as follows:

- on 18 June 2019 Konrad Raczkowski submitted his resignation from the function of the Management Board's Vice-President, with the effective date of resignation as at 18 June 2019;
- Supervisory Board, at its meeting of 18 June 2019, adopted the Resolution to delegate a Member of the Supervisory Board Emil Stanisław Ślązak, to act temporarily as Member of the Management Board (but not after 18 September 2019).

Until the date of this information, the composition of the Bank's Management Board has not changed. At the meeting on 02 December 2019, the Supervisory Board adopted resolution on initiating the qualification procedure for the position of the Vice President of the Management Board.

Composition of the Bank's Supervisory Board

The composition of the Bank's Supervisory Board as at 30 June 2019 was as follows:

- Wojciech Piotr Wardacki - Chairman
- Katarzyna Danuta Lewandowska - Vice Chairman
- Andrzej Grzegorz Matysiak - Secretary

Members:

- Iwona Beata Duda
- Janina Kazimiera Goss
- Ireneusz Purgacz
- Radosław Paweł Rasała
- Piotr Sadownik
- Paweł Sałek

- Emil Stanisław Ślązak (delegated to act temporarily as Member of the Management Board - but not longer than after 18 September 2019).

The composition of the Bank's Supervisory Board as at 01 June 2019 was as follows:

- Wojciech Piotr Wardacki - Chairman
- Andrzej Grzegorz Matysiak - Vice-Chairman
- Emil Stanisław Ślązak - Secretary

Members:

- Iwona Beata Duda
- Janina Kazimiera Goss
- Piotr Sadownik
- Marian Szołucha
- Dariusz Józef Wasilewski

From 1 January 2019 to this day, the composition of Supervisory Board has changed as follows:
On 18 June 2019, the 10th term of office of the Supervisory Board has ended. The Annual General Meeting of the Bank convened for that day:

- appointed the following six members of the Bank's Supervisory Board for its 11th term of office:
  - Iwona Beata Duda,
  - Janina Kazimiera Goss,
  - Andrzej Grzegorz Matysiak
  - Piotr Sadownik
  - Emil Stanisław Ślązak
  - Wojciech Piotr Wardacki
- appointed four new Members of the Supervisory Board:
  - Katarzyna Danuta Lewandowska
  - Ireneusz Purgacz
  - Radosław Paweł Rasała
  - Paweł Sałek

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

2. Seasonality or cyclicality of operations during the mid-year (interim)

The business operations of BOŚ S.A. Group do not involve significant events that would be subject to seasonal or cyclical variations.

Business operations of the Brokerage house is impacted by the stock market situation.

3. Information on the accounting principles (policies) adopted in the preparation of the condensed consolidated interim financial statements

3.1. Basis for the preparation and compliance statement

Interim consolidated financial statements of BOŚ Group include:

1) interim consolidated profit or loss account for the period of 6 months ended 30 June 2019, comparative data for the period of 6 months ended 30 June 2018 as well as data for the period of 3 months ended 30 June 2019 together with comparative data for the period of 3 months ended 30 June 2018 – which were not subject to audit, or review by a certified auditor,
2) interim consolidated statement of comprehensive income for the period of 6 months ended 30 June 2019, comparative data for the period of 6 months ended 30 June 2018 as well as data for the period of 3 months ended 30 June 2019 together with comparative data for the period of 3 months ended 30 June 2018 – which were not subject to audit, or review by a certified auditor,
3) interim consolidated statement of financial position as at 30 June 2019 and comparative data as at 31 December 2018,
4) interim consolidated statement of changes in equity for the period of 6 months ended 30 June 2019 and comparative data for the period of 6 months ended 31 December 2018,
5) interim consolidated statement of cash flows for the period of 6 months ended 30 June 2019 and comparative data for the period of 6 months ended 30 June 2018,
6) additional explanatory notes.

These interim consolidated financial statements have been prepared in Polish zloty (PLN) and all values have been presented as rounded to the nearest thousand zlotys (PLN thousand).

These annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union ('EU') in force as at the reporting date i.e. 30 June 2019 and have been prepared under the same accounting policies for each period based on the concept of historical cost, except the following items measured at the fair value:

Manner of recognition of the fair value variations through:	
Financial instruments held for trading	financial result
Hedging derivative financial instruments for the fair value	financial result
Receivables from the customers that do not meet requirements of the cash flow tests.	financial result
Investment debt securities kept in the business model with the purpose of obtaining contractual cash flows or for sale.	other comprehensive income
Investment capital securities	other comprehensive income

Dom Maklerski BOŚ S.A., BOŚ Eko Profit S.A. and MS Wind sp. z o.o. prepare financial statements in accordance with IFRS as endorsed by the EU.

These interim condensed consolidated financial statements of the Group and the interim condensed consolidated financial statements of the Bank for the period of 6 months ended 30 June 2019 do not include all disclosures required in the annual financial statements and have therefore to be read in conjunction with the annual financial statements of the Group and of the Bank, for the year ended 31 December 2018.

In these interim consolidated financial statements, the same accounting policies have been adopted as in the annual consolidated financial statements of the Group for the year ended 31 December 2018, with the exception of application of changes resulting from and IFRS 16 starting from 01 January 2019.

Other standards, interpretations and amendments, which were applied for the first time in the year 2019, did not have a significant impact on these financial statements of the Capital Group and of the Bank.

Interim condensed consolidated financial statementsin PLN thousand

3.2. Standards, interpretations and amendments to standards, which were applied for the first time in 2019

IFRS	Nature of amendment	Applicable from	Impact on the Bank
IFRS 16 Leases	The new standard defines the principles of recognition, valuation, presentation and disclosure regarding leasing. All lease transactions result in acquiring the right by the lessee to use the asset and the liability for payment obligation. Therefore, IFRS 16 cancels classification of operating lease and financial lease in line with IAS 17 and introduces one model to the accounting recognition of the leasing by the lessee. The lessee will be obliged to recognize: (a) assets and liabilities for all lease transactions concluded for the period over 12 months, except situations when the given asset has low value and (b) in the statement of results, amortization of the leased asset takes place separately of the interests on the leasing liability. IFRS 16 mostly repeats regulations of IAS 17 related to the accounting recognition of the leasing by the lessor. In consequence, a lessor continues to classify to the category of operating lease / financial lease and appropriately differentiates the accounting recognition.	01 January 2019	Description of the standard implementation is presented below
Amendments to IFRS 9 Financial Instruments	Modifications on IFRS 9 introduce provisions related to contracts with prepayment option and with the possibility to require approval of the prepayment amount from the lender, in case this amount is significantly lower than the unpaid amount of principal and interest. Such prepayment amount could be a payment due by the borrower to the lender, and not a compensation to be paid by the borrower to the creditor. This financial asset will be measured at amortized costs or at fair value through other comprehensive revenue, nevertheless negative compensation has to be a justified compensation for prepayment features of the contract.	01 January 2019	This amendment did not have significant impact on the financial statements
Amendments to IAS 28 Investments in associates and joint ventures: measurement of long-term investments	Amendments clarify that IFRS 9 Financial Instruments are to be applied by the Companies with respect to long-term investments in an associate or joint-venture to which the equity method is not applied and which by principle are a part of net investments in an associate or joint-venture (long-term investments). The above explanation proves that the model of expected credit losses resulting from IFRS 9 is applicable to the above-mentioned long-term investments. The Council clarified additionally that by applying IFRS 9, the entity does not take into account any losses of associates, joint-ventures and losses for loosing receivables resulting from net investments recognized as adjustments of net investments in the associate or in joint-venture that are a result of IAS 28 application Investment in associates and joint ventures.	01 January 2019	This amendment did not have significant impact on the financial statements

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IFRIC 23 Uncertainty over Income Tax Treatments	Interpretation clarifies how to apply the requirements regarding recognition and measurement included in IAS 12 Income Taxes when there is uncertainty over income tax treatments. Interpretation of IFRIC 23 especially specifies, in case of uncertainty over income tax treatments, if the entity is required to analyse uncertain tax items separately and when such an analysis should be performed, what are the entity's assumptions towards the possibility of control by the tax authorities, how the entity defines taxable profit (loss), tax base, unused tax losses, tax rates and how the entity recognizes changes in facts and circumstances. According to the interpretation, the impact of uncertainty should be measured using the most likely amount method or the expected value method.	01 January 2019	This amendment did not have significant impact on the financial statements
Amendments to IAS 19 Employee benefits	Amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2019. Adjustments to the standard define the requirements related to the accounting recognition of modifications, as well as the limitations or settlements of the program concerning defined benefits.	01 January 2019	This amendment did not have significant impact on the financial statements

The new standard IFRS 16 defines the principles of recognition, valuation, presentation and disclosure regarding leases. All lease transactions result in acquiring the right by the lessee to use the asset and the liability for payment obligation. Therefore, IFRS 16 cancels classification of operating lease and financial lease in line with IAS 17 and introduces one model to the accounting recognition of the leasing by the lessee.

IFRS 16 was issued by the International Accounting Standards Board on 13 January 2016, approved by the EU on 31 October 2017 and is applicable for annual periods beginning on or after 1 January 2019.

Identification of lease agreements according to IFRS 16 is based on the principle of exercising control. The agreement is classified as a leasing one, when a lessee exercises control on transferred asset in exchange of remuneration during a defined period of time. IFRS 16 introduces new principles of leasing recognition. The main modification is elimination of the leasing classification - operational and financial leasing division for the lessee, instead of which one model for leasing accounting is introduced. The lessor continues to apply two classifications: operational leasing and financial leasing.

BOŚ Group as a lessee recognizes leasing in its statement of financial position as an asset that gives right to use as well as a respective liability on the day when the object of leasing is available for use. Every leasing payment is allocated between the liability and financial charges. Financial charges are recognized in the profit and loss account during the leasing period. Asset related to the usage right is amortized with a straight-line depreciation method.

According to IFRS 16, BOŚ Group as a lessee recognized in its books as at 01 January 2019 leasing liabilities resulting from the agreements for the amount of PLN 74,174 thousand, that were previously classified as operational leasing according to the principles of IAS 17 Leasing. These liabilities were measured at current value of future leasing payments, discounted using the marginal interest rate of BOŚ Group as at 01 January 2019.

The rights to use the assets according to the lease agreement were measured at the amount of liabilities for leasing, i.e. PLN 74,174 thousand.

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When applying IFRS 16 for the first time, BOŚ Group used the following practical solutions, accepted by the standard:

1) using one discount rate to the portfolio of lease contracts with relatively similar features,
2) Exclusion of initial direct costs in order to measure the value of assets related to the right to use, as at the date of the standard implementation,
3) use of judgement in determining the remaining lease period, in case the agreement includes the option to extend or terminate the lease,
4) exclusions approved in the standard IFRS 16 regarding:
   a) using an asset with low value;
   b) using an asset for the period no longer than 12 months

Liabilities in respect of operational lease disclosed as at 31-12-2018	**87,610**
Discount assessed with application of marginal interest rate for BOŚ Group	-10,472
(Decreases): short-term leasing recognized using the straight-line method as a cost	-2,442
(Decreases): leasing with low value recognized using the straight-line method as a cost	-394
Liabilities in respect to lease as at 01-01-2019	**74,174**

Implementation of the new standard IFRS 16, as at 01 January 2019 contributed to the increase of the balance sum by the amount of 74.1 million, while it had no impact on retained earnings and on the equity level of BOŚ Group.

3.3. New standards and interpretations, as well as amendments to standards and interpretations that may be applied but are not yet binding and were not introduced earlier

IFRS	Nature of amendment	Applicable from	Impact on the Bank
Conceptual Framework for Financial Reporting.	Conceptual Framework was published by IASB in March 2018. This document presents in a comprehensive way the issues regarding Financial Reporting, principles to set standards and guidance for the entities that prepare consistent accounting policies. This document also facilitates the understanding and interpretation of standards. Conceptual Framework includes new concepts, updated definitions and criteria of recognizing assets and liabilities and the explanation of significant concepts. The document consists of 8 chapters. Conceptual Framework was published together with justification of modifications. Moreover, the Board published a separate document "Amendments to References to the Conceptual Framework in IFRS Standards", which presents amendments to standards in order to update the References to the Conceptual Framework. In most cases, references to the standards were updated in order to reflect the references to the Conceptual Framework. In case of two standards, exemptions were introduced regarding preparation of accounting policies concerning the balances of a regulated activity, i.e. IFRS 3 Business Combinations and IAS 8 Accounting Principles (policy), changes in accounting estimates and errors correction. The assumptions are effective immediately, as far as it concerns IASB and IFRIC.	On or after 01 January 2020	The amendment will not affect significantly the financial statements
Amendments to IFRS 3 Business Combinations	As a result of the amendments to IFRS 3, definition of "venture" was modified. The current definition has been limited and will probably result in an increase of transactions of acquisitions that will be qualified as asset acquisitions.	01 January 2020.	The amendment will not affect significantly the financial statements
IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	The Board published a new definition of the notion "materiality". Amendments to IAS 1 and IAS 8 clarify the definition of "materiality" and make all the standards more consistent.	01 January 2020.	The amendment will not affect significantly the financial statements

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IFRS 17 Insurance	IFRS 17 "Insurance contracts" was issued by the International Accounting Standards Board on 18 May 2017 and is effective for annual periods on or after 1 January 2021. The new IFRS 17 "Insurance contracts" will replace IFRS 4 (currently in force) that allows diversity in practice regarding the settlement of Insurance contracts. IFRS 17 will modify the accounting system of all the entities that deal with Insurance contracts and investment contracts, as this IFRS defines a new approach to the recognition, measurement, presentation and disclosure of insurance contracts. The main goal of IFRS 17 is to guarantee transparency and comparability of financial statements of insurance companies.	01 January 2021	The amendment will not affect significantly the financial statements
Amendments to IFRS 10 and IAS 28	Amendments to IFRS 10 and IAS 28 concern Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture. The amendments solve the problem of existing inconsistency between IFRS 10 and IAS 28. The accounting recognition depends on whether the non-monetary assets sold or transferred to an associate or a joint venture may be considered as "business". In case the non-monetary assets are considered as "business", investor will recognize a full profit or loss from the transaction. However, in case the assets do not meet definition of "business", investor should recognize a profit or a loss, excluding a part consisting of other investors' shares. Amendments were published on 11 September 2014.	It was not established by the International Accounting Standards Board	The amendment will not affect significantly the financial statements
Amendments to IFRS 2015-2017	The International Accounting Standards Board published in December 2017 "The Annual amendment to IFRS 2015-2017" that amend 4 standards: IFRS 3 "Business combinations", IFRS 11 ,Joint Arrangements", IAS 12 ,Income tax" and IAS 23 ,Borrowing costs". Amendments include explanation and precise the guidance regarding standards on recognition and measurement.		

3.4. Going concern

Due to the balance loss incurred in 2015 and in relation to the requirements of Article 142 of the Banking Act, on 30 March 2016 the Bank submitted to the Polish Financial Supervision Authority a Recovery Program of BOŚ S.A. approved by the Bank's Supervisory Board. (RP). The PFSA approved the above-mentioned program, added written remarks and information and then sent it to the Bank on 14 December 2016.

In 2016, the Bank increased its share capital by the amount of PLN 400 million and in 2018 by the amount of PLN 300.7 million.

On 23 February 2018 the Bank submitted to PFSA an updated version of the RP. The revision of RP resulted from failure to meet boundary conditions of the document accepted by the Financial Supervision Authority in December 2016, which gave rise to re-assessment of assumptions adopted within the business model and of risk costs. The revision concerned mostly the modification of the Bank's business model - towards a specialization in line with the Bank's mission, verification of the path of write-offs in the area of credit risk relating to the adjustment of business model and update of elements related to capital adequacy.

PFSA approved the updated RP version on 24 May 2018.

The period of realization of restructuring activities carried out by the Bank and included in the RP was defined for the years 2018-2021. Furthermore, the Bank prepared a Framework Strategy of acting for BOŚ S.A., consistent with the Recovery Program in terms of assumptions, directions and objectives planned to be achieved.

The main assumptions of the Strategy were made public in the form of current report on 20 April 2016, while the report on modification regarding the Main Strategy Assumptions was disclosed to the public on 22 March 2018 and the current report on the Strategy update on 28 November 2018. The starting point for this update were favourable market and macroeconomic conditions, as well as the change of the Bank's business model.

Below you will find assumptions of the updated version of the Framework Development Strategy of the BOŚ:

- evaluation of the business model toward concentrating on institutional banking, especially small and middle enterprises, at the same time profiling the offer for individual Clients - specialization in ecology and use of the potential on the pro ecological ventures funds market,
- after concluding the stage of stabilization and recovery actions that took place in 2016-2018, starting a stage of business development linked with implementation of the new business model and the new role of the Bank in government actions for the environment protection,
- using favourable factors of growth regarding pro-ecological investments, by financing pro-ecological projects and distributing efficiently means intended to finance activities aiming at environment protection and sustainable development.

Taking into account the described factors, as at the date of approval of these financial statements, no circumstances are known that would indicate a threat to the going concern of BOŚ Group within at least 12 months after the balance sheet date due to an intended or compulsory abandonment or limitation of the current activity.

3.5. Adjustments of the prior period errors

In these condensed consolidated financial statements, the Group has not made adjustments of errors regarding the financial statements for previous periods.

4. Significant accounting estimates and judgments

The preparation of the Group's consolidated financial statements requires to apply judgment, estimates and assumptions which have an impact on the presented revenues, expenses, assets and liabilities, and the related notes and disclosures regarding contingent liabilities. Uncertainty regarding these assumptions and estimates may cause adjustments to the carrying amount of assets and liabilities in the future. It also requires to exercise professional judgment in the process of applying the adopted accounting policies.

BOŚ Group adopted assumptions and estimates concerning the future based on historical data and the knowledge held during the preparation of these consolidated financial statements. Estimates and assumptions are subject to the current reviews. Assumptions and estimates may change as a result of future market changes or other changes outside the control of the Group. Changes in assumptions and estimates are recognized within the period in which the change was performed or within this period and within future periods, if the change in assessment and assumption concerns the current period and future periods.

BOŚ Group recognizes and measures current and deferred tax assets and liabilities in accordance with the requirements of IAS 12 Income tax based on the tax profit (tax loss), taxable base, carry-forward of unused tax losses and tax credits, and tax rates, while considering the assessment of uncertain tax treatment. Where uncertainty exists as to whether and to what extent the tax authority will accept tax treatment of a given transaction, BOŚ Group recognizes such treatment after considering the uncertainty, if any.

The Group has not made any significant changes in estimates and judgments, except for changes related to the implementation of IFRS 16

4.1. Financial assets

Impairment of receivables from clients

The Bank performs a credit exposure review on a monthly basis including: identification of credit exposures at impairment risk, assessment of the impairment. Impairment valuation is based mainly on assessing probability of impairment indicator based on historical analysis, assessing potential losses (LGD parameter) and assessing macroeconomic environment in which the Bank operates.

Models intended to assess the write-offs for expected credit losses built in line with IFRS 9 are composed of elements, determined by the Bank by using all available historical information and forecasts. With these models, the Bank assesses the level of credit risk with the highest possible accuracy. Expected credit losses are the product of the parameters PD, LGD and EAD individually defined for each exposure using the statistical techniques. The final expected credit losses constitute the sum total of expected losses in each period (depending on the stage over a 12-month horizon of lifetime for Stage 1 and the remaining lifetime for Stage 2) discounted using the effective interest rate. The structure of models used in order to evaluate expected credit losses takes into account modelling for the following parameters:

- PD (probability of default) - assessment of probability regarding default in a given time horizon (12 months or during the whole lifetime of the exposure),
- LGD (loss given default) - a part of exposure which would not be recovered in case of default,
- EAD (exposure at default) - expected exposure value at the moment of default.

For the assessment of write-offs, the component of macroeconomic forecasts is used in the model. Given the fact that there is a significant part of specific credit exposures in the Bank's portfolio, with

characteristics and construction that indicate a slight connection between this risk and macroeconomic environment, the observed historically impact of forecasts was not significant for the measurement. Above factors show that sensitivity of the level for assessed loss in terms of impact on changes of macroeconomic forecasts is highly limited.
Theoretical reclassification of 1% of exposure from Stage 1 with the highest risk level to Stage 2 for each type of exposure would result, as at the end of December 2019, in an increase of allowances by PLN 14.4 million.
In June 2019, sensitivity analysis of the level of impairment allowances to changes of LGD portfolio parameters was performed. In case of changes in recovery rates by +/-10 p.p., estimated value of impairment write-offs on receivables from clients valued using the joint method, would respectively decrease by PLN 62.3 million or increase by PLN 57.4 million.

The SPPI test

SPPI test is an assessment, whether cash flows resulting from the financial assets held in HtC and HtC&S models are solely payments of principal and interest on the principal. This assessment (apart from the business model) determines classification of financial assets to the measurement category at amortized cost or respectively at fair value through other comprehensive income. Given the above, this assessment is crucial for determining a correct principle of measurement for credit and loan agreements and other financial contracts that are the core activity of BOŚ Group.

According to IFRS 9, the principal amount is a fair value of financial assets as at the date of the initial recognition. Interest is a payment for the time value of money, a margin for the credit risk carried and other types of risk carried due to the maintenance of the principal and the profit margin.

SPPI test includes an analysis of concluded contracts/agreements in terms of determining cash flow characteristics resulting from these contracts/agreements. SPPI test is considered to allow classification to the measurement category at amortized cost or at fair value through other comprehensive income, if no cash flow characteristics were identified, for which the timing or the formula of defining the value depends on other factors than those meeting the definition of principal and interest from principal. Characteristics deciding that this definition is not met:

- financial leverage
- Wages and salaries depending on conditions not linked with the time value of money or with the risk carried
- Earlier repayment option, however for the amount of the principal's and the interest's parts which are not paid yet, with a justified fee for an earlier repayment is considered as an option meeting the requirements of SPPI test.

BOŚ Group performs SPPI tests for all financial assets that are required to perform this assessment, while for the assets resulting from standard documentation this test is performed at the level of groups of products. As regards assets that can be negotiated with individual clients, it is performed based on individual contracts. As result of the SPPI test, was identified a number of credit contracts with the interest rate is based on the multiplier formula (financial leverage). This is a part of preferential credits granted with the support of the National Fund for the Environment Protection. Given the above, they were reclassified to the measurement category at the fair value through financial result.

Business model

Valuation of business model is a significant assessment; according to IFRS 9, it is one of the elements deciding on a correct allocation of the financial assets valuation category. BOŚ Group defines business models within the frame of the financial assets management, mainly based on their business goals and the way of achieving financial results. Business model can be changed only in case of significant internal and external changes in BOŚ Group's activity. Decision has to be taken by the management. According to expectations, business model change will occur rarely. In particular the change of business purposes regarding financial assets is not considered as a change of the business model.

4.2. Fair value of financial instruments

The fair value of financial instruments not quoted on active markets is determined using valuation models accepted on the market. These take into consideration the estimated future cash flows discounted to their present value (using the zero-coupon curve with a margin), comparable transaction prices (if they exist), and refer to similar instruments quoted on active markets. In rare cases, when the use of such models is not possible and there is no possibility to estimate the fair value in a reliable manner, financial instruments are carried at cost.

4.3. Taxes

Laws on corporate income tax, personal income tax, tax on goods and services or social security contributions applicable in Poland are subject to frequent changes, which results in the lack of well-established practice and vagueness and inconsistency of legal provisions. This situation leads to possible discrepancies in the interpretation of tax regulations by State authorities and taxpayers. Tax settlements and other settlements (e.g. customs duties) may be subject to control for a period of up to 6 years. The competent control bodies are authorized to impose significant penalties along with interest. There is a risk that control bodies will adopt a different position than the Company as far as the interpretation of regulations is concerned, which could significantly affect the amount of public law liabilities disclosed in the financial statements.

BOŚ Group recognizes deferred tax assets based on the assumption that in the future, income tax will be generated, allowing to use deferred tax asset. Deterioration of tax results in the future could make this assumption unjustified.

5. Risk management

The risk management is concentrated directly in the Bank, taking into account that Bank's financial assets are the majority of the BOŚ Group's assets as at 30 June 2019. Due to aforementioned, methodology description regarding the process of credit risk management is related to the Bank.

5.1. Credit risk

Definition of credit risk

Credit risk is defined as the risk of potential loss stemming from failure to settle an obligation by a client or a contracting party within a contractual deadline.

Credit risk management methods

The Bank pursues an individual (credit transaction) and portfolio policy of credit risk management considering the level of risk appetite.

The amount of risk appetite was determined within the limits set by the practice of sound and prudent risk management and adopted at a moderate level.

The process of credit risk management in the Bank included in particular:
1) Procedure for assessing the credit risk of each single transaction, for setting collaterals and for loan granting,
2) Monitoring the risk level, limiting it and conducting stress tests,
3) Rating and scoring models applied in the assessment of individual and corporate client risk,
4) Principles of responsibility in the process of assessment of credit risk,
5) Portfolio credit risk assessment,
6) Principles of managing mortgage-secured exposures,
7) Principles of identifying impaired exposures and determining impairments,
8) System of reporting to the Bank's executives,
9) Information systems, supporting the above tasks.

Management of the single transaction risk is implemented in line with the following rules:
1) Each credit transaction required a comprehensive credit risk assessment which resulted in an internal rating or scoring assessment,
2) The client creditworthiness constitutes a basis for the credit decision,
3) Measurement of the credit risk of prospective and concluded loan transactions is performed at the stage of loan granting and monitoring,
4) The loan granting process ensured independence of the credit risk assessment from sales forces,
5) Credit decisions were taken by authorized persons or in case of individual customers - automatically generated after meeting the required criteria,
6) Loan transaction terms offered to the client depended on the level of risk connected to the client and/or transaction.

The financing of a single transaction depended on:
1) having the credit worthiness of the borrower to repay the debt requested at times agreed upon with the Bank,
2) providing a collateral in the form and amount accepted by the Bank, if required by internal regulations,
3) meeting other criteria for taking financing such as, in particular, the results of customer's relationship with the Bank and the credit history assessment in the banking sector.

Portfolio credit risk management is executed by using various methods of credit risk measurement and valuation, among which:

1) probability of default,
2) expected credit loss over a 12-month period or the expected duration of a credit risk exposure (depending on the identification of a significant increase in credit risk since initial recognition),
3) model of survival in monthly granulation using Weibull distributions with adjustments (for retail exposures) or rating risk classes (for institutions)
4) macroeconomic projection,
5) Transition matrices for estimation of expected recoveries,
6) analysis of credit generation (loans granted in a given period),
7) share and structure of non-performing credits,
8) share and structure of exposures meeting the conditions for individual impairment.

The Bank has its Credit Risk Management Committee. The Committee's aim is to develop the principles of credit risk management and risk monitoring within the framework established by an appropriate strategy, policy or rules adopted by the Management Board or Supervisory Board.

The Committee operates in the following areas:

1) credit risk management and credit process,
2) valuation of assets,
3) models and methodologies of credit risk evaluation.

In addition, the Risk Committee supports the Bank's Supervisory Board in the oversight of risk area. The Risk Committee is composed of the members of Supervisory Board. In particular, the Committee's objective is: to give opinion on the overall, current and prospective readiness of the Bank to undertake the risk, to give opinion related to the risk management strategy of the Bank, give support to the Supervisory Board while implementing this strategy, verify if the assets and liabilities prices offered to the clients fully reflect the business model of the Bank and its strategy regarding the risk.

Processes established for the purpose of risk management

In the first half of 2019, the Bank performed activities consisting of increasing the level of automatic decisions as regards individual customers and prepared the requirements concerning reconstruction of the risk assessment processes put in place to date, in order to improve efficiency of these processes and to maintain the quality of credit portfolio.

The Bank performed assessment of the risk before taking decision on the given exposure and during the whole period covered by the credit transaction, as part of the monitoring process. The principles of risk assessment were described in the section *Tools/techniques used for credit risk measurement.* Withdrawal from the adopted risk assessment method required the acceptance of a person responsible for the risk assessment for a single transaction. It is a competent person in the field of credit risk assessment.

The frequency and scope of monitoring have been determined by the level of identified risk. Monitoring was performed by a separate organizational unit being a part of structures responsible for credit risk assessment and management. The unit was dedicated to the monitoring of clients and transactions from the credit portfolio and to the measurement of individually significant exposures.

The risk of untimely debt servicing or default repayment and the risk of loss or decrease in the value of accepted collateral was mitigated using the early warning system, managed by the unit responsible for monitoring.

If the Bank identified a situation that could jeopardize the timely repayment, the Bank undertook admonition and restructuring procedures using an appropriate IT tool.

In the process of risk assessment and monitoring, the Bank used information from internal databases and external sources, including the Credit Information Bureau S.A. ("Biuro Informacji Kredytowej") and the National Register of Debts ("Krajowy Rejestr Długów") and the Central Database - Bank Register ("Centralna Baza Danych - Bankowy Rejestr").

The Bank carried out credit risk assessment using rating and scoring models. Models were created, developed and supervised in the Risk Area taking into account internal and external requirements in this scope. Significant models were subject to periodical (not less than on a yearly basis) validation performed by an independent validation unit.

The Bank has put in place a multi-level system of credit decision-making, the basis of which is the rule that the higher level of risk of the transaction resulting from its complexity, the amount of exposure or financial and economic situation of the client, the higher decision-making level is authorized to make the decision. The decision-making level with highest clearance level are the Credit Committee of Headquarters and the Management Board of the Bank. Credit decisions are made upon prior verification of risk made by the person specialized in risk assessment and mitigation, i.e. an expert from separate organizational unit in the Bank's Headquarters, independent from sales forces.

In making credit decisions on transactions with members of the Bank or persons occupying management positions at Bank or capital-related entities or organizational-related entities, the Bank was taking into account the requirements of the Banking Law.

The Bank preferred collateralized transactions, provided that it was established a maximum level of unsecured transactions in retail segment as well as criteria for granting unsecured transaction considering specificity of a product, the impact of these transactions on the results of the Bank and an amount of potential loss.

The level of collateral depended on the level of risk generated by the transaction, in particular – the type and period (length) of transaction.

Setting the value of collateral, the Bank followed the prudent valuation principle.
When choosing the type of collateral, the Bank considered:

1) due protection of the Bank's interests,
2) costs associated with the establishment of particular collateral,
3) possibility to quickly liquidate a particular collateral.

When assessing and monitoring a collateral value, the Bank uses external databases, including AMRON database and Cenatorium Sp. z o. o. database for the purposes of verification and to update the real property value.

Tools/techniques used for risk measurement

The customer and the transaction were subject to a comprehensive credit risk assessment taking into account supervisory requirements in this regard.

Risk assessment models were differentiated by the Bank depending on the client and credit transaction type.

Credit risk assessment model for individuals applying for funding for non-business purposes and for selected products dedicated to natural persons conducting a sole proprietorship for business purposes included a quantitative analysis - consisting in determining the amount and stability of the sources of repayment of the debt – and qualitative analysis, consisting in evaluation of characteristics of a retail client, which have a significant impact on the customer's willingness to repay the debt within the deadlines specified in the contract, including scoring and assessment on the basis of information from Credit Information Bureau. In the evaluation process T and S Recommendations of PFSA were taken into account, in particular the implementation of the appropriate levels of DtI and LtV ratios and the ability to use a simplified assessment of creditworthiness.

The credit risk assessment model for customers applying for funding related to running a business or statutory activities (public finance), excluding selected products for natural persons running a sole proprietorship, focused on two areas: assessment of client and assessment of transaction (rating).

Client's assessment was performed on the basis of quantitative and qualitative elements. Quantitative assessment concerned basic, from the point of view of net profit generation and keeping liquidity, client's activities areas. Qualitative assessment included in particular: development plans, experience and skills of managers, quality of relation between the client and his external environment, including the Bank.

Client's assessment was performed taking into account the background of the economic situation of the industry. Additionally, in certain cases evaluation concerned the scale of client's exposure to the adverse effects of interest rate changes and exchange rates changes and the client's security policies against exchange rate and interest rate risk.

In the case of funding a client functioning in the group of capital-related or organizational-related entities, the Bank assessed credit risk taking into account the impact of related-parties' position.

Transaction assessment was performed in particular on the basis of the purpose of funding, length of the credit period and the collateral value for repayment. Bank established the financing structure to provide risk-sharing between the borrower and the Bank, mainly by the exposure of the borrower's own funds adequate to the scale of the risk.

Credit risk valuation tools

In order to measure credit risk, the Bank uses various tools/ applications, which implement, among others, the binding rating/ scoring models and methodology for credit capacity assessment.

Diversification of used applications relates to customer segmentation and/ or types of credit transactions.

Currently, the Bank is realizing the program including:
1) optimization of the credit processes, including all significant elements, such as: offer stage, risk assessment, decision on concluding the transaction, monitoring and remedial actions in case of identification of a threat to timely repayment and
2) implementation of the new process solutions in the modernized "workflow" tool which will be eventually used in all the segments of clients served by the Bank.

Description of particular concentration risks, their valuation and monitoring methods

The Bank performed risk concentration management in accordance with the policies described in the "Policy for risk concentration management". The requirement of the Bank's policy-type regulations concerning risk concentration management results from the issuance by Polish Financial Supervision Authority (PFSA) of an update for C Recommendation which represents a set of best practice tasks regarding the concentration risk management.

The Bank identified, measured, monitored and reported the concentration risk at the following levels:
1) individual client/transaction and
2) credit portfolio.

At the customer level and the transaction level, the engagement concentration risk was managed by the compliance with supervisory exposure limits, especially those resulting from Regulation (EU) of the European Parliament and the Council No. 575/2013 of 26 June 2013 or the Banking Law and by application of the principle that the risk's assessment process and the risk monitoring depends on the amount of credit exposure.

At the loan portfolio level, exposure concentration management was performed by complying with internal limits or warning values, approved by the Bank's Management Board or Supervisory Board for the limits by which the Bank sets the acceptable level of credit risk appetite.

In particular, the Bank applied the following limits:
- geographical limit – setting exposure toward other countries;
- limits referring to product parameters (e.g. maximum LTV);
- limits referring to the portfolio of mortgage loans and loans for the purchase of real property – resulting from PFSA recommendations,
- limit related to the share of foreign currency loans in the Bank's loan portfolio,
- limit of the acceptable total exposure in equity-related or organizationally related parties/ group of related parties, which exceeds 10% of the Bank's recognized capital;
- limits of acceptable total exposure to equity-related or organizationally related parties/ group of related parties, depending on rating awarded to the parent entity or entity with the highest exposure;
- industry limits;
- limit on credit exposures towards the Bank's subsidiaries.

The Bank uses an early warning ratio system which applies to all external limits in the area of credit risk. Principal assumptions of the system are three levels of limit usage and gradual implementation of actions mitigating the risk of exceeding the limit depending on the level of the limit usage.

The level of limits usage was periodically monitored and reported to the authorities of the Bank in accordance with internal regulations of the Bank.

Description of the methodology for recognition of impairment on credit exposures

For every reporting day, the Bank performs a review of credit exposures, by identifying credit exposure with threat of value loss the exposures for which significant increase of credit risk was noted, from the moment of initial recognition - taking into account rational and possible to be documented information, including data concerning the future. Then the allowance for expected credit losses is recognized, based on the breakdown by three Stages, depending on changes in terms of credit quality. By principle, all exposures recently granted except POCI assets are classified as Stage 1 exposures.

In order to do so the Bank divides its credit exposures taking into account the amount of engagement and the risk features. The exposures are valued using individual or group method, with respect to the potential evidence of impairment.

Apart from POCI assets which are concerned by impairment, the Bank considers exposures as impaired when there are indicators of impairment resulting from one or more events occurring after the initial recognition of the exposure in the Bank's ledgers and a when a loss event has an impact on the expected cash flows from this exposure and the cash flows can be reliably estimated.

In particular, the Bank considers as indications of impairment the following factors:

1) a delay in repayment of capital or interest instalments over 90 days, excluding loans granted to banks, in the case of which payments delayed over 7 days are classified as past due,
2) deterioration of the economic and financial standing of a client, which causes a reclassification of the debtor to the rating classes 14 and worse, indicating a threat to debt repayment,
3) granting to the Client a credit facility (concluding a restructuring agreement) due to the economic or legal aspects resulting from financial and economic difficulties of the client,
4) deterioration of financial indicators relating to, among others: customer liquidity and debt service ability,
5) declaration of bankruptcy, high probability of bankruptcy or another reorganization having an impact on the deterioration of financial standing and solvency of the debtor,
6) any other event being equivalent to entering a client into a state of insolvency, that results in that the timely repayment of debt may be not possible.

To supplement to the above, in the case of credit exposures arising from financing of wind farm projects, is considered as an impairment indicator a cash deficit occurring over the period of the term of the loan as well as bad will under potential debt restructuring scenario in the Bank-modelled perspective to the end of the period of financing.

The impairment allowance for individual loan exposures is measured on the basis of the calculation of the present value of the estimated future cash flows discounted using the original effective interest rate. In the case of credits for which the collateral has been established, the present value of expected future cash flow includes cash flows that could be obtained from the enforcement of the collateral, less cost of enforcement and the sale of the collateral. In the case of credit exposures arising from wind farm projects financing, the present value of the expected future cash flows is estimated based on the developed valuation model which allows simulation of individual cash flows that are possible to generate under individual projects with the adopted, modifiable, valuation parameters. As result of reduction of the present value of the realizable cash flows, an impairment allowance is recognized that corresponds to the expected credit loss, because of the failure to meet the obligations towards the Bank.

The individual impairment assessment method is applied with reference to:

1) individually significant credit exposures:

- meeting the condition of individual impairment or in the 'quarantine' period or
- regarding a client that holds other loans towards which the Bank has recognized an individual impairment indicator (impairment propagation) or

2) individually not significant credit exposures, towards which the Bank has recognized evidence for impairment or which are in the 'quarantine' period, if they were material as of the moment of impairment recognition and they fulfilled additional requirements specified by the Bank,
3) individual not significant credit exposures including non-typical credit risk characteristics.

The level of impairment losses write-offs for receivables defined as individually immaterial, for which the evidence of impairment was identified, is performed based on the impairment parameters valuation, assessed with statistical methods using historical data for chosen portfolios, selected for the purpose of a valuation of collective impairment, divided into groups with the similar credit risk characteristics. One-off items are excluded from the analysis.

For the collective valuation purposes, the Bank applies division into 8 homogenic risk portfolios, for two segments of clients (individual and institutional):

1) retail customers mortgage credits (portfolio segmented by level of LTV and credit currency),
2) retail customers cash loans,
3) retail customers mortgage loans,
4) retail client credit exposures to micro-enterprises (excluding mortgage loans), except for the microenterprises applying the accounting rules arising from the Accounting Act (maintaining full accounting), classified as retail clients,
5) retail client credit exposures to the micro-enterprises applying the accounting rules arising from the Accounting Act (maintaining full accounting), classified as retail clients,
6) other retail clients,
7) corporate clients, including financial institutions and clients of environmental funds,
8) public finance clients.

The reversal of loss which means reclassification of the credit as non-impaired is possible after the disappearance of impairment indicator and after a certain period of quarantine in which the indicator is not identified.

For non-default exposures, the Bank recognizes an impairment write-off, calculated using the collective method.

For the purposes of verifying, whether from the moment of initial recognition of the financial asset a significant increase of risk occurred, the Bank compares the level of risk of failure to fulfil the obligation within the expected time of the funds' granting as at the reporting date and the date of initial recognition. The Bank assumes that the significant increase of credit risk is identified for the given asset when quantitative or qualitative criterium is met or an overdue exceeding 30 days occurs. Any of these criteria are verified at the exposure level.

Quantitative criteria

The reference underlying the classification to Stage 2 for the retail customers' exposures, is calculated by the Bank as a difference of:

1) current credit risk assessment defined as a lifetime PD in time horizon from the reporting date to the maturity date, determined based on characteristics applicable at the reporting date,
2) initial credit risk assessment defined as a lifetime PD in time horizon from the reporting date to the maturity date, determined based on characteristics applicable at the date of initial recognition,

Assessment of a significant deterioration in credit risk is performed by comparison of the observable value of a relative change in the risk assessment with the theoretical value which is a threshold above which the Bank considers that a significant deterioration in credit risk occurred.

Allocation threshold at the level of an individual exposure is defined using the statistical model based on information regarding the credit risk assessment at the date of initial recognition and for the period from the date of initial recognition for the given exposure.

Classification to Stage 2 for the exposures regarding institutional clients takes place in case of deterioration of the debtor's economic and financial standing, during the credit period. This deterioration is expressed by classification to 12 or 13 rating class or reclassification to the rating 9-11 for the rating which was lower than 6 at the moment of the financial recognition.

Quality criteria

The Bank classifies to Stage 2 in the following cases:

1) there is a payment delay (above a define materiality threshold) over 30 days as at the reporting date or at least once taking into account last three reporting dates,
2) restructured credit exposure with impairment indicator and with finished quarantine period without the impairment indicator being identified,
3) forborne status,

Apart from the above-mentioned criteria, the Bank defined other specific qualitative criteria, e.g.: specific for the customers from a given segment, identified during the monitoring of institutional customers (high-risk exposures "a watch list") or identified as result of a multifactorial and comprehensive credit risk analysis.

In accordance with Paragraph 5.5.10 of the Standard IFRS 9, the Bank selects exposures with low credit risk. Credit exposure is linked with a low risk of default to fulfil the obligation regarding the given liability, in case the borrower has a high short-term ability to fulfil contractual obligations and the adverse changes of economic and business conditions in the long term can - but they don't necessarily have to - limit the borrower's ability to fulfil his obligations resulting from the cashflows agreement.

The Bank applies low credit risk criteria to those exposures from the public finance clients portfolio that do not meet qualitative criteria of classification to the Stage 2 and for those for which the impairment indicator was not identified.

For estimating allowances for the impairment losses write-offs, (expected losses) Bank uses its own estimations of risk parameters based on internal models taking into account IFRS 9 requirements (such as the estimation of parameters over the horizon of lifetime or consideration of future macro-economic conditions). Methodology applied by the Bank for determining the models parameters, as well as the adopted model comply with IFRS 9. The expected credit losses constitute the product of the values, individual for each exposure of the assessed values, of PD, LGD and EAD parameters estimated individually for each exposure and the final amount of expected losses is the sum total of expected losses in each period (depending on the stage over a 12-month horizon or the remaining lifetime) discounted using the effective interest rate. The estimated parameters in accordance with IFRS 9 are subject to adjustment due to expectations resulting from macro-economic scenarios. The Bank adjusts risk parameters in order to take into account future macro-economic information (such as: Gross Domestic Product, unemployment rate, WIBOR, foreign exchange rates, inflation) for portfolios for which receivables were identified. Scenarios developed internally were used. Forecasts prepared by economic analysts of the Bank are source of information about the values of macroeconomic factors.

Valuation of Impairment write-offs (for expected credit losses), of provisions on financial guarantees and granted liabilities, made in Polish zloty and in foreign currencies (including the exchange differences) are recognized respectively as expenses or revenues of the Bank arising from the write-offs and provisions.

The methodology and assumptions adopted by the Bank for the valuation of the impairment are regularly analysed to reduce the discrepancies between the assessed and actual losses. In order to assess the adequacy of impairment provisions both as part of collective and individual analysis the back testing is carried out, the results of which are taken into account when determining actions having an impact on the improvement of the quality of the process.

Interim condensed consolidated financial statementsin PLN thousand

5.1.1. Receivables from other banks

The table below presents gross amounts of receivables from other banks, divided into groups based on the Moody's, Fitch and Standard & Poor's (S&P) ratings.

Specification	30-06-2019 unaudited	31-12-2018
Moody's		
A1	39,115	27,879
A2	37,441	41,917
A3	5,470	1,150
Aa1	6,926	18,565
Aa2	435	496
Aa3	30,634	48,567
Baa1	3,565	31,583
Baa3	401	43
Fitch		
A-	12,790	4,200
BBB+	-	245
BBB-	560	-
S&P		
A	-	9,149
no rating		
	12,370	12,310
Total	**149,707**	**196,104**

Internal rating	Respective Moody's rating	30-06-2019 unaudited	Respective Moody's rating	31-12-2018
A	Aaa, Aa1, Aa2, Aa3		Aaa, Aa1, Aa2, Aa3	
B	A1, A2, A3,		A1, A2, A3,	
C	Baa1, Baa2, Baa3		Baa1, Baa2, Baa3	
D	Ba1, Ba2		Ba1, Ba2	
E	Ba3, B1		Ba3, B1	
F	B2		B2	
G	B3	12,370	B3	12,310
Total		**12,370**		**12,310**

Interim condensed consolidated financial statementsin PLN thousand

5.1.2. Receivables from clients

Classification of measurement methods

Specification	30-06-2019 unaudited	31-12-2018
Receivables from clients measured at amortized cost		
Receivables from clients without impairment indicator, in which:	10,618,756	10,314,827
stage 1 - comprising exposures for which no significant increase in credit risk since initial recognition has occurred.	8,122,912	8,291,717
stage 2 - comprising exposures for which significant increase in credit risk since initial recognition has occurred, in which:	2,495,844	2,023,110
- wind farms	1,375,020	1,039,500
Stage 3 - Receivables from clients with impairment indicator, with no impairment identified due to expected cash flows, in which:	437,939	772,254
- wind farms	282,739	603,282
Stage 3 - Receivables from clients with impairment indicator and with identified impairment, in which:	1,580,252	1,656,193
- wind farms	66,776	124,874
Total of receivables from clients - measured at amortized cost (gross)	**12,636,947**	**12,743,274**
Impairment write offs for:		
receivables from clients - Stage 1	- 53,237	- 59,012
receivables from clients - Stage 2, in which:	- 133,153	- 107,416
- wind farms	- 52,467	- 36,867
receivables from clients - Stage 3 with no impairment identified, in which:	- 12,728	- 23,346
- wind farms	- 10,783	- 21,378
receivables from clients - Stage 3 with impairment identified, in which:	- 881,711	- 853,659
- wind farms	- 15,288	- 31,876
Total of impairment losses write offs	**- 1,080,829**	**- 1,043,433**
Total of receivables from clients measured at amortized cost (net)	**11,556,118**	**11,699,841**
Receivables from clients measured at fair value through the financial result		
Fair value, in which:	89,771	104,653
- wind farms	44,709	53,083
Total of receivables from clients measured at fair value through the financial result	**89,771**	**104,653**
Security deposits made	3,457	5,023
Other receivables	-	10
Total of receivables from clients	**11,649,346**	**11,809,527**

Interim condensed consolidated financial statementsin PLN thousand

Classification on measurement method by sector

30-06-2019 unaudited	Institutional Client	Individual Client	Individual Client - Mortgage loans	Individual Client - other credits	Total
Receivables from clients measured at amortized cost					
Receivables from clients without impairment indicator, in which:	7,131,217	3,487,539	2,893,325	594,214	10,618,756
stage 1 - comprising exposures for which no significant increase in credit risk since initial recognition has occurred.	4,807,277	3,315,635	2,757,738	557,897	8,122,912
stage 2 - comprising exposures for which significant increase in credit risk since initial recognition has occurred, in which:	2,323,940	171,904	135,587	36,317	2,495,844
- wind farms	1,375,020	-	-	-	1,375,020
Stage 3 - Receivables from clients with impairment indicator, with no impairment identified due to expected cash flows, in which:	435,503	2,436	1,585	851	437,939
- wind farms	282,739	-	-	-	282,739
Stage 3 - Receivables from clients with impairment indicator and with identified impairment, in which:	1,241,940	338,312	206,665	131,647	1,580,252
- individually assessed	1,129,489	89,912	72,129	17,783	1,219,401
- wind farms	66,776	-	-	-	66,776
Total of receivables from clients - measured at amortized cost (gross)	**8,808,660**	**3,828,287**	**3,101,575**	**726,712**	**12,636,947**

Interim condensed consolidated financial statementsin PLN thousand

Impairment write offs for:					
receivables from clients - Stage 1	- 43,891	- 9,346	- 2,843	- 6,503	- 53,237
receivables from clients - Stage 2, in which:	- 116,233	- 16,920	- 10,172	- 6,748	- 133,153
- wind farms	- 52,467	-	-	-	- 52,467
receivables from clients - Stage 3 with no impairment identified, in which:	- 12,723	- 5	- 2	- 3	- 12,728
- wind farms	- 10,783	-	-	-	- 10,783
receivables from clients - Stage 3 with impairment identified, in which:	- 666,860	- 214,851	- 123,876	- 90,975	- 881,711
- individually assessed	- 600,397	- 42,643	- 35,173	- 7,470	- 643,040
- wind farms	- 15,288	-	-	-	- 15,288
Total of impairment losses write offs	**- 839,707**	**- 241,122**	**- 136,893**	**- 104,229**	**- 1,080,829**
Total of receivables from clients measured at amortized cost (net)	**7,968,953**	**3,587,165**	**2,964,682**	**622,483**	**11,556,118**
Receivables from clients measured at fair value through the financial result					
Fair value, in which:	87,323	2,448	768	1,680	89,771
- wind farms	44,709	-	-	-	44,709
Total of receivables from clients measured at fair value through the financial result	**87,323**	**2,448**	**768**	**1,680**	**89,771**
Security deposits made	3,457	-	-	-	3,457
Other receivables	-	-	-	-	-
Total of receivables from clients	**8,059,733**	**3,589,613**	**2,965,450**	**624,163**	**11,649,346**

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31-12-2018	Institutional Client	Individual Client	Individual Client - Mortgage loans	Individual Client - other credits	Total
Receivables from clients measured at amortized cost					
Receivables from clients without impairment indicator, in which:	6,720,296	3,594,531	2,993,105	601,426	10,314,827
stage 1 - comprising exposures for which no significant increase in credit risk since initial recognition has occurred.	4,858,511	3,433,206	2,861,987	571,219	8,291,717
stage 2 - comprising exposures for which significant increase in credit risk since initial recognition has occurred, in which:	1,861,785	161,325	131,118	30,207	2,023,110
- wind farms	1,039,500	-	-	-	1,039,500
Stage 3 - Receivables from clients with impairment indicator, with no impairment identified due to expected cash flows, in which:	769,676	2,578	1,756	822	772,254
- wind farms	603,282	-	-	-	603,282
Stage 3 - Receivables from clients with impairment indicator and with identified impairment, in which:	1,306,307	349,886	210,919	138,967	1,656,193
- individually assessed	1,202,614	90,124	72,419	17,705	1,292,738
- wind farms	124,874	-	-	-	124,874
Total of receivables from clients - measured at amortized cost (gross)	**8,796,279**	**3,946,995**	**3,205,780**	**741,215**	**12,743,274**

Interim condensed consolidated financial statementsin PLN thousand

Impairment write offs for:					
receivables from clients – Stage 1	– 47,684	– 11,328	– 4,420	– 6,908	– 59,012
receivables from clients – Stage 2, in which:	– 100,351	– 7,065	– 4,026	– 3,039	– 107,416
– wind farms	– 36,867	–	–	–	– 36,867
receivables from clients – Stage 3 with no impairment identified, in which:	– 23,341	– 5	– 3	– 2	– 23,346
– wind farms	– 21,378	–	–	–	– 21,378
receivables from clients – Stage 3 with impairment identified, in which:	– 632,300	– 221,359	– 126,550	– 94,809	– 853,659
– individually assessed	– 569,833	– 44,436	– 37,190	– 7,246	– 614,269
– wind farms	– 31,876	–	–	–	– 31,876
Total of impairment losses write offs	**– 803,676**	**– 239,757**	**– 134,999**	**– 104,758**	**– 1,043,433**
Total of receivables from clients measured at amortized cost (net)	**7,992,603**	**3,707,238**	**3,070,781**	**636,457**	**11,699,841**
Receivables from clients measured at fair value through the financial result					
Fair value, in which:	101,552	3,101	904	2,197	104,653
– wind farms	53,083	–	–	–	53,083
Total of receivables from clients measured at fair value through the financial result	**101,552**	**3,101**	**904**	**2,197**	**104,653**
Security deposits made	5,023	–	–	–	5,023
Other receivables	10	–	–	–	10
Net total of receivables from clients	**8,099,188**	**3,710,339**	**3,071,685**	**638,654**	**11,809,527**

Interim condensed consolidated financial statementsin PLN thousand

5.1.3. Portfolio of receivables from clients of BOŚ Group (gross amount) break down, according to rating/scoring, by segment of customers:

Specification	Rating	30-06-2019 unaudited	31-12-2018
Receivables from institutional clients	(1-3)	5,976	4,123
	(4-5)	330,822	351,254
	(6-7)	1,282,117	1,225,210
	(8-9)	2,381,870	1,964,472
	(10-11)	2,075,741	2,867,509
	(12-13)	1,693,688	1,396,826
	(14-16)	855,653	864,944
	no rating	270,116	223,493
Receivables from institutional clients		**8,895,983**	**8,897,831**
Receivables from individual clients	no rating	3,830,735	3,950,096
Total of receivables from individual customers		**3,830,735**	**3,950,096**
Total		**12,726,718**	**12,847,927**

Rating classes are presented as at the reporting date.

General features of rating classes are as follows:

Rating 1	Best-quality loans
Rating 2	Very high loan quality
Rating 3	High loan quality
Ratings 4-5	Very good loan quality
Ratings 6-7	Good loan quality
Ratings 8-9	Acceptable loan quality
Ratings 10-11	Average and poor loan quality
Ratings 12-13	Very poor loan quality
Ratings 14-16	Not creditworthy (loan quality does not exist).

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5.1.4. Structure of exposures concentration in market segments

Industry involvement is outlined below:

Industry	Credit risk exposure	30-06-2019 unaudited Share % in the total amount
Production and supply of electric energy, gas, water vapor, hot water and air to air conditioning systems	1,892,935	14.9%
Activities related to real estate services	1,297,151	10.2%
Public administration, national defense: compulsory social security	1,021,936	8.0%
Wholesale trading, excluding cars	808,776	6.4%
Construction works connected with construction of buildings	692,403	5.4%
Accommodation	420,107	3.3%
Production of groceries	330,220	2.6%
Manufacture of chemicals and chemical products	249,333	2.0%
Manufacture of fabricated metal products, except machinery and equipment	203,162	1.6%
Activities related to sport, entertainment and recreation	130,477	1.0%
Other sectors, in which:	5,680,218	44.6%
individual customers	3,830,735	30.1%
Gross total of receivables from clients	**12,726,718**	**100.0%**
Impairment write offs:	- 1,080,829	
Security deposits made	3,457	
Net total of receivables from clients	**11,649,346**	

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Industry	Credit risk exposure	31-12-2018 Share % in the total amount
Production and supply of electric energy, gas, water vapor, hot water and air to air conditioning systems	1,928,142	15.0%
Activities related to real estate services	1,296,577	10.1%
Public administration, national defense: compulsory social security	1,126,393	8.8%
Construction works connected with construction of buildings	705,006	5.5%
Wholesale trading, excluding cars	646,715	5.0%
Accommodation	381,004	3.0%
Financial service activities, excluding insurance and pension funds	225,969	1.8%
Manufacture of chemicals and chemical products	237,872	1.9%
Production of groceries	244,116	1.9%
Manufacture of fabricated metal products, except machinery and equipment	178,283	1.4%
Manufacture of goods using remaining non-metallic mineral products	130,674	1.0%
Production of basic pharmaceutical ingredients and medicines and other pharmaceutical products	125,789	1.0%
Other sectors, in which:	5,621,387	43.8%
individual customers	3,950,096	30.7%
Gross total of receivables from clients	**12,847,927**	**100.0%**
Impairment write offs:	- 1,043,433	
Security deposits made	5,023	
Other receivables	10	
Net total of receivables from clients	**11,809,527**	

The BOŚ Group's credit exposure to the wind farms

The Group's total exposure to the wind farm funding as at 30 June 2019 amounted to PLN 1,769.2 million.

Relevant risks in terms of the BOŚ Group's financing of RES

Risks identified by the Group detailed below were allocated to the farm exposure valuation model applied by the Group, due to the level of forecasted energy and green certificate prices.

The Group assesses the risk of wind farm projects by adopting as an impairment indicator the existence of a potential cash deficit and of negative enterprise valuation (bad will) for the scenario of potential debt restructuring in the Group-modelled long-term perspective. Valuation of the above-mentioned projects is performed based on the valuation model that allows a simulation of individual cash flows for specific projects by applying requested and modifiable valuation parameters (variable and periodically updated), among which:

1) Project productivity determined on an individual basis for each project, based on breeziness analysis reports (P90/P75) and current breeziness analysis obtained during the period of wind farm operation,
2) price paths for the prices of electric energy and of green certificates, based on the Bank's internal analysis and the analysis of the reports of the external firms with which the Bank has been cooperating since 2016 (independent experts), the adopted price scenario provides for:

a) increase of prices in 2019, compared to 2018, as an expression of the CO2 emission costs increase and of energy production rising costs,
b) slight decrease of the upward trend in 2020 compared to the level of prices in 2019,
c) further increase of prices within the perspective 2021-2024 by c.a. 1.5-5% on a yearly average basis,
d) slowdown of prices from 2025 on - a stable level of 2025 prices was adopted for the model in the long term, which is a prudential assumption as compared to the external firm reports,
e) a stable level of green certificate prices below the current market value,

3) the weighted average cost of capital (WACC) for the restructuring scenario adopted at the level of effective interest rate for individual exposures and at the level of 10.9% for debt recovery scenario,
4) valuation scenarios defining, individually for each project, the probability of regular debt servicing, debt restructuring and debt recovery.
5) amount of the calculated real property tax

Risk of decline of green certificates' prices

As part of creditworthiness assessment of wind farms, an assessment of sensitivity of each project to changes of parameters was performed as well, to changes of parameters related to incomes and costs, especially a decrease of green certificates' prices, whilst conservative scenario of project productivity (P90) was assumed. In order to hedge against the seasonal decrease of revenues, the financed projects would normally be provisioned in the form of Debt Service Reserve Account (DSRA) where funds are accumulated in the amount corresponding to several times a monthly principal and interest instalment. The relevant contractual clauses require that customers supplement funds if the provision for repayment of debt is used.

In the first half of 2019, volatility of growing green certificates' prices was observed. Nevertheless, by applying prudent valuation principles in estimating future cash flows the Group adopted the green certificate price for the forecasted period below the current market value. The Group based on the forecasts of the renowned external advisors.

Risk arising from changes of the basis for real property tax calculation

On 29 June 2018, Amendment to the act on renewable energy sources and certain other laws was published. The RES Amendment modifies a definition of the wind farm, according to which, under the Polish construction law, is defined as a building only a built part of the wind farm (foundations, tower), with effect from 01 January 2018. The above-mentioned Amendment provides for a restoration of legal status more beneficial for investors, regarding taxation of wind farms with respect to property tax perceived, applicable before 01 January 2017.

From the other hand, the Amendment did not eliminate doubts related to adequacy of the rules with respect to calculation of real property tax for 2017. Due to the first decisions by the Supreme Administrative Court, that in the legal status in force in 2017, the tax base was the construction part together with the technical equipment of the wind farm, wind companies paid the difference in property tax for 2017 together with interest or signed agreements with the municipalities in this matter.

Risk of litigation of the Bank's customers with Energa-Obrót S.A.

On 11 September 2017, Energa S.A. published a current report no. 37/2017 in which it informed about its intention to bring an action related to determination of non-existence of legal relations resulting from 22 framework agreements concluded by a related company Energa Obrót S.A. - with electrical energy RES producers, for the withdrawal of property rights resulting from "green certificates", due to forming their content in a manner contrary to the provisions of the Public Procurement Law ("PPL agreements")

Consequently, the Management Board of Obrót S.A. decided to stop realization of CPA agreements and to bring an action in competitive courts, for declaration of concluded contracts being absolutely void, against contractors and banks - grantees, due to the contracts concluded for assignment of receivables (resulting) from CPA contracts (which is a collateral for a credit granted to realize projects - construction of wind farms).

Actions of Energa - Obrót S.A. taken in September 2017 concerned 8 clients that had obtained credits from the Group; In two cases brought by Energa Obrót S.A. BOŚ S.A and clients acted as defendants, however, once the Bank and clients signed refundable assignment agreements regarding PPL agreements and thus taking into account disappearance of interest in bringing proceedings, Energa withdrew its claims against the Bank.
Currently, BOŚ S.A. does not act directly as co-defendant in any ongoing court litigation. Therefore, the Group does not expect any additional expenses resulting from the disputes run by the clients.

As on 30 June 2019, 6 clients are in court litigations, for the total engagement PLN 122.7 million toward the Bank, i.e. 7.0% of the total engagement for exposures linked with the wind farms portfolio. The BOŚ Group conducts a special monitoring of the economic and financial situation of these clients, and of the court proceedings in progress; the Group stays also in current touch with Shareholders and Sponsors of the Projects. There are three court disputes settled positively for the Group's Customers, i.e. a dismissal of the Energa Obrót S.A. claim, two dismissals pronounced by the common court (I instance) and the third dismissal by decision of Court of Arbitration (pol: Sąd Arbitrażowy).

Servicing obligations for credits granted by the above mentioned Customers is performed in a timely manner, despite transitional liquidity problems related to the partial abandonment of sale of green certificates during the dispute and the necessity to be exposed to costs of legal assistance of ongoing disputes.

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Wind farms portfolio:

Specification	30-06-2019 unaudited	31-12-2018
Receivables from clients measured at amortized cost		
Receivables from clients without impairment indicator:		
stage 2 - comprising exposures for which significant increase in credit risk since initial recognition has occurred.	1,375,020	1,039,500
Stage 3 - Receivables from clients with impairment indicator but with no impairment identified due to value of expected cash flows	282,739	603,282
Stage 3 - Receivables from clients with impairment indicator and with impairment identified	66,776	124,874
Gross total of receivables from clients	**1,724,535**	**1,767,656**
Impairment write offs:		
Receivables from clients - Stage 2	-52,467	-36,867
Receivables from clients - Stage 3 with no impairment identified	-10,783	-21,378
Receivables from clients - Stage 3 with identified impairment	-15,288	-31,876
Total of impairment losses write offs	**-78,538**	**-90,121**
Total of receivables from clients measured at amortized cost net	**1,645,997**	**1,677,535**
Receivables from clients measured at fair value through the financial result		
Fair value	44,709	53,083
Total of receivables from clients measured at fair value through the financial result	**44,709**	**53,083**
Total of receivables from clients	**1,690,706**	**1,730,618**

The share of the wind farm portfolio in institutional credit segment measured at amortized cost in the BOŚ Group value (gross) as at 30 June 2019 amounted to 19.6%, which accounted for 13.6% of credits portfolio. As per the value, this portfolio amounted to PLN 1,724.5 million.

The level of impaired credits coverage as at 30 June 2019 in the institutional credit segment amounts to 53.7%, including 22.9% for the wind farms portfolio.

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5.1.5. Debt securities

The tables below present the rating assigned to debt securities, by issuer:

30-06-2019 unaudited	State Treasury	National Bank of Poland	Public finance	Financial auxiliaries	Corporate	Total
AAA	-	-	-	50,138	-	50,138
A	3,796,640	-	-	-	-	3,796,640
BBB+	-	-	-	-	-	-
BB	-	-	-	-	-	-
None	-	1,679,531	213,308	-	2,907	1,895,746
Total	**3,796,640**	**1,679,531**	**213,308**	**50,138**	**2,907**	**5,742,524**

31-12-2018	State Treasury	National Bank of Poland	Public finance	Financial auxiliaries	Corporate	Total
AAA	-	-	-	49,391	-	49,391
A	3,650,490	-	-	-	-	3,650,490
BBB+	-	-	10,248	-	-	10,248
BB	-	-	-	-	-	-
None	-	1,439,760	241,376	-	2,903	1,684,039
Total	**3,650,490**	**1,439,760**	**251,624**	**49,391**	**2,903**	**5,394,168**

The tables present a unified rating scale, according to the table below. If the issuer has received a rating of more than one agency, the highest one is presented.

Moody's	S&P	Fitch	Unified rating
Aaa	AAA	AAA	AAA
A2	AAA	AAA	AAA
A3	A-	A-	A-
Baa1	BBB+	BBB+	BBB+
Ba2	BBB+	BBB+	BBB+
Ba3	BB-	BB-	BB-

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The risk classes for issuers of municipal bonds handled by Bank Ochrony Środowiska S.A. are assigned in accordance with the methodology adopted by the Bank for assessing the creditworthiness of local government units:

	Public finance	
Internal rating	30-06-2019 unaudited	31-12-2018
5	25,344	12,327
6	34,659	4,975
7	68,094	69,642
8	28,322	159,995
9	54,961	-
10	1,928	4,685
Total	**213,308**	**251,624**

5.2. Techniques of measurement of the financial risk (in the trading and banking books) and limits

The financial risk in the Group is concentrated mainly in BOŚ S.A. and in Dom Maklerski BOŚ S.A. (DM BOŚ S.A.). and includes:
1) liquidity risk;
2) interest rate risk (in banking and trading book);
3) foreign exchange risk (in the banking and trading book).

The liquidity risk and interest rate risk occurs mostly in the Bank, while the currency risk occurs in DM BOŚ S.A (in the trading and non-trading book) and in the Bank (in the trading book; it is transferred from the banking book to the trading book). In DM BOŚ S.A., there is also a risk due to the items in equity instruments and commodity price risk.

The risk management in the Bank is based on the risk appetite and risk tolerance level determined by the Supervisory Board of the Bank based on a set of internal limits. BOŚ S.A. has put in place policies of liquidity risk, interest rate risk in the banking book and market risk management, where among others are defined maximum levels of the financial risk, in line with the risk appetite determined by the Supervisory Board. Early warning system focused on identification, measurement, monitoring, control and reporting of risk was established based on these policies.

Transactions in the banking book represent the core business of the Bank, which means that they result from commercial operations, in which: acquiring sources of financing and efficient management of financial liquidity. Banking book includes positions, which are not included in the trading book, in particular:
1) credits granted, guarantees, advances, term deposits and deposits received,
2) transactions, which secure liquidity and interest rate risk of operations included in the banking book,
3) purchase of securities with purpose other than trading.

In line with the Group's strategy, activities in the trading book compensate activities in the banking book. Trading book contains transactions performed on the Bank's own account with the aim of trading,
i.e. of gaining financial profits in short-term periods due to real or expected differences between bid and offer prices in the market as well as other deviations of prices or price parameters, including especially: interest rates and exchange rates. Sale of transactions held in the trading book is not used to maintain liquidity. The function of the trading book is to provide the Bank's customers the highest quality of services. In order to achieve this, the BOŚ S.A. and DM BOŚ S.A. maintain open positions, within the binding risk limits.

The level and profile of financial risk is regularly monitored in the Department of Financial and Operational Risk (second line of defense department) and in DM BOŚ S.A and reported to: the Bank's Supervisory Board, Supervisory Board of DM BOŚ S.A., Risk Committee (at the Supervisory Board), Management Board of the Bank, Management Board of DM BOŚ S.A., the Committee of Assets and Liabilities Management (ALCO) and the Liquidity and Market Risk ALCO Committee.

5.2.1. Liquidity risk

The BOŚ Group's purpose of the liquidity management is to maintain the ability to finance assets and pay liabilities in a timely manner and to maintain sustainable structure of assets and liabilities, which ensures safe in main foreign currencies, but mostly - for the total liquidity position. Interest rate risk is mostly generated in the Bank. Liquidity risk management strategy is defined in the Liquidity Strategy of BOŚ S.A., approved by the Supervisory Board. The strategy defines the Bank's risk appetite and sets out the main directions and quantitative targets for the selected positions and is an integral part of the Bank's Actions Framework Strategy. Liquidity risk tolerance adjusted to the adopted risk appetite was determined in the liquidity risk management Policy approved by the Supervisory Board and realized through the system of internal limits and warning or monitory values, obligatory in the Bank.

Liquidity of the Bank is considered in the following time horizons:

- intraday liquidity – up to 1 day
- current liquidity – up to 7 days;
- short-term liquidity – up to 1 month;
- medium-term liquidity – from 1 month to 12 months;
- long-term liquidity – over 12 months.

The primary source of financing for the Bank remains a systematically built, diversified deposit base with a large share of stable deposits from retail customers (supplemented with deposits of corporate customers and public sector) and additionally, loans received from international financial institutions (which, along with long-term bilateral interest swap contracts secured by debt securities and FX Swap transactions, are also a source of funding liquidity in foreign currencies).

Liquid assets (excess liquidity) owned by the Bank, are held mainly in the NBP bills characterized by high liquidity (as at 30 June 2019 representing 44% of the portfolio of liquid unencumbered securities) and Treasury bonds (as at 30 June 2019 - 56%), with low specific risk. The portfolio of these securities is supplemented by cash and deposits held with NBP (above the declared level of reserve requirement) and nostro accounts with other banks, as well as by other bonds with multilateral development banks. Liquid assets are the buffer to protect liquidity in possible emergency situations, i.e. there is a possibility of a lien, liquidation through repo transactions or sales at any time, without significant loss of value. Possibility to sell liquid assets (liquidity risk of the product) is systematically monitored. In these analyses the following are primarily taken into account: volume of issuance, market turnover and volatility of the price of purchase/ sale.

In accordance with the recommendations of the Polish Financial Supervision Authority and the National Bank of Poland, the Bank has the ability to use additional sources of financing in the form of technical and lombard loan at the NBP, the Bank can as well apply for obtaining a refinancing loan.

Internal capital to cover the liquidity risk, that is considered to be a constantly significant risk, is determined in the Bank in accordance with the applicable process of internal capital estimation. This capital is estimated based on the cost of restoring supervisory and internal measures and liquidity limits under the conditions of stress test scenarios.

The Bank determines supervisory measures of liquidity in accordance with the following regulations: Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms, amending Regulation (EU) No 648/2012, Delegated and Execution Regulations referring to the above-mentioned Regulation with regard to liquidity and Resolution No. 386/2008 of Polish Financial Supervision Authority of 17 December 2008 on setting liquidity standards which are binding for banks.

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Currently applicable norms regarding the short-term liquidity include the liquidity coverage requirement - LCR (ratio of liquid assets to net outflows (i.e. difference between net outflows and net inflows) through the period of extreme conditions, it is 30 calendar days). Following the entry into force on 1 January 2018 of the LCR measures at the final level of 100%, measures for ratios are as follows: M1 (short-term liquidity gap) and M2 (liquidity ratio) ceased to be obligatory. However, for prudential reasons, the Bank still measures and maintains them above the supervisory limits, in force till the end of 2017.

According with the guidelines EBA/GL/2017/01 on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013, the Bank presents in Information regarding the Capital Group of Bank Ochrony Środowiska S.A. disclosed according to the section eight of Regulation (EU) No 575/2013 of 26 June 2013 "Disclosure of information by institutions", quantitative and qualitative information on the net outflow coverage ratio. The above information are disclosed in line with instructions given by the European Banking Authority.

Long-term standards include the following ratios: M3 (coefficient of covering illiquid assets with own funds) and M4 (coverage ratio of illiquid assets and assets with limited liquidity by own funds and stable external funds) The Bank determines and reports to the Polish Financial Supervision Authority and to the PNB the level of net stable funding ratio (NSFR) and introduces an internal warning value for this ratio at the level of target supervisory limit, i.e. 100%. Moreover, the Bank, in accordance with the Implementing Regulation of the Commission (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring indicators for liquidity reporting purposes, implemented and delivered to the National Bank of Poland, as part of its statutory reporting, the ALMM reports.

In the first half of 2019, as in 2018, supervisory liquidity measures i.e. LCR and M3-M4 were determined daily (i.e. every working day), and remained at a safe level, significantly above the regulatory levels. As at 30 June 2019 these measures were as follows:

Measure	30-06-2019 unaudited	31-12-2018
LCR	159%	132%
M3	103.28	99.33
M4	1.35	1.33

To measure liquidity and an intraday, current and short-term liquidity risk, the Bank introduced the following measures and tools:

1) an intraday liquidity limit - a measure that reflects the level of funds necessary to be maintained on the NBP account, for settlement of the Bank's obligations during the day, in normal and stress situation.
2) liquid assets (excess liquidity) – they are a buffer for expected and unexpected outflows in a horizon of 30 days;
3) liquidity stock – measures the level of liquid assets, less the expected, unexpected outflows of liquidity defined in 30 days, including the mark-up on the concentration;
4) stability of deposit ratio assessment;
5) short-term liquidity gap (PLN, EUR, CHF, USD) – shows the level of mismatch in the financing structures in foreign currencies, the gap includes mainly cash flows from derivative and interbank transactions;
6) the stress tests (i.e. allowing for the verification of the ability to maintain liquidity as defined in the Bank's time horizon in different scenarios).

In order to measure liquidity and medium- and long term liquidity risk, Bank sets and monitors:

1) the contractual liquidity gap and liquidity gap in real terms (which is supplemented by a systematically carried out analysis: the stability of the deposit base, concentration of the deposit base, the size of prepayment of credits and the level of deposits' withdrawals);
2) coverage ratio of long-term assets by long-term liabilities;
3) coverage ratio of loans used to finance long-term needs of customers as the most stable sources of funding;
4) LCR forecast, liquid assets and long-term liquidity measures (i.a. NSFR).

In order to evaluate the effectiveness of the process of managing liquidity risk, for the majority of above-mentioned measures, limits or warning values which are determined within the set of internal limits of liquidity risk. They are hierarchical, which means that they are determined at the level of the Supervisory Board, the Bank's Management Board and the Committee of Assets and Liabilities Management). The applicable limits and warning values are regularly reviewed in order to allow an effective monitoring of liquidity. The limits and warning values set the framework for the tolerance of the Bank's liquidity and are consistent with the adopted by the Bank appetite for risk. Developing an appropriate liquid risk profile is supported by taking into account the cost of liquidity in the Bank's current transfer pricing system.

According to Resolution No. 386/2008 of the Polish Financial Supervision Authority, the Bank also performs a deepened analysis of long-term liquidity. The results of performed analyses are used to manage the Bank's liquidity. At the same time, process of preparing short- and long-term financial plans of the Bank includes an assessment of liquidity, to ensure adequate financing structure and compliance with supervisory liquidity measures.

In its developed analyses of liquidity, the Bank also takes into account the possibility of unfavourable changes in the foreign exchange rates, particularly CHF and EUR, potentially causing an increase in liquidity needs. In accordance with annexes to the security framework agreements signed with contractors (Credit Support Annex, CSA), Credit Support Annex for Variation Margin (CSA VM) the Bank, in case of adverse market changes (i.e. exchange rates), is obliged to submit additional collaterals; in the case of positive changes - the Bank receives additional collaterals from contractors. This documentation of the Bank does not include decision changing the amount of the collateral submitted for the reasons of the change in a rating. This means that reducing the level of creditworthiness does not affect the amount and method of collaterals calculation.

Moreover, the Bank has an action plan for maintaining liquidity in emergency situations approved by the Management Board, which determines potential sources of deterioration / liquidity loss, rules of conduct and competences required in emergency situations, in order to estimate the horizon of survival, the possibility and cost of restoring the stable liquidity. Except for scenario analysis of liquidity in emergency situations (the assumptions of which are consistent with the stress tests that were carried out), the plan also contains measurable and immeasurable symptoms leading to emergency situations, allowing for the systematic monitoring of the source of the crisis situations regarding liquidity.

The scenario analysis of liquidity in emergency situations and stress tests include three types of scenarios:

1) internal crisis - its source is a loss of trust to the bank by market participants (a so-called "run on the bank"), a reduced availability of financing, materialization of risk concentration and downgrading of the Bank's rating;
2) external crisis - assumes materialization of currency risk, rise of interest rates, crisis in financial markets and a possible second-round effects, and
3) mixed crisis - combines the elements of both, internal and external crisis.

Performed stress tests help to identify factors that can have, in case of their materialization, an impact on liquidity risk in the Bank. They also allow to develop measures to be taken in the event of crisis situations.

As part of its analyses, the Bank also performs the sensitivity analysis of individual factors generating liquidity risk and reversed tests. The plan of action for maintaining liquidity in emergency situations is regularly reviewed and updated, so as to guarantee the operational preparation of the Bank to launch potential actions in the event of a liquidity threat. The scenario analysis of liquidity in emergency situations is prepared in semi-annual mode and stress tests - on a monthly basis. The assumptions adopted for stress tests are regularly reviewed in line with conclusions resulting from the scenario analysis of liquidity in emergency situations. The conclusions of the tests performed are included in the current liquidity management and liquidity risk management, as well as when building the structure of assets and liabilities.

The stress tests performed in the I half of 2019, similarly as in 2018, show a stable liquidity position of the Bank and that its liquid assets (excess liquidity) allow for the survival of the assumed stress test scenarios in which the Bank assumes survival over a specified time horizon.

Measures and tools applied by the Bank are cyclically reviewed and updated, which allows for a better projection of liquidity profile. The process of monitoring liquidity and liquidity risk in the Bank is supported by the dedicated information systems (particularly in terms of generating contractual and actualized liquidity gap and reporting supervisory liquidity measures, internal limits and preparing mandatory reporting). At least once a year, the Bank elaborates a review of the Internal Liquidity Adequacy Assessment Process (ILAAP), according to the guideline EBA/GL/2016/10 regarding information on ICAAP and ILAAP, gathered for the purposes of Supervisory Review and Evaluation Process (SREP). This review is to be subject to an opinion performed by the ALCO Committee and to be approved by the Management Board and the Supervisory Board of the Bank.

The results of the analysis of liquidity risk, the degree of utilization of supervisory standards and internal limits together with the results of stress tests are presented on a monthly basis, in reports prepared for the Management Board and the Asset and Liability Committee for Liquidity and Market Risk (ALCO) and - on a quarterly basis - for the Supervisory Board of the Bank and the Risk Committee.

In the first half of 2019, similarly as in 2018, the BOŚ Group's liquidity situation was systematically monitored and remained at a safe level.

5.2.2. Interest rate risk

Interest rate risk is a possible negative influence of changes in the interest rates on forecasted financial result as well as on the economic value of equity and the present value of debt securities. Interest rate risk is mostly generated in the Bank, both in the banking book and trading book.

The main purpose of interest rate risk management in the banking book is to seek stabilization and optimization of net interest income ('NII') while negative influence of market interest rate changes on economic value of equity ('EVE') is limited.

To achieve this, the Bank uses two tools: investment portfolio held and derivative transactions performed under hedge accounting. Investment portfolio, built in the banking book, should help to, among others, secure net interest income generated in Bank's equity and to secure core deposits in current account insensitive to variations of interest rate. On the other hand, this portfolio results in volatility of revaluation reserve.

The Bank uses fair value hedging. Its aim is to hedge the fair value of State Treasury fixed-rate bonds which represent a part of the portfolio of bonds available-for-sale within the model H2C&S. The IRS hedging transactions carried out limit the capital fluctuations relating to changes in interest rates.

Monitoring of interest rate risk in the banking book is supported by a dedicated IT system, by means of which the Bank sets/performs in particular:

1) the repricing gap that represents values of assets, liabilities and balance items sensitive to the changes of interest rates in periods of maturity or of revaluation;
2) simulation of the interest result - dynamic analysis, reflecting NII' projection in pre-set time intervals, based on assumed scenarios of Bank's development and assumptions regarding market factors' development;
3) simulation of the current value (net present value, NPV), representing discounted values, according to the pre-set market parameters, for all cash flows; NPV analyses are the basis for setting the measures BPV and EVE;
4) various price shocks underlying the basis risk, which aim to assess the impact the diversified change of rates on products on the interest result. These products' rating is based on different basis rates;
5) The yield curve risk analysis, which aim is to assess the impact of non-parallel changes of the yield curve on the economic value of equity;
6) the risk of client options' analysis, which aims at assessing the impact of options realized by clients and embedded in interest products on the financial result of the bank;
7) stress tests including reversed tests and the Supervisory Outlier Test, which aim is to determine total changes of market factors which will result in a determined impact on the measurement of the interest rate risk in the banking book;
8) internal capital level to the interest rate risk in the banking book.

In the first half of 2019, the Bank implemented the guidelines EBA/GL/2018/02 on the management of interest rate risk arising from non-trading book activities, especially: the Supervisory Outlier Test was implemented, the principles of determining internal capital for the purposes of the interest rate risk in the banking book were reviewed, as well as the analysis of sensitivity of products to the interest rates variations, assumptions used for the risk measurement and principles of validation regarding models used in the risk management process.

In order to control the interest rate risk in the banking book, the Bank applies two measures: net interest income sensitivity (N/I) to interest rate change by +/- 100 b.p. and sensitivity of the economic value of capital to changes in interest rates by +/- 200 b.p. (EVE). The comparison of these measures as at 30 June 2019 and as at 31 December 2018 is presented in the table below.

(thousands of PLN)	NII		EVE	
	- 100 b.p.	+ 100 b.p.	-200 b.p.	+200 b.p.
30-06-2019	-49,674	38,666	35,354	-64,070
31-12-2018	-50,171	36,338	19,631	-58,542
Variation	497	2,328	15,723	-5,527

In the first half of 2019, as in 2018, the above measures were within the limits/ warning limits. The asymmetrical impact of interest rates at NII and EVE results from the characteristics of interest rates for individual items sensitive to interest rates fluctuations, including, among others, limiting the decrease in individual sources of finance to 0, with negative market interest rates.

The purpose of the interest rate risk management in the trading book is to achieve financial performance, which is assumed in the financial plan for this area, with an acceptable Bank's exposure to this risk and minimizing its negative effects on instruments sensitive to interest rate fluctuations held in the trading book.

In order to monitor the interest rate risk in the trading book, BOŚ S.A. applies:

1) the Value at Risk model (VaR) calculated with the confidence level of 99% based on daily volatility of interest rates from the last 250 working days that precede the analysis date,
2) BPV (i.e. sensitivity of securities and derivatives generating interest rate risk, in case of the interest rate fluctuation by ± 1 b.p.),
3) a system of limits,
4) stress tests.

In the first half of 2019 there were no significant changes in techniques of measuring interest rate risk in the trading book.

The value of interest rate VaR in the trading book and the impact of the stress test - parallel shift of IRS and BOND yield curves by ± 200 b.p. on the Bank's result on an annual basis, was as follows (provided are the following: the maximum, minimum and average values, and the value at the reporting date):

(thousands of PLN)	10-day VaR				Stress test ±200 b.p.
	average	max	Min	as at the date	as at the date
01-01-2019 30-06-2019	470	612	282	526	-4,034
01-01-2018 30-06-2018	355	856	41	507	-2,720

In order to verify the VaR model, the Bank performs a monthly back-testing calculated by comparing maximum losses arising from the VaR model to actual gains and losses and theoretical performance fluctuations arising from revaluation of items. The results of back-testing on a monthly basis are presented in the reports prepared by the management.

The system of limits for interest rate risk management in the trading book includes:
1) limit of the 10-day VaR,
2) BPV limit for instruments generating interest rate risk in the trading book applicable both through the day and at the end of the day, separately for debt securities items and IRSs, and jointly for these two instruments,
3) maximum, two-day loss and continuous monthly loss limits on assets in the trading portfolio.

Calculation and monitoring of the level of individual limits utilization is performed as per the balance of each working day, and with respect to the BPV limits – also during the day, and systematically reported to the management.

On a monthly basis, the Bank performs a stress-test analysis by examining the development of the level of interest rate risk in the banking and trading book in case of materialization of extreme changes in risk factors.

In the banking book, the influence due to extremely unfavourable changes is primarily examined with regard to:
1) interest rates on:
   a) net interest result (NII),
   b) economic value of equity (EVE),
   c) portfolio in the banking book: securities under hedge accounting, debt securities, IRS and FX swap transactions:
      - scenarios of parallel shifts in interest rate curves by ±100 b.p.: ±500 b.p.,
      - scenarios of flattening, bending and steep running of interest rate curves
2) of exchange rates on the net interest income (NII) and economic value of equity (EVE) – the scenarios of exchange rates fluctuations by ±5%, ±10% and ±25%,
3) interest rates and exchange rates, jointly on NII and EVE – the scenarios of total fluctuations in exchange rates of ±10% and ±25% and in interest rates of ±100 b.p. (for NII), ±200 b.p. (for EVE) and ±500 b.p.
4) interest rates on sensitivity of the economic value of the bank's capital (EVE) in specific scenarios for interest rate changes, as part of a supervised outlier test. Test performed as at 30 June 2019 indicates a safe situation of the Bank.

In trading book, an impact of extremely unfavourable changes of market interest rates on Bank's result and volatility in interest rates during the 250-working-day period and correlation between the volatilities of interest rates on VaR results, is examined.

In order to analyse the impact of stress conditions, the Bank uses the following scenarios:

1) historical:
   a) the parallel shift of interest rate curves (including fat tails and spread),
   b) the bending of the interest rate curves,
   c) change in the slope of the interest rate curves,
2) parametric:
   a) the parallel shift of interest rate curves,
   b) increase in the volatility of interest rates,
   c) extremely adverse change in the correlation of interest rates.

Stress test scenarios are also performed under the assumption of changes in market liquidity and inability to close the position.

The results of this analysis show that in case of extremely unfavourable market conditions and increased Bank's positions in the instruments sensitive to the interest rate risk, the activities in the banking and in the trading portfolios remain at a safe level.

The results of interest rate risk monitoring in the banking and in the trading books, along with the results of performed stress tests, are presented in the reports prepared for the Management Board and the ALCO on a monthly basis, and - on a quarterly basis - for the Supervisory Board of the Bank and Risk Committee.

In addition, the results of the analysis regarding the interest rate risk in the trading book are provided to the Members of the Bank's Management Board and ALCO in the form of daily reports and are presented on a weekly basis in reports prepared for ALCO and the Liquidity and Market Risk Committee.

5.2.3. Currency risk

Currency risk is an asset impairment losses risk, liabilities level increase risk or a change in the Group BOŚ S.A. financial result risk, as a result of sensitivity to fluctuations in exchange rates. The risk is generated mainly in DM BOŚ S.A. (in the trading and non-trading book) and in the Bank (most of all, in the trading book).

The Bank's purpose to manage currency risk in the banking book is not to maintain open individual items. Currency exposures resulting from activities carried out in the banking book are systematically transferred to the trading book on the same day or at the latest – on the next working day.

Main currency items of the Bank are: PLN, USD, EUR and CHF.

Currency risk in DM BOŚ S.A. in non-trading portfolio results from depositing cash in foreign currencies in foreign brokers accounts who enter into transactions of purchase and sale of financial instruments on foreign stock markets at the request of DM BOŚ S.A. clients. Currency risk in the trading book also implicates items connected with business conducted by DM BOŚ S.A. in the Czech Republic branch, which are not items within a trading portfolio. DM BOŚ S.A. has, in its non-trading portfolio, open currencies positions: USD, EUR, CZK and currency risk in this portfolio is managed within the limit of the overall currency position for trading and non-trading books jointly.

Currency position resulting from the activity of the Bank in the banking book that was not transferred the given day to the trading book, is submitted to the control with limits for open currency items in the banking book, at the end of the day.

Currency risk in the trading book is generated in DM BOŚ S.A as well as in the Bank. Currency risk in the trading book concerned mainly DM BOŚ S.A, to a less extent the Bank. Net open currency position in the trading book of DM BOŚ S.A. arises from services for clients within the scope of derivative instruments trading and services performed on regulated market.

The Group has a unified system of currency risk management, calculated separately for the Bank and DM BOŚ S.A.

In order to monitor currency risk on open foreign currency positions in the trading book (balance sheet and off-balance sheet ones) similarly as in the case of interest rate risk in the trading book, the following methods are applied:

1) the Value at Risk model (VaR) calculated with the confidence level of 99% based on daily volatility of exchange rates from the last 250 working days that precede the analysis date,
2) system of limits,
3) stress tests analysis.

The value of foreign exchange VaR in the trading book of the Bank, DM BOŚ S.A. and BOŚ Group and the impact of the stress test scenario - decrease of all currency rates against PLN by 30% - on the BOŚ Group's result on an annual basis was as follows (provided are the following: the maximum, minimum and average values, and at the reporting date):

(thousands of PLN)	10-day VaR						Stress tests of BOŚ Group increase/decrease of foreign exchange rates by 30%
	Bank				DM	BOŚ GROUP	
	average	max	min	as at the date	as at the date	as at the date	as at the date
01-01-2019 30-06-2019	218	575	10	111	2,225	2,182	-26,764
01-01-2018 30-06-2018	193	820	6	202	6,054	6,097	-20,248

To verify the value at risk model, the Bank performs monthly back-testing analyses by comparing the maximum losses set using the VaR model with actual gains and losses and with theoretical fluctuations of the result arising from the positions' revaluation. The results of back-testing on a monthly basis are presented in the reports prepared by the management.

The system of limits concerning currency risk in the trading book includes:

1) limit of the 10-day VaR,
2) limits of the amounts of total and individual positions in main foreign currencies (applicable both during the day and at the end of the day),
3) limits of the daily and continuous monthly loss due to foreign exchange transactions.

Limits utilization control is performed every working day and with respect to the limits for the overall position and individual position for the main currencies of the Bank also during the day. As part of value limits for foreign exchange positions, additional limits for the client transaction handling are also monitored in the Bank during the day. Information on the level of individual limits' utilization is regularly reported to the management of BOŚ S.A.

Analyses show that the BOŚ Group's currency risk during the audited period remained at the moderate level.

Stress tests analysis is performed by the Bank on a monthly basis and it covers formation of currency risk level in the event of materialization of extreme changes in risk factors. The Bank tests mainly the impact of extremely unfavourable changes in the exchange rates against PLN and cross currency pairs EUR/ USD and EUR/CHF on foreign exchange result and changes in exchange rates volatility during the 250-working-day period and correlation between the volatility of exchange rates on the level of VaR, using both historical and parametric methods.

For the purpose of stress tests, the following scenarios are applied by the Bank:

1) historical:
   a) historical increase/decrease in exchange rates against PLN (including fat tails),
   b) increase/decrease in exchange rates of cross currency pairs EUR/CHF and EUR/USD.
2) parametric:
   a) increase/decrease in exchange rates against PLN by 30%,
   b) increase in exchange rates volatility,
   c) extremely adverse change in exchange rates correlation.

Stress test scenarios are also performed under the assumption of changes in market liquidity and inability to close the position.

The results of the stress tests show that in case of extremely unfavourable market conditions and increased exposure, the activities of the Bank in the field of currency risk remain at the safe level.

The results of the analysis of the interest rate risk in the trading book in the form of daily reports are provided to the Members of the Bank's Management Board and ALCO and are presented on a weekly basis in reports prepared for the Liquidity and Market Risk Committee, on a monthly basis in reports prepared for the Bank's Management Board and ALCO and on a quarterly basis - for the Supervisory Board of the Bank and Risk Committee.

5.2.4. Other market risks

Other market risks are a general risk and separate risks regarding prices of capital instruments, as well as the risk of commodities prices. These risks result from the impact of changes in prices of capital instruments and of commodities on the assets impairment losses risk, and liabilities level increase risk or a change in the Bank's financial result risk.
These risks occur mainly in the activity of DM BOŚ S.A. in the trading books.
Transactions on capital instruments carried out in DM BOŚ S.A. account relate to the activity of DM BOŚ S.A. as market animator and in majority of cases they are closed at the end of day. Significant engagement in capital instruments is only noted in hedged transactions opened by DM BOŚ S.A (arbitrage transactions), including those within short selling. Hedged (arbitrage) transactions consist of using a temporary price imbalances between the two markets (i.e. between prices of derivative financial instruments and prices of underlying instruments). This risk is limited by total exposure limits for hedged (arbitrage transactions) and unhedged transactions. Monitoring of these limits is performed on the daily basis.
The risk of commodities' prices occurs mainly within the OTC market, for transactions with customers of DM BOŚ S.A. and hedging transactions with Saxo Bank A/S, X-Trade Brokers Dom Maklerski S.A. or Interactive Brokers (UK) Ltd.

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5.3. Capital management

For capital adequacy purposes, the Group decided to apply transitional arrangements during the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds based on Article 1 (9) of the Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 (the Regulation) amending Regulation (EU) No 575/2013. In addition, it was decided not to apply Article 1 (4) of the Regulation 2017/2395.

Taking into account the impact of implementation of IFRS 9 with or without the use of transitional arrangements, the Group meets the applicable capital requirements as at 30 June 2019.

Due to the decision on use of transitional provisions starting from 1 February 2018, Bank Ochrony Środowiska S.A. discloses own funds, capital ratios and leverage ratio, both using and not using the transitional arrangements resulting from Article 473a of the Regulation (EU) no. 575/2013.

The level of capitals, risk-weighted asset, capital ratios, leverage ratio and internal capital in the Group, are presented below:

Specification	30-06-2019 unaudited	31-12-2018
Available capital		
Tier I core capital	2,120,929	2,094,575
Tier I core capital - without transitional provisions to IFRS 9	2,023,752	1,985,965
Tier I capital	2,120,929	2,094,575
Tier 1 capital - without transitional provisions to IFRS 9	2,023,752	1,985,965
Own funds	2,476,694	2,453,560
Own funds- without transitional provisions to IFRS 9	2,379,516	2,344,951
Risk-weighted assets		
Total amount of risk-weighted assets	13,822,092	13,671,845
- credit risk and counterparty credit risk	12,470,449	12,423,510
- Operational risk	996,100	996,100
- Market risk	337,926	231,851
- CVA Risk	17,617	20,384
Total amount of risk-weighted assets - without transitional provisions to IFRS 9	13,729,657	13,559,014
Capital ratios		
Tier I core capital ratio	15.34	15.32
Tier I core capital ratio - without transitional provisions to IFRS 9	14.74	14.65
Tier I capital ratio	15.34	15.32
Tier I capital ratio - without transitional provisions to IFRS 9	14.74	14.65
Total capital ratio	17.92	17.95
Total capital ratio - without transitional provisions to IFRS 9	17.33	17.29
Leverage ratio		
The value of exposure	19,908,501	19,439,206
Leverage ratio	10.7	10.8
Leverage ratio - without transitional provisions of IFRS 9	10.2	10.3
Internal capital		
Internal capital	1,788,598	1,414,652

Own funds and capital requirements amounts were determined according to the CRROKU Regulation (UE) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, hereinafter the CRR.

In order to minimize the risk of the decrease of capital ratio, BOŚ Group monitors the range and the structure of the Group's operations and factors that may have an result in the decrease of the Group's own funds.

On a quarterly basis BOŚ Group calculates internal capital in order to cover:

1) Pillar I risks:

- for the credit risk and counterparty credit risk - based on the regulatory requirement taking into account additional mark-up for unsupported loans (NPE) / impaired loans (NPL),
- for specific types of risk within the market risk (in which CVA) and for operating risk - based on the regulatory requirements,

2) Pillar II risks

- with respect to the risks, the level of which has been assessed as significant.

In accordance with Article 92 CRR, the Group is required to maintain the capital ratio at a minimum level of 8%. Tier I capital ratio should amount to at least 6% and the core capital ratio Tier I should amount at least to 4.5%.

According to the CRR Resolution and the Law dated 5 August 2015 on the macro-prudential oversight of the financial system and crisis management of the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. From 1 January 2019, a safety buffer amounts to 2.5 p.p., an obligatory system risk buffer amounts to 3 p.p. and anticyclic buffer 0 p.p. BOŚ Capital Group S.A. is not required to have the buffer of another institution, with systemic importance.

On 29 November 2018, the Polish Financial Supervision Authority recommended maintaining by the Group of own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage loans for households at the level of 0.50 p.p. above the TCR ratio referred to in Article 92 (1) letter c of the CRR Regulation, which should be composed of, in at least 75% of the Tier I capital (which matches the capital requirement at the level of 0.37 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b of the CRR Regulation) and in at least 56% of the Tier I core capital (which matches the capital requirement at the level of 0.28 p.p. above the value of Tier I core capital ratio referred to in Article 92 (1) letter a of the CRR Regulation).

As a result, from 1 January 2019 minimal capital ratio recommended by the Commission increased to the levels: 11.87% for the Tier I capital ratio and 14.00 % for the total capital ratio TCR.

The capital adequacy level of the Group as at 30 June 2019 was above the levels recommended by the Polish Financial Supervision Authority, both with application of IFRS 9 transitional solutions and without them.

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6. Net interest income

Specification	for the 6-month period ended 30-06-2019 unaudited				for the 6-month period ended 30-06-2018 unaudited			
Interest income and similar income on:	**Financial assets measured at amortized cost**	**Assets measured at the fair value through other comprehensive income**	**Financial assets carried compulsorily at the fair value through the financial result**	**Total**	**Financial assets measured at amortized cost**	**Assets measured at the fair value through other comprehensive income**	**Financial assets carried compulsorily at the fair value through the financial result**	**Total**
Receivables from banks and Central Bank	2,347	-	-	2,347	1,890	-	-	1,890
Receivables from institutional clients	181,427	-	1,535	182,962	173,367	-	2,339	175,706
Receivables from individual clients	63,074	-	21	63,095	67,384	-	69	67,453
investment debt securities not held for trading	17,238	47,880	68	65,186	13,868	55,820	-	69,688
Financial instruments held for trading	-	-	389	389	-	-	342	342
Total	**264,086**	**47,880**	**2,013**	**313,979**	**256,509**	**55,820**	**2,750**	**315,079**

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Specification	for the 6-month period ended 30-06-2019 unaudited			for the 6-month period ended 30-06-2018 unaudited		
Interest expense and similar charges on:	**Financial liabilities measured at amortized cost**	**Financial liabilities measured at fair value through financial result**	**Total**	**Financial liabilities measured at amortized cost**	**Financial liabilities measured at fair value through financial result**	**Total**
Bank accounts and deposits from banks	547	-	547	834	-	834
Bank accounts and deposits from institutional clients	23,685	-	23,685	28,767	-	28,767
Bank accounts and deposits from individual clients	63,127	-	63,127	72,149	-	72,149
Credits and loans from banks	4	-	4	161	-	161
Credits and loans from customers	497	-	497	578	-	578
Funds resources intended for lending (JESSICA)	120	-	120	185	-	185
Financial instruments - issued own debt securities	9,554	-	9,554	25,127	-	25,127
Hedging transactions	-	4,821	4,821	-	4,766	4,766
Liabilities due to leases IFRS 16	1,881	-	1,881			
Other	137	-	137	-	-	-
Total	**99,552**	**4,821**	**104,373**	**127,801**	**4,766**	**132,567**

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7. Net fee and commission income

Specification	for the 6-month period ended 30-06-2019 unaudited	for the 6-month period ended 30-06-2018 unaudited
Fee and commission revenue		
Fees for brokerage services	32,089	34,124
Fees for servicing customer accounts and other domestic and international settlement transactions	18,383	20,385
Commissions on credits	17,214	13,263
Commissions on guarantees and letters of credits	2,716	2,196
Fees related to the portfolio management and other fees related to the management	186	231
Other fees	1	-
Total	**70,589**	**70,199**
Fee and commission expenses		
Fees related to brokerage activity, in which:	12,004	10,891
fiduciary activities	177	186
Payment cards fees	3,530	3,442
Current account fees	622	753
Charges for services provided by Euronet	522	510
Commissions on receivables from customers	340	341
Commissions paid to other banks in cash transactions	2	205
Other fees	1,336	1,786
Total	**18,356**	**17,928**

8. Dividend income

Specification	for the 6-month period ended 30-06-2019 unaudited	for the 6-month period ended 30-06-2018 unaudited
Securities held for trading measured the fair value through the financial result	84	50
Securities measured at fair value through other comprehensive income	5,447	5,796
Total	**5,531**	**5,846**

Interim condensed consolidated financial statementsin PLN thousand

9. Result on financial instruments measured at fair value through the financial result

Specification	for the 6-month period ended 30-06-2019 unaudited	for the 6-month period ended 30-06-2018 unaudited
Securities held for trading	- 687	- 6,264
Derivative financial instruments	19,655	33,431
Receivables from clients	-80	16,821
Total	**18,888**	**43,988**

10. Result on investment securities

Specification	for the 6-month period ended 30-06-2019 unaudited	for the 6-month period ended 30-06-2018 unaudited
Result on sale of securities measured at fair value through other comprehensive income	591	1,644
Total	**591**	**1,644**

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11. Other operating revenues

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Release of provisions for liabilities, of which:	3,914	609
provisions for liabilities and claims	273	338
other provisions	3,641	271
Revaluation of fixed assets	-	-
Income from release of write-offs on receivables	701	1,447
Income from recoveries prescribed, remitted and uncollectable	2	2
Income from sale or liquidation of fixed assets, intangible assets	143	112
Revenues from debt collection fee	985	285
Revenues from sale of goods and services	4,242	2,967
Interest adjustment to terminated deposits from previous years	307	400
Income with respect to compensation, penalties and fines	39	25
Other	1,497	1,903
Total	**11,830**	**7,750**

12. Other operating expenses

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Liquidation of property, plant and equipment, and intangible assets	107	185
Donations made	810	390
Provisions for liabilities and claims, including:	1,430	520
provision for liabilities and claims	1,408	520
other provisions	22	-
Write-offs on receivables	1,095	855
Costs of debt collection	2,834	3,605
Interest and commissions adjustment on loans from previous years	1,100	4,177
Costs of lease payments	-	-
Costs of maintenance or administration of own premises rented	56	194
Costs of compensation, penalties and fines	866	150
Costs of incorrect brokerage transactions	41	-
Other	1,266	1,962
Total	**9,605**	**12,038**

13. Net impairment losses

Interim condensed consolidated financial statementsin PLN thousand

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Securities measured at fair value through other comprehensive income	- 22	-
Securities measured at amortized cost	1	-
Receivables from banks	60	-
Receivables from clients and off-balance liabilities, in which:	-39,102	- 66,418
balance sheet receivables	- 35,162	- 72,705
from individual customers	- 15,365	- 22,953
from institutional clients	- 19,797	- 49,752
off-balance sheet liabilities	- 3,940	6,287
from individual customers	542	235
from institutional clients	- 4,482	6,052
Total	**- 39,065**	**- 66,418**

Impairment losses write offs for receivables from clients:

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Individual measurement	- 26,383	- 61,334
Group measurement	- 8,779	- 11,371
Total	**- 35,162**	**- 72,705**

Interim condensed consolidated financial statementsin PLN thousand

14. General administrative expenses

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Employee benefits	81,063	84,821
Administrative expenses, of which:	**85,826**	**82,325**
material expenses	47,016	55,684
taxes and fees	2,775	2,421
contribution and payments to the BGF	34,655	23,358
contribution and payments to the PFSA	1,283	650
contribution to cover operating costs of the Financial Ombudsman	51	67
contribution to the Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)	46	46
other	-	99
Amortization/ depreciation, of which:	**28,144**	**19,747**
fixed assets	6,277	7,101
intangible assets	13,041	12,646
right to use IFRS 16	**8,826**	**-**
Total	**195,033**	**186,893**

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15. Tax charges

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Current tax	- 12,776	- 13,142
Deferred tax	- 6,079	- 3,340
Total	**- 18,855**	**- 9,802**
Gross profit	**62,974**	**43,981**
Income tax at 19% tax rate	- 11,965	- 8,356
Permanent differences between profit before tax and tax base:	- 6,742	- 1,446
decreasing:	2,281	7,289
impairment allowance released	181	84
dividends received	1,051	1,092
other	1,049	6,113
increasing	- 9,177	- 8,740
recognition of impairment allowance	- 632	- 441
contributions to the BGF	- 6,584	- 4,438
other	- 1,961	- 3,861
deduction from taxable income	154	5
donations	154	5
Tax charges of the current year financial result	**- 18,707**	**- 9,802**
Change in charges recorded in the current year regarding previous years	**- 148**	
Total tax charges	**- 18,855**	**- 9,802**
Effective tax rate	**30%**	**22%**

16. Earnings per share

Basic earnings per share are calculated as profit of the Bank's shareholders divided by the weighted average number of ordinary shares during the year.

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Net profit	44,119	34,179
Weighted average number of ordinary shares (in thousands)	92,910	62,835
Earnings per share (in PLN, groszy)	0.47	0.54

The diluted earnings per share are equal to the basic earnings per share in the presented periods.

17. Receivables from other banks

Specification	30-06-2019 unaudited	31-12-2018
Deposits placed in other banks, recognized as cash equivalents	42,733	106,985
Deposits placed in other banks for less than 3 months, in which:	16,908	18,151
Deposits placed in other banks for less than 3 months (cash of DM BOŚ S.A. clients)	12,742	-
Receivables from secured derivatives	77,697	58,658
Debt securities classified to the portfolio of receivables from other banks	15,074	15,074
Total gross	**152,412**	**198,868**
Impairment write offs for debt securities classified to the portfolio of receivables from other banks	- 2,705	- 2,764
Total net	**149,707**	**196,104**

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18. Financial assets and liabilities held for trading

Assets	30-06-2019 unaudited	31-12-2018
Derivative financial instruments, of which:	70,662	75,727
foreign exchange transactions and currency derivatives transactions	4,139	15,494
transactions using interest rate derivatives	57,058	51,206
futures and options	9,465	9,027
Securities held for trading	88,301	12,034
debt securities	66,806	2,903
equity securities	21,495	9,131
Financial assets held-for-trading in total	**158,963**	**87,761**

Liabilities	30-06-2019 unaudited	31-12-2018
Derivative financial instruments, of which:	60,087	54,336
foreign exchange transactions and currency derivatives transactions	4,307	5,546
transactions using interest rate derivatives	54,766	48,049
futures and options	1,014	741
Financial liabilities held-for-trading in total	**60,087**	**54,336**

19. Derivatives - hedge accounting

Hedge accounting principles adopted

Out of all BOŚ Group entities only the Bank applied hedge accounting.

Hedge accounting is an integral element of the financial risk management in BOŚ S.A. Financial risk management is carried out in accordance with existing Bank's risk management process.

The interest risk in the banking book is a hedged risk. The Bank uses fair value hedges to hedge the fair value of State Treasury fixed-rate bonds.

Cash flow hedge accounting

As at 30 June 2019, BOŚ Group did not apply cash flow hedge accounting.

Fair value hedge accounting

During the hedging period, the Bank hedges the fluctuation of fair value of fixed rate bonds depending on changes in market interest rates. The hedged item is the part of treasury bonds held in Ht&S business portfolio. The hedging instrument are Interest Rate Swap (IRS) transactions, in which the Bank makes payments based on the fixed interest rate and receives a coupon based on floating rate (6-month WIBOR).

By establishing a hedging relationship, the netting effect of changes in the fair value of the hedging instrument and the hedged item is obtained in the income statement. Only one type of risk (i.e. interest rate volatility risk) is hedged. The spread between the quotation of treasury bonds and IRS transactions is excluded from hedging.

Hedging is expected to be highly effective in offsetting fair value changes resulting from the hedged risk. The effectiveness of the hedge is verified through the use of prospective and retrospective effectiveness tests. The prospective tests are based on the analysis of BPV measures of hedged item and hedging instrument. The retrospective test is performed on the basis of direct compensation method in which the changes of value of hedging transactions and hedged item resulting from hedged risk condition are compared. Retrospective tests give a positive results, when efficiency rating coefficient is within the range <0.8;1.25>. Tests are carried out on a quarterly basis. The Bank does not identify significant sources of inefficiency for hedging of fair value.

The change in fair value of hedged item resulting from fluctuation of market interest rates is recognized in the statement of profit or loss. Changes in fair value of bonds which are not resulting from fluctuation of hedged risk condition are recognized in the revaluation reserve. The changes in valuation of hedging instrument are recognized in the statement of profit or loss.

As at 30 June 2019, the Bank had two fair value hedging relationships - hedging established in July 2012 and hedging established on 20 October 2015.
Hedged item according to the hedge accounting relationship established in:

- 2012 covers State Treasury bonds: DS1019 with maturity in October 2019 for the nominal value of PLN 77 million and DS1020 with maturity in October 2020 for the nominal value of PLN 172 million;
- in 2015 it covers PLN 240 million for the State Treasury bonds DS0725 with maturity in July 2025.

As at 30 June 2019 the amount of PLN 4,931 thousand resulting from changes in fair value of bonds due to interest rate risk and the fair value of IRS transactions was recognized in the statement of profit or loss. The amount of PLN -10,379 thousand was recognized in the revaluation reserve. It represented the sum of the impact of bonds on equity established at the date of hedge relationship establishment (PLN -11,345 thousand) and change in the fair value of bonds resulting from the unhedged part of the risk (spread between bonds and IRS quotations).

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Specification	30-06-2019 unaudited			31-12-2018		
	carrying value	nominal value	fair value*\	carrying value	nominal value	fair value*\
Hedging instruments						
Interest Rate Swap (IRS) – negative valuation	29,386	536,000	15,144	18,298	536,000	13,694
Hedged item						
Treasury bonds – positive valuation	529,602	489,000	20,075	520,571	489,000	18,489
Total impact on result			**4,931**			**4,795**

*\for hedged bonds it is an adjustment of the fair value.

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20. Receivables from clients

Specification	30-06-2019 unaudited			31-12-2018		
	Receivables from customers gross	Impairment losses write-offs	Receivables from customers net	Receivables from customers gross	Impairment losses write-offs	Receivables from customers net
Measurement at amortized cost	**12,636,947**	**1,080,829**	**11,556,118**	**12,743,274**	**1,043,433**	**11,699,841**
Receivables from individual customers	**3,828,287**	**241,122**	**3,587,165**	**3,946,995**	**239,757**	**3,707,238**
credits on current account	4,226	1,312	2,914	1,765	1,271	494
cash loans	363,273	61,909	301,364	335,927	60,252	275,675
home loans	3,101,575	136,893	2,964,682	3,205,780	134,999	3,070,781
other credits and loans	359,213	41,008	318,205	403,523	43,235	360,288
Receivables from institutional clients	**8,808,660**	**839,707**	**7,968,953**	**8,796,279**	**803,676**	**7,992,603**
Revolving loans	575,951	117,312	458,639	558,336	108,530	449,806
term credits and loans	7,704,920	705,004	6,999,916	7,450,853	677,853	6,773,000
factoring receivables	400,067	10,590	389,477	412,687	9,927	402,760
leasing receivables	68,868	6,020	62,848	61,162	5,628	55,534
purchased receivables	58,854	781	58,073	69,595	804	68,791
commercial securities	-	-	-	243,646	934	242,712
Measurement at fair value through financial result			**89,771**			**104,653**
Receivables from individual customers			**2,448**			**3,101**
housing credits and loans	-	-	768	-	-	904
other credits and loans	-	-	1,680	-	-	2,197
Receivables from institutional clients			**87,323**			**101,552**
Revolving loans	-	-	193	-	-	181
term credits and loans	-	-	87,130	-	-	101,371
Total			**11,645,889**			**11,804,494**
Security deposits made	-	-	3,457	-	-	5,023
Other receivables	-	-	-	-	-	10
Total of receivables from clients			**11,649,346**			**11,809,527**

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Changes in impairment write offs on receivables from the customers,

Specification	Write-offs on receivables from individual customers				Write-offs on receivables from institutional clients			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At the beginning of the period 01-01-2019	11,328	7,065	221,364	239,757	47,684	100,352	655,640	803,676
Change of write-offs resulting from acquisition of financial assets	2,154	11	-	2,165	8,399	472	-	8,871
Change in write-offs' assessment	- 4,371	10,003	15,874	21,506	- 14,367	15,201	42,071	42,905
Change of write-offs resulting from Derecognition of the financial asset in which:	- 489	- 54	- 21,866	- 22,409	- 5,928	- 2,528	- 7,186	- 15,642
change in write-offs resulting from financial instruments that were written-off from the statement of financial position	-	- 33	- 20,143	- 20,176	-	-	- 4,858	- 4,858
Change of write-offs resulting from the transfers of the financial asset to another Stage	723	- 105	- 618	-	8,280	2,554	- 10,834	-
Reclassification to Stage 1	1,005	- 789	- 216	-	14,521	- 14,521		-
Reclassification to Stage 2	- 219	2,989	- 2,770	-	- 5,793	19,334	- 13,424	117
Reclassification to Stage 3	- 63	- 2,305	2,368	-	- 448	- 2,259	2,590	- 117
Other changes	-	-	103	103	- 177	182	- 108	- 103
At the end of the period 30-06-2019	**9,345**	**16,920**	**214,857**	**241,122**	**43,891**	**116,233**	**679,583**	**839,707**

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Specification	Write-offs on receivables from individual customers				Write-offs on receivables from institutional clients			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At the beginning of the period 01-01-2018	14,704	9,286	174,013	198,003	42,427	87,695	592,302	722,424
Change of write-offs resulting from acquisition of financial assets	2,053	13	1	2,067	5,058	499	30	5,587
Change in write-offs' assessment	- 3,963	67	34,099	30,203	- 9,321	13,514	71,613	75,806
Change of write-offs resulting from derecognition of the financial asset in which:	- 817	- 138	- 8,520	- 9,475	- 2,933	- 3,980	- 45,646	- 52,559
change of write-offs resulting from financial instruments that were written-off from the statement of financial position	-	-	- 6,678	- 6,678	-	-	- 41,739	- 41,739
Change of write-offs resulting from the transfers of the financial asset to another Stage	872	- 1,342	470	-	4,488	6,727	- 11,215	-
Reclassification to Stage 1	1,132	- 1,022	- 110	-	11,580	- 11,357	- 223	-
Reclassification to Stage 2	- 186	3,407	- 3,221	-	- 6,591	20,718	- 14,127	-
Reclassification to Stage 3	- 74	- 3,727	3,801	-	- 501	- 2,634	3,135	-
Other changes	- 36	- 46	622	540	776	42	585	1,403
At the end of the period 30-06-2018	**12,813**	**7,840**	**200,685**	**221,338**	**40,495**	**104,497**	**607,669**	**752,661**

Interim condensed consolidated financial statementsin PLN thousand

21. Investment securities

Specification	30-06-2019 unaudited			31-12-2018		
	Measured at fair value through other comprehensive income	Measurement at amortized cost	Total	Measured at fair value through other comprehensive income	Measurement at amortized cost	Total
Debt securities	4,292,154	1,383,564	5,675,718	4,015,998	1,375,268	5,391,266
State Treasury bonds	2,399,315	1,333,426	3,732,741	2,324,613	1,325,877	3,650,490
NBP money bills *- recorded as cash equivalents*	1,679,531	-	1,679,531	1,439,760	-	1,439,760
corporate bonds	-	-	-	-	-	-
local authorities bonds	213,308	-	213,308	251,625	-	251,625
bonds from other financial institutions	-	50,138	50,138	-	49,391	49,391
Equity securities	85,026	-	85,026	85,027	-	85,027
quoted	18,543	-	18,543	18,543	-	18,543
not quoted	66,483	-	66,483	66,484	-	66,484
Total	**4,377,180**	**1,383,564**	**5,760,744**	**4,101,025**	**1,375,268**	**5,476,293**

Interim condensed consolidated financial statementsin PLN thousand

22. Amounts due to customers

Specification	30-06-2019 unaudited	31-12-2018
Individual customers	9,084,820	8,825,702
current/settlement accounts	3,990,386	3,983,914
term deposits	5,094,434	4,841,788
Institutional customers	4,800,990	4,942,446
current/settlement accounts	2,783,549	3,081,552
term deposits	2,017,441	1,860,894
Other customers	139,325	92,448
Credits and loans from international financial institutions	778,072	881,593
Funds from resources intended for lending	54,784	56,920
Total	**14,857,991**	**14,799,109**

Interim condensed consolidated financial statementsin PLN thousand

23. Liabilities related to the issue of bank securities

Specification	Currency	Interest Rates	Maturity date /redemption	30-06-2019 unaudited		31-12-2018	
				Nominal value	Balance of liabilities	Nominal value	Balance of liabilities
Debt securities					**46,590**		**46,590**
U series bonds	PLN	WIBOR 6M + margin (6-months coupons)	4 years	46,000	46,590	46,000	46,590
Total				**46,000**	**46,590**	**46,000**	**46,590**

Interim condensed consolidated financial statementsin PLN thousand

24. Subordinated debt

Series	Currency	Interest Rates	Maturity/redemption	30-06-2019 unaudited		31-12-2018	
				Nominal value	Balance of liabilities	Nominal value	Balance of liabilities
AA1-Series	PLN	WIBOR 6M + margin (6-months coupons)	7 years (redemption option after 5 years)	34,214	35,074	34,214	35,086
AA2 Series	PLN	WIBOR 6M + margin (6-months coupons)	7 years (redemption option after 5 years)	65,786	66,406	65,786	66,403
P Series	PLN	WIBOR 6M + margin (6-months coupons)	10 years (redemption option after 5 years)	150,000	152,843	150,000	152,886
R1 Series	PLN	WIBOR 6M + margin (6-months coupons)	10 years (redemption option after 5 years)	83,000	83,896	83,000	83,896
W Series	PLN	WIBOR 6M + margin (6-months coupons)	7 years (redemption option after 5 years)	32,500	33,316	32,500	32,401
Total				**365,500**	**371,535**	**365,500**	**370,672**

Interim condensed consolidated financial statementsin PLN thousand

25. Provisions

Specification	30-06-2019 unaudited	31-12-2018
Provisions for contingent liabilities, of which:	24,730	20,798
open credit lines	15,477	11,573
guarantees	9,253	9,225
Provision for employee benefits (retirement and pension benefits)	3,078	3,076
Provisions for liabilities and claims	4,946	11,899
Total	**32,754**	**35,773**

26. Core capital

Registered share capital

As at 30 June 2019 the share capital amounted to PLN 929,476.71 thousand and did not change as compared to 31 December 2018.

Series / issue	Type of shares	Type of preference of shares	Number of shares	Value of series /issue according to nominal value in PLN thousand	Manner of covering	Date of registration	Right to dividend (since when)
A	O	ordinary	236,700	2,367	paid up	09-01-91	01-01-92
B	O	ordinary	1,263,300	12,633	paid up	11-03-92	01-01-93
C	O	ordinary	477,600	4,776	paid up	30-12-92	01-01-93
C	O	ordinary	22,400	224	Contribution in kind	30-12-92	01-01-93
D	O	ordinary	1,300,000	13,000	paid up	30-12-93	01-01-94
E	O	ordinary	647,300	6,473	paid up	30-06-94	01-01-95
E	O	ordinary	15,500	155	Contribution in kind	30-06-94	01-01-95
E	O	ordinary	37,200	372	Contribution in kind	30-06-94	01-01-95
F	O	ordinary	1,500,000	15,000	paid up	30-12-94	01-01-95
G	O	ordinary	1,260,000	12,600	paid up	30-06-95	01-01-96
H	O	ordinary	670,000	6,700	paid up	30-06-95	01-01-96
I	O	ordinary	70,000	700	paid up	30-06-95	01-01-96
J	O	ordinary	1,055,000	10,550	paid up	21-06-96	01-01-96
K	O	ordinary	945,000	9,450	paid up	21-06-96	01-01-96
L	O	ordinary	1,200,000	12,000	paid up	29-11-96	01-01-96
M	O	ordinary	2,500,000	25,000	paid up	07-05-98	01-01-97
N	O	ordinary	1,853,000	18,530	paid up	13-06-07	01-01-07
O	O	ordinary	1,320,245	13,202	Contribution in kind	25-06-10	01-01-10
P	O	ordinary	6,500,000	65,000	paid up	15-06-12	01-01-11
U	O	ordinary	40,000,000	400,000	paid up	12-07-17	01-01-16
V	O	ordinary	30,074,426	300,744	paid up	04-07-18	01-01-18
Total number of shares			**92,947,671**				
Total share capital at nominal value				**929,477**			
Total share capital				**929,477**			

Par value of one share: PLN 10.00.

As at 30 June 2019 total number of votes resulting from all issued shares by the Bank amounted to 92,947,671 and did not change as compared to 31 December 2018.
One share gives right to one vote at the General Shareholders Meeting.
Other shareholders hold in total 27.8% of shares in the Bank's share capital.
As at the date of preparation of the consolidated financial statements no changes in the ownership structure of large block of shares are known.

Own shares

In the I half of 2019 there were no changes compared to the status described in the annual consolidated financial statements of BOŚ Group for the period of 12 months ended 31 December 2018.

Share premium

Share premium is recorded in the amount of the excess earned upon issue of shares after accounting for the costs of share issue.

As at 30 June 2019 and 31 December 2018 the supplementary capital amounted to PLN 532,851 thousand.

27. Contingent assets and liabilities

Information on instituted court proceedings regarding loans denominated in foreign currencies

As at 30 June 2019, the Bank is in the possession of the portfolio containing 8,655 of retail loans and mortgage credits related to the foreign currency (CHF, EUR, USD) mainly in CHF, as the option of credits and loans denominated, for the amount of 1,677,707~~,487.98~~ thousand PLN
As for the 30 June 2019, 63 cases against the Bank were pending before the courts, related to the credits and loans denominated, mainly in CHF, for the total value of the dispute 11,371~~0,539.54~~ thousand PLN. Provisions for legal risk related to disputes have been created for the amount of PLN 2,686~~5,618.68,~~ thousand based on the assessment of the legal risk in relation to individual cases pending against the Bank.
No proceedings against the Bank are pending under the Act of December 17, 2009 on redress in group proceedings.
Claims submitted in actions resulting from the denominated credits and loans generally relate to the recognition of the credit / loan agreement as invalid, alternatively to the recognition of abusiveness of denomination clauses (conversion clauses) and insurance clauses that regulate bridge safeguards (low deposit insurance and credit insurance until the mortgage is established).
The result of the court cases legally terminated regarding denominated credits and loans is favourable for the Bank.
In the jurisprudence of common courts, decisions made in the context of disputes related to credit and loan agreements denominated in foreign currencies were based on:

1) declaring non-abusive conversion clauses, as a result of which the action against the Bank was dismissed;
2) defining conversion clauses as abusive and maintaining the contract in force to the extent not affected by abusiveness; such decisions implied:
   - the so-called "de - franking" of credit, which means that the effect of abusiveness of the standard, which provides for the valorisation of a credit with a foreign currency exchange rate

and the exchange rate norm (referring to the Bank's Exchange Rate Table) is the fall of valorisation and the determination of the borrower's liability as a PLN credit bearing the LIBOR rate appropriate for the currency CHF. The result of such decisions is that the banks are ordered to pay the differences between the sums of principal and interest instalments calculated and paid on the basis of contracts and those which will be calculated without conversion clauses, as well as further settlement of credit agreements according to the rule that the credit is in PLN with the LIBOR rate appropriate for the CHF currency;

or

- "Supplementing" the contract with another disposable norm in place of the exchange rate standard recognized as abusive (referring to the Bank's table of exchange rates). The Supreme Court in several judgments argued in favour of applying in place of the abusive exchange rate norm referring to the Bank's Exchange Rate Table, the average exchange rate announced by the National Bank of Poland. The effect of such a decision is that the banks are ordered to pay exchange rate differences between the rate used for settling credits by banks and the average rate of NBP. Foreign exchange differences have the value similar to the currency spread value
  Case-law of common courts not questioning the legality of the valorisation of credits and loans with a foreign currency exchange rate and at the same time recognizing the abusiveness of exchange rate standards (referring to the Bank's Exchange Rate Table) and seeking an alternative, objective indicator, e.g. the average exchange rate of the National Bank of Poland (disposable provision of domestic law), refers to case-law of CJEU and to the Supreme Court judgments. However, the Supreme Court's uniform case-law to date regarding the effects of abusiveness of the exchange rate norm based on the recognition that credit / loan agreements expressed by a foreign currency exchange rate are permissible and legal and that, after excluding the exchange rate norm considered abusive, the loan agreement retains the existing nature of the loan agreement indexed, has been broken recently due to two judgments in which the Supreme Court ruled on the fall of indexation with a foreign currency exchange rate and concluded that it was a PLN loan agreement bearing the LIBOR rate appropriate for the CHF currency;

3) The credit agreement was judged invalid due to the violation of law. Such a decision causes the parties to the contract to return mutual benefits. Applicable legal provisions justify the claims of banks against the borrowers for remuneration for the use of the bank's money.

Both the banking sector and the national courts are awaiting a ruling on the preliminary question referred by the Polish court to the Court of Justice of the European Union (CJEU), regarding the effects of abusive contractual provisions in credit agreements indexed to a foreign currency rate. The CJEU ruling will affect the case law of national courts. As at the date of these financial statements, the ruling of CJEU has not been issued. According to the CJEU General Ombudsman's opinion dated 14 May 2019, the foreign exchange difference clause is an unfair contractual condition which may result in transforming the contract from an indexed agreement to CHF into a loan in the national currency PLN, with an interest rate LIBOR CHF applicable to the CHF currency.
Currently, it is not possible to determine the impact of the CJEU ruling on the national case law, which means it is impossible to assess the effects of any changes in the national case law on the legal risk related to credit agreements indexed to a foreign currency rate.
The Bank performs a current monitoring of the court rulings -law regarding the credits denominated in foreign currency in terms of possible changes in ruling lines.

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Off-balance assets and contingent liabilities

Specification	30-06-2019 unaudited	31-12-2018
Contingent liabilities:	**2,304,166**	**1,806,671**
Financial, in which:	1,945,602	1,477,738
open credit lines, in which:	1,913,001	1,461,556
- revocable	1,650,904	1,206,274
- irrevocable	262,097	255,282
open import letters of credit	13,849	14,065
commitments to grant credits, of which:	18,752	2,117
- revocable	-	-
- irrevocable	18,752	2,117
limits on FX transactions	-	-
other	-	-
Guarantees, in which:	328,138	328,933
collaterals and credit repayment guarantees	14,453	14,833
performance bonds	313,685	-
guarantee for a subsidiary	-	314,100
- commitments to grant the guarantee	-	-
other	-	-
Issue underwriting	-	-
Securities to be obtained	30,426	-
Contingent assets:	**661,881**	**611,322**
Financial, in which:	191,340	193,500
open credit lines	191,340	193,500
Liabilities from NFOŚiGW and WFOŚiGW due to syndicated credits	-	-
Other	-	-
Guarantees	457,839	405,854
Other	12,702	11,968
Total contingent assets and contingent liabilities	**2,966,047**	**2,417,993**

Interim condensed consolidated financial statementsin PLN thousand

28. Additional information to the statement of cash flows

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include the following highly liquid balances with the maturity period shorter than three months.

Specification	30-06-2019 unaudited	31-12-2018	30-06-2018
Cash and balances with the Central Bank	212,505	186,736	443,913
Deposits placed in other banks, recognized as cash equivalents	46,899	106,985	43,397
Investment securities	1,679,531	1,439,760	2,519,284
Total	**1,938,935**	**1,733,481**	**3,006,594**

Cash and cash equivalents include the amount of obligatory reserve held with the NBP by the Bank.

The Management Board of the National Bank of Poland (pol: NBP) on 21 June 2018 decided on exemption of the Bank from maintaining the 55% of the required minimum reserve. This exemption will apply from 02 July 2018 to 31 December 2021.
In accordance with Paragraph 12 of the NBP Resolution No. 40/2015, the Bank may use the funds held in the obligatory reserve for current cash settlements.

The reserve declared to be maintained in June 2019 amounted to PLN 197,190 thousand (in June 2018 it amounted to PLN 464,746 thousand).
The Bank has to maintain an average balance of cash and cash equivalents above the declared obligatory reserve during each month.

Interim condensed consolidated financial statementsin PLN thousand

Explanation of differences between the changes in balance sheet balances and the cash flow statement (operating activities) items:

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Change in receivables from other banks	46,397	225,895
Change in deposits placed in other banks, recognized as cash equivalents	- 60,086	- 254,619
Change of deposit balance held in other banks and receivables from other banks in total	**- 13,689**	**- 28,724**
Change in investment securities	- 284,451	- 875,374
Change in investment securities classified as cash	239,771	919,733
Interest received on securities measured at amortized cost	- 28,251	-
Reclassification of interest from securities measured at amortized cost to interest from investing activities	36,547	-
Revaluation of financial assets carried at fair value through other comprehensive income	- 11,271	60,796
Change in investment securities in total	**- 47,655**	**105,155**
Change in other assets and in income tax	24,236	56,251
Deferred income tax presented in the statement of profit or loss	- 6,079	- 3,340
Deferred income tax on valuation of investment securities	2,152	17,784
Non-cash changes in intangible assets and tangible fixed assets	- 616	94
Change in other assets and income tax	**19,693**	**77,469**
Change in other liabilities and in income tax	51,686	- 122,658
Current income tax charge	- 12,776	- 13,142
Income tax paid	15,941	17,033
Change in other liabilities in total	**54,851**	**- 118,767**

Interim condensed consolidated financial statementsin PLN thousand

Explanation of differences between the balance changes and the changes recorded in financial activity of the cash flow statement regarding these items

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Change in liabilities relating to banking securities issued and subordinated debt	863	- 703,555
Redemption of bonds, in which:	-	700,000
subordinated bonds	-	120,000
- ordinary	-	580,000
Interest paid on bonds issued by the Bank, of which:	8,688	28,667
- on subordinated bonds	7,904	14,675
- ordinary	784	13,992
Accrued interest on bonds issued by the Bank, of which:	- 9,551	- 25,112
- on subordinated bonds	- 8,767	- 13,341
- ordinary	- 784	- 11,771
Change in liabilities relating to banking securities issued in total	**-**	-

Interim condensed consolidated financial statementsin PLN thousand

29. Fair value of financial assets and liabilities

The carrying amount and the fair value of financial assets and liabilities other than measured at fair value in the consolidated financial statements are presented below:

Specification	Carrying value as at 30-06-2019 unaudited	Fair value as at 30-06-2019 unaudited	Carrying value as at 31-12-2018	Fair value as at 31-12-2018
FINANCIAL ASSETS				
Receivables from other banks	**149,707**	**154,904**	**196,104**	**197,639**
Receivables from clients, in which:	**11,649,346**	**11,529,143**	**11,809,527**	**11,734,365**
- loans denominated in Polish zloty	8,982,453	8,893,039	9,050,026	8,980,787
- loans denominated in foreign currencies	2,666,893	2,636,104	2,759,501	2,753,578
Investment securities measured at amortized cost	**1,383,564**	**1,424,394**	**1,375,268**	**1,409,156**
Debt securities, in which:	1,383,564	1,424,394	1,375,268	1,409,156
State Treasury	1,383,564	1,424,394	1,375,268	1,409,156
FINANCIAL LIABILITIES				
Amounts due to Central Bank and other banks	**551,783**	**551,783**	**571,784**	**571,784**
Amounts due to customers, of which:	**14,857,991**	**14,862,860**	**14,799,109**	**14,805,470**
-Institutional customers	4,855,774	4,856,448	4,999,366	5,000,003
- individual customers	9,084,820	9,087,894	8,825,702	8,829,997
- other clients	139,325	139,325	92,448	92,448
- International financial institutions	778,072	779,193	881,593	883,022
Liabilities related to the issue of bank securities	**46,590**	**46,592**	**46,590**	**46,612**
Subordinated debt	**371,535**	**453,900**	**370,672**	**444,568**

Receivables from other banks

Amounts due from other banks comprise inter-bank deposits, nostro accounts, credits and loans. Due to the short maturity period of inter-bank deposits (up to 6 months, inter-bank deposits with fixed interest rate), their fair value is equal to the carrying value. Bonds issued by banks were valued at fair value, after accounting for a change in the credit spread calculated on the basis of comparable issues by similar banks.

Receivables from clients

Receivables from clients are presented net of impairment allowance. In the balance sheet, receivables from clients are mainly measured at amortized cost and using the effective interest rate (99% of the carrying value of credits).

The fair value of credits is calculated based on the present value of future cash flows arising from the capital and interest (separately for credits granted in Polish zloty and other currencies) calculated on the basis of the effective interest rate for each credit (except for credits without a schedule set or non-performing credits, for these the carrying amount is taken for the fair value) discounted using the average effective rate of credits granted in the last twelve months. For mortgage loans, advance payments were taken into account. In case of credits in foreign currency, which have been discontinued by the Bank, effective interest rate of the corresponding credits in PLN, adjusted with the difference between the levels of interest rates in the different currencies and PLN.

Investment securities measured at amortized cost

Investment securities measured at amortized cost include State Treasury bonds assigned to the HtC business model. A fair value for the bonds is assumed as the current valuation from the market quotation, increased by accrued interests.

Amounts due to Central Bank and other banks

Amounts due to the Central Bank as well as liabilities related to repo transactions were reported at carrying amount. Liabilities related to repo transactions were carried at carrying amount due to the lack of available market data necessary to calculate the fair value of basic repo transactions of the Bank with a customer.
Due to the short-term, interbank deposits were recorded at carrying amount, and the outstanding loans (principal and interest) were discounted using the average effective interest rate.

Amounts due to customers

Liabilities in the balance sheet are stated at amortized cost using the effective interest rate method. As the fair value of liabilities the Bank takes the value resulting from discounting of principal and interest for all deposits by applying weighted average interest rate that was in force for deposits taken in June 2019. Current accounts, due to the lack of schedules, are recorded at carrying amount.
Liabilities (capital and interest) to international financial institutions were discounted using average effective interest rate (for EUR) or for the last transaction made in the given currency (for PLN).

Liabilities arising from the issue of securities

Liabilities arising from the issue of securities issued are measured at fair value including the change of the credit spread for bonds in PLN calculated on the basis of Bank's issue in 2015 in PLN.

Subordinated debt

Subordinated debt is measured at fair value, after considering the difference in credit spread calculated on the basis of the Bank's issue in 2017.

30. Breakdown of financial instruments measured at fair value by the valuation method

The fair value in accordance with IFRS 13 is defined as the price that would be received from selling an asset or paying for the transfer of liability in an transaction on normal terms, in the main (or the most advantageous) market at the measurement date in the current market conditions (meaning the output price) regardless whether that price is directly observable or estimated using other valuation techniques. In estimating the fair value of financial instruments, the Group takes into account the adjustment for counterparty credit risk.

As at 30 June 2019 and as at 31 December 2018, the Group classified financial assets and liabilities measured at fair value within three categories (levels) according to their valuation method:

- **Level 1:**valuation method – mark-to-market, directly from available market quotations of instruments. This relates to quoted equity and debt securities and NBP bills (quotations based on reference rate),
- **Level 2:** valuation method - mark-to-model with model parametrization based on quotations from an active market for the given type of instruments or prices obtained in transactions made on the date close to the balance sheet date on an arm's-length basis. Fair value is also determined based on reference to other, similar instruments, by analysis of discounted cash flows and other valuation methods commonly used by the market participants and for the financial instruments whose valuation is not possible – at acquisition cost. This applies to unlisted banking securities, equity securities and derivatives (including forward transactions on securities) except for those that fall under level 3. Additionally DM BOŚ holds shares in available for sale portfolio for which there is no active market. Due to the above the fair value of these securities is based on the valuation model developed by the Company, including the comparable values for entities listed on the Warsaw Stock Exchange,
- **Level 3:** valuation method - mark-to-model with model parametrization based on quotations from an active market for the given type of instruments and model parametrization based on estimated risk factors. This applies to municipal securities (valuation based on discounted cash flows when the credit spreads used for valuation are calculated on the basis of internal ratings), the securities of other banks (valuation is based on the securities margins quoted on the market at the moment of price determination, issued by carefully selected issuers), unlisted equity securities and low liquid capital securities (valued using the discounted cash flows method). In case of DM BOŚ, those are financial instruments acquired with the intention of bringing them to a regulated market. Fair value is determined based on an analysis of the financial situation of the company, taking into account impairment allowance.

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Breakdown of financial instruments by level:

30-06-2019 unaudited	Level 1	Level 2	Level 3	Total
Financial assets held for trading	88,245	57	-	**88,302**
Debt securities	66,797	10	-	66,807
Equity securities	21,448	47	-	21,495
Derivative financial instruments and hedging instruments	121	70,540	-	**70,661**
Measured at fair value through other comprehensive income	4,097,389	-	279,791	**4,377,180**
Debt securities	4,078,846	-	213,308	**4,292,154**
Equity securities	18,543	-	66,483	**85,026**
Receivables from other banks	-	-	154,904	**154,904**
Receivables from clients	-	-	11,529,143	**11,529,143**
Investment securities measured at amortized cost	1,424,394	-	-	**1,424,394**
Total	**5,610,149**	**70,597**	**11,963,838**	**17,644,584**

30-06-2019 unaudited	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	428	89,046	-	**89,474**
Derivative financial instruments and hedging instruments	428	89,046	-	89,474
Amounts due to other banks	-	-	551,783	**551,783**
Amounts due to customers	-	-	14,862,860	**14,862,860**
Liabilities related to the issue of bank securities	-	-	46,592	**46,592**
Subordinated debt	-	-	453,900	**453,900**
Total	**428**	**89,046**	**15,915,135**	**16,004,609**

Interim condensed consolidated financial statementsin PLN thousand

Changes in securities measured through other comprehensive income:

			Level 3	
At the beginning of the period 01-01-2019			**318,109**	
Purchase			-	
Sale and redemption			-36,292	
Total profit or loss				
- in the statement of profit or loss			-5,310	
- in other comprehensive income			3,284	
Reclassification from level 3			-	
At the end of the period 30-06-2019			**279,791**	

31-12-2018	Level 1	Level 2	Level 3	Total
Financial assets held for trading	11,988	47	-	**12,035**
Debt securities	2,903	0	-	2,903
Equity securities	9,085	47	-	9,132
Derivative financial instruments and hedging instruments	240	75,486	-	**75,726**
Measured at fair value through other comprehensive income:	3,782,916	-	318,109	**4,101,025**
Debt securities	3,764,373	-	251,625	**4,015,998**
Equity securities	18,543	-	66,484	**85,027**
Receivables from other banks	-	-	197,639	**197,639**
Receivables from customers granted to customers	-	-	11,734,365	**11,734,365**
Investment securities measured at amortized cost	1,409,156	-	-	**1,409,156**
Total	**5,204,300**	**75,533**	**12,250,113**	**17,529,946**

31-12-2018	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	72	72,562	-	**72,634**
Derivative financial instruments and hedging instruments	72	72,562	-	72,634
Amounts due to other banks	-	-	571,784	**571,784**
Amounts due to customers	-	-	14,805,470	**14,805,470**
Liabilities related to the issue of bank securities	-	-	46,612	**46,612**
Subordinated debt	-	-	444,568	**444,568**
Total	**72**	**72,562**	**15,868,434**	**15,941,068**

Interim condensed consolidated financial statementsin PLN thousand

Changes in securities measured through other comprehensive income:

	Level 3
At the beginning of the period 01-01-2018	**462,367**
Purchase	-
Sale and redemption	-143,371
Total profit or loss	
- in the statement of profit or loss	-15,125
- in other comprehensive income	14,238
Reclassification from level 3	-
At the end of the period 31-12-2018	**318,109**

Reclassifications of financial instruments between Level 1 and Level 2 take place based on the availability of quotations from an active market at the reporting date.
Reclassifications of financial instruments from Level 2 to Level 3 take place where in the process of instrument measurement, the observable inputs are changed to the unobservable ones, or where in financial instruments measurement the use of the unobservable inputs has material impact on financial instrument measurement.
Reclassifications of financial instruments from Level 3 to Level 2 take place where in the process of financial instrument measurement, the unobservable inputs are changed to the observable ones, or where the impact of unobservable inputs on financial instrument measurement is no longer material. Transfers between the methods of valuation are made at the reporting date.
In the period from 01 January to 30 June 2019, there were no transfers of financial instruments between the levels. In the case of instruments classified to Level 3, their measurement does not have any impact on the statement of profit or loss. The re-measurement to fair value of Level 3 financial instruments was accounted for in other comprehensive income. The financial result includes interest accrued, interest paid, discount or premium, FX differences and released provisions (relates to equity securities).
As at 30 June 2019, the analysis of the sensitivity of municipal bonds classified to the Level 3 shows that with +/- 1 b.p. fluctuations in credit spread (unobservable model parameter), their value was PLN 78 thousand (as at 31 December 2018 – PLN 94 thousand).

31. Segment reporting

According to the requirements set by IFRS 8 operating segments were determined based on the internal management reports regarding components of the economic entity which is evaluated regularly by the chief operating decision maker. IFRS 8 defines operating segment as a part of the entity's operations that meets three criteria:

- the component engages in business activities from which it may earn revenues and incur expenses,
- the component's operating results are regularly reviewed by the entity's chief operating decision maker, and
- discrete financial information is available for the component.

Segment reporting procedures for the periods ended 30 June 2019 and 30 June 2018 are split into the following types of business activities:

1) institutional clients
2) individual customers
3) treasury and investment activity,
4) brokerage activity,
5) other (non-allocated to the segments).

The activity carried out in institutional segment involves transactions performed by Business Centres, bank operating branches and the Head Office of the Bank with corporate customers, small & middle enterprises and microenterprises. While the Bank's activity towards individual client relates to the transactions with customers being natural persons.

Treasury and investment activities comprise activities on inter-bank, debt securities and derivatives markets, as well as in the area of capital investments. Treasury and investment activities embrace the management of liquidity, of foreign exchange risk and of interest rate risk of the Bank and settlements due to transfer prices in transactions between funds and other business segments.

Brokerage activity include services for individual, as well as institutional clients.

The type 'other' (not allocated to the segments) includes the items of the statement of profit or loss, which were not allocated to any of the segments mentioned in sub-item a-d types of activities, in particular income and costs generated from non-classified clients.

Financial data of the companies BOŚ Eko Profit S.A. and MS Wind sp. z o.o are classified as institutional clients.

Products of the segment of treasury and investment activities comprise financial instruments, current and term deposits and inter-bank deposits of ALM clients, credits from other banks and credits granted to other banks, equity and debt securities, as well as derivatives.

The brokerage activity includes mainly purchasing and selling of financial instruments for its own or a third person account, maintaining securities accounts, managing of financial instruments at a third party's order and offering financial instruments on the primary market or in the IPO.

Assets and liabilities of the areas specified in sub-items a-b above were separated based on the Bank's credit and deposit base.

Net interest income includes the transfer settlements between institutional and individual segment of clients versus treasury and investment area. The transfer valuation of the funds is based on reference rates, additional funding rates and variable transfer rates, including currency, stability of funds and terms, which are referenced to yield curve. All relevant assets and interest-bearing liabilities, as well as off-balance sheet items that generate demand for liquidity shall be a subject of transfer rates measurement. The valuation is carried out on a monthly basis and is based on the average (daily) individual transactions of interest attributable to each segment separately for each currency.

I. The result on the operating activity of institutional and individual segments of customers is the result on the bank activity of these segments decreased by the administrative costs allocated directly to the transactions or units of the given segment, as well as allocated costs and impairment losses write-offs. The financial result also includes mutual settlements related to the customer service of the institutional segment by operating branches of the Bank (focused on customer service of the individual customer segment).

The financial results of the above-mentioned segments represent the sum of the following components:

1. **Net interest income** - i.e. the sum of the difference between the interest income on credits and customers' municipal bonds, versus the costs for the funds received from ALM (treasury and investment activities) and income from the transfer of funds to the ALM, reduced by interest expense paid to the Bank's clients.
2. **Net fee and commission income,** - calculated as the difference between revenues from fees and commissions and costs associated to the transaction allocated to the segment. The result includes one-off income and expenses as well as those settled over time on a straight-line basis, while revenues and expenses settled in time with attributed transactions according to the effective interest rate method are recognized in net interest income
3. **Foreign exchange result,** i.e. income from negotiated currency exchange transactions (forwards and SPOTs) and income from currency exchange according to the Bank's exchange rate table. Position includes the result from derivative transactions.
4. **Net impairment losses and measurement of receivables at the fair value through the financial result**, i.e revaluation resulting from changes in value of impairment losses for credits and municipal and corporate bonds, as well as the result on credits and municipal and corporate bonds measured at their fair value and allocated to the given activity area. The result includes changes due to the exchange rate fluctuations of the impaired foreign currency loan portfolio.

II. Financial result from the treasury and investment activities is a sum of the results on the treasury activities and in the area of equity investments of the Bank, which consist of the following elements:

1. **Net interest income** – calculated as total of net interest income from transactions with external clients and settlements with other segments concerning transfer prices. External interest income and expense relate to transactions on inter-bank market (deposits and loans) as well as debt securities purchased and issued. Result on settlements concerning transfer prices is calculated as the difference between income from financing other segments' assets and expense on deposits received from other segments.
2. **Foreign exchange result** includes the result of speculative currency exchange transactions, revaluation of hedging items that hedge FX loans and revaluation of items hedging active FX forwards. The item includes foreign exchange result not allocated to other segments.
3. **Hedge accounting result**, includes the result from transactions hedging the cash flows and the fair value.
4. **Result on financial instruments measured at the fair value through profit or loss,** result on activity registered in the trading book as well as on financial instruments' operations, including FX Swap operations.
5. **Result on investment securities** – relates to stocks and shares and debt securities and the valuation of financial instruments.
6. **Dividend income**
7. **Net impairment losses,** include shares and loans granted to financial institutions assigned to the area of treasury and investment activities.

The table below presents consolidated financial results of the BOŚ S.A. Capital Group for periods ended 30 June 2019 and 30 June 2018 attributable to reporting segments.

Interim condensed consolidated financial statementsin PLN thousand

No.	Statement presenting elements of the statement of profit or loss for the 6-month period ended 30 June 2019unaudited	INSTITUTIONAL CUSTOMERS	INDIVIDUAL CLIENTS	TREASURY ACTIVITY AND INVESTMENT ACTIVITY	BROKERAGE ACTIVITY	OTHER (NON-ALLOCATED TO THE SEGMENTS).	BOŚ GROUP
I.	**Net interest income**	**100,624**	**44,811**	**61,729**	**3,037**	**-595**	**209,606**
1.	Interest income and similar income in which:	239,568	152,891	-76,039	4,446	8	320,874
	- sales to external clients	187,887	62,884	62,734	474	-	313,979
	- sales to other segments	51,681	90,007	-138,773	3,972	8	6,895
2.	Interest expense and similar charges in which:	-138,944	-108,080	137,768	-1,409	-603	-111,268
	- sales to external clients	-23,740	-62,774	-17,299	-559	-1	-104,373
	- sales to other segments	-115,204	-45,306	155,067	-850	-602	-6,895
II.	**Net fee and commission income**	**28,717**	**4,115**	**1**	**20,271**	**-871**	**52,233**
III.	Dividend income	-	-	5,447	84	-	5,531
IV.	Result on financial instruments measured at fair value through financial result	-283	203	3,941	15,027	-	18,888
V.	Result on hedge accounting	-	-	136	-	-	136
VI.	Result on investment securities	-	-	591	-	-	591
VII.	Foreign exchange result	5,449	1,593	1,046	-205	-21	7,862
VIII.	**Net banking income**	**134,507**	**50,722**	**72,891**	**38,214**	**-1,487**	**294,847**
IX.	Net income on other operating revenue and expenses	265	-415	-	-232	2,607	2,225
X.	Net impairment losses	-23,647	-14,789	-629	-	-	-39,065
XI.	**Result on financial activities**	**111,125**	**35,518**	**72,262**	**37,982**	**1,120**	**258,007**
1.	Direct costs	-11,969	-12,231	-	-28,541	-516	-53,257
	Result after direct cost	**99,156**	**23,287**	**72,262**	**9,441**	**604**	**204,750**
2.	Indirect costs and mutual services	-33,772	-34,845	-6,206	-	1	-74,822
	Result after direct and indirect cost	**65,384**	**-11,558**	**66,056**	**9,441**	**605**	**129,928**
3.	Depreciation and amortization	-10,385	-12,136	-1,102	-3,907	-614	-28,144
4.	Other costs (taxes, BGF, PFSA)	-20,078	-17,007	-73	-1,484	-168	-38,810

Interim condensed consolidated financial statementsin PLN thousand

XII.	**Profit before tax**	**34,921**	**-40,701**	**64,881**	**4,050**	**-177**	**62,974**
XIII.	ALM result allocated	16,533	18,926	-35,459	-	-	-
XIV.	**Profit before tax after allocation of ALM result**	**51,454**	**-21,775**	**29,422**	**4,050**	**-177**	**62,974**
XV.	Tax charges						-18,855
XVI.	**Net profit/loss**						**44,119**
	Segment's assets	**8,280,074**	**3,587,163**	**6,020,311**	**236,867**	**354,522**	**18,478,937**
	- in which receivables from banks and clients	8,056,276	3,587,163	136,256	19,358	-	11,799,053
	Segment's liabilities	**4,562,711**	**8,590,218**	**4,015,157**	**897,161**	**413,690**	**18,478,937**
	- in which amounts due to banks and to customers	4,544,257	8,590,218	1,384,639	768,614	122,046	15,409,774
	Capital expenditure on fixed assets and intangibles	**4,233**	**3,786**	**376**	**2,243**	**2**	**10,640**

Interim condensed consolidated financial statementsin PLN thousand

No.	Statement presenting elements of the statement of profit or loss for the 6-month period ended 30 June 2018unaudited	INSTITUTIONAL CUSTOMERS	INDIVIDUAL CLIENTS	TREASURY ACTIVITY AND INVESTMENT ACTIVITY	BROKERAGE ACTIVITY	OTHER (NON-ALLOCATED TO THE SEGMENTS).	BOŚ GROUP
I.	**Net interest income**	**92,303**	**53,592**	**33,932**	**3,308**	**-623**	**182,512**
1.	Interest income and similar income, in which:	239,981	173,051	-95,883	4,431	7	321,587
	- sales to external clients	180,631	67,223	66,768	457	-	315,079
	- sales to other segments	59,350	105,828	-162,651	3,974	7	6,508
2.	Interest expense and similar charges, in which:	-147,678	-119,459	129,815	-1,123	-630	-139,075
	- sales to external clients	-28,726	-71,826	-31,603	-412	-	-132,567
	- sales to other segments	-118,952	-47,633	161,418	-711	-630	-6,508
II.	**Net fee and commission income**	**25,317**	**4,901**	**-514**	**23,464**	**-897**	**52,271**
III.	Dividend income	-	-	5,796	50	-	5,846
IV.	Result on financial instruments measured at fair value through financial result	16,815	6	10,613	16,554	-	43,988
V.	Result on hedge accounting	-	-	833	-	-	833
VI.	Result on investment securities	14	-	1,630	-	-	1,644
VII.	Foreign exchange result	3,780	2,264	7,594	764	84	14,486
VIII.	**Net banking income**	**138,229**	**60,763**	**59,884**	**44,140**	**-1,436**	**301,580**
IX.	Net income on other operating revenue and expenses	-2,977	143	-	174	-1,628	-4,288
X.	Net impairment losses	-43,818	-22,442	-158	-	-	-66,418
XI.	**Result on financial activities**	**91,434**	**38,464**	**59,726**	**44,314**	**-3,064**	**230,874**
1.	Direct costs	-16,055	-15,873	-	-31,814	-529	-64,271
	Result after direct cost	**75,379**	**22,591**	**59,726**	**12,500**	**-3,593**	**166,603**
2.	Indirect costs and mutual services	-32,077	-37,819	-6,338	-	-	-76,234
	Result after direct and indirect cost	**43,302**	**-15,228**	**53,388**	**12,500**	**-3,593**	**90,369**
3.	Depreciation and amortization	-7,016	-8,046	-1,045	-3,052	-588	-19,747
4.	Other costs (taxes, BGF, PFSA)	-12,998	-11,693	-74	-1,705	-171	-26,641
XII.	**Profit before tax**	**23,288**	**-34,967**	**52,269**	**7,743**	**-4,352**	**43,981**

Interim condensed consolidated financial statementsin PLN thousand

XIII.	ALM result allocated	17,473	29,733	-47,206	-	-	-
XIV.	**Profit before tax after allocation of ALM result**	**40,761**	**-5,234**	**5,063**	**7,743**	**-4,352**	**43,981**
XV.	Tax charges						-9,802
XVI.	**Net profit/loss**						**34,179**
	Segment's assets	**8,306,720**	**3,873,640**	**6,946,414**	**276,892**	**151,171**	**19,554,837**
	- in which receivables from banks and clients	8,015,345	3,873,640	129,853	25,969	4	12,044,811
	Segment's liabilities	**5,181,481**	**8,973,518**	**4,066,835**	**1,090,866**	**242,137**	**19,554,837**
	- in which amounts due to banks and to customers	5,164,518	8,973,518	1,483,197	935,663	119,077	16,675,973
	Capital expenditure on fixed assets and intangibles	**4,872**	**5,450**	**554**	**3,448**	**-**	**14,324**

Interim condensed consolidated financial statementsin PLN thousand

32. Related-party transactions

As at 30 June 2019, Bank Ochrony Środowiska S.A. acted as the dominant entity of the following entities: Dom Maklerski BOŚ S.A., BOŚ Eko Profit S.A., and MS Wind Sp. z o.o.

National Fund for Environmental Protection and Water Management (NFEPWM) was the parent entity in relation to BOŚ S.A.

Key management personnel is treated as related party as well.

Description of transactions with the Bank's main shareholder, i.e. NFEPWM

As at 30 June 2019, as part of the Prosument program relating to financing purchase and assembly of installations for renewable energy sources, the National Fund for Environmental Protection and Water Management (NFEPWM) entrusted funds on preference loans for the amount of PLN 28,111 thousand, while as at 31 December 2018 they amounted to PLN 31,991 thousand.

The NFEPWM granted subsidies to loan interest for the clients, which in the 6-month period ended on 30 June 2019 amounted to PLN 158 thousand vs PLN 552 thousand in 2018.

Transactions with NFEPWM were conducted under general public offer conditions of the Bank.

NFEPWM is the entity related to the State Treasury. The Bank concludes transactions with related parties of the State Treasury - mainly from the public finance sector entities.

Information on loans and deposits of Management Board and Supervisory Board members of the BOŚ Group

As part of the operating activities, the transactions concluded with members of the management body and the key management personnel comprise mainly loans and deposits. The balances of individual balance sheet items at 30 June 2019 and 31 December 2018, and the related costs and revenues for the period of 6 months ended 30 June 2019 and 30 June 2018 are shown below:

Key management personnel

Specification	30-06-2019 unaudited	31-12-2018
Credits	2	3
Liabilities granted for credit lines granted	-	31
Deposits	1,606	1,645
Total	**1,608**	**1,679**

Specification	for the 6-month period ended 30-06-2019 unaudited	for the 6-month period ended 30-06-2018 unaudited
Interest expense on deposits	12	11

The key management uses the loans and deposits on the general terms of the Bank's offer to the public.

Interim condensed consolidated financial statementsin PLN thousand

Remuneration of the key management personnel of BOŚ S.A.

Specification	for the 6-month period ended 30-06-2019 unaudited	for the 6-month period ended 30-06-2018 unaudited
Bank's Management Board		
short-term employee benefits *\	822	769
post-employment benefits	-	64
benefits due to termination of employment	-	-
Total	**822**	**833**
Bank's Supervisory Board		
short-term employee benefits *\	518	478
Total	**518**	**478**

*\Short-term employee benefits including: remuneration for contracts for mandate, return of overpaid social security contributions, remuneration for the delegation of a Member of the Supervisory Board to temporarily perform the duties of a Member of the Management Board.
***\Short-term employee benefits including: remuneration for being appointed to the Supervisory Board, reimbursement of overpaid contributions and reimbursement of travel expenses related to the Supervisory Board meetings.

Remuneration Policy

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

The Policy was applied to the companies of the Group BOŚ S.A. except the DM BOŚ S.A. which conducts a remuneration policy based on and in accordance with the requirements of the Regulation of the Minister of Development and Finance of 25 April 2017 on internal capital, risk management system, supervisory assessment program and supervisory assessment audit, as well as remuneration policy in the brokerage house Dom Maklerski BOŚ S.A.

Remuneration and Nomination Committee appointed by the Bank's Supervisory Board issues opinions on the Remuneration Policy for persons holding managerial positions in the BOŚ S.A. Group, and reviews the identification and the annual update of the list of positions and companies having a significant impact on the Bank's risk profile, issues opinions and designs the principles of remuneration for members of the Bank's Management Board, opinions and monitors the amount of variable remuneration for persons holding managerial positions in the Bank responsible for risk management at the second level, managing the compliance unit and managing the internal audit unit.

The remuneration policy assumes, among others:

1) The payment of minimum 50% of the variable remuneration in shares of Bank Ochrony Środowiska, which value is estimated as the weighted average price of shares of the Bank in trading sessions at Warsaw Stock Exchange in the period from 01 December of the year preceding the grant date to 31 January of the year of the grant date,
   Shares shall mean:
   - shares of Bank Ochrony Środowiska S.A. listed on the Warsaw Stock Exchange,
   - phantom shares, at a value corresponding to the share price listed on the Warsaw Stock Exchange,
2) deferral in payment of 40% of variable remuneration in the three equal annual instalments, with the proviso that at least 50% of each tranche is paid in shares of the Bank and the remaining part is paid in cash. The deferred part may be suspended, reduced or not paid nor realized at all, among others in situation when the Bank's results differ significantly from the approved financial plan for a given year, or when conditions specified in Article 142-1 of the Act - Banking Law have been met.
3) assessment of the 3-year periods results, so that the amount of performance or result-based remuneration took into account the business cycle (trade cycle) of the Bank and the risk associated with this business. Results shall mean the results of the tasks in the area of effectiveness, finance, sale and individual goals set forth in the Bank's strategy or financial plan for the given year.

The Bank does not have liabilities related to the payment of deferred variable remuneration.

33. Nature and amounts of items affecting assets, liabilities, equity, net financial result or cash flows, which are unusual due to their nature, amount or impact

In the first half of 2019, there were no events that might be found unusual and having a significant impact on the assets, liabilities, equity, net financial result or cash flows of the BOŚ Group.

34. Nature and amount of changes in estimates reported in prior interim periods of the current financial year or changes in estimates reported in prior financial years, if they have a significant impact on the current interim period

In the first half of 2019 there were no changes in assumptions which are the base for calculation of estimated amounts reported in prior interim periods of the current year or current financial years.

35. Dividends paid and declared

Following the implementation of the Recovery Program by BOŚ S.A. and limitations resulting from the Banking law, the Bank's Management Board did not file a request to the Ordinary General Meeting for the payment of dividend. On 18 June 2019 the Ordinary General Meeting adopted a resolution to allocate the entire profit for 2018 to supplementary capital.

36. Subsequent events

Significant events after the balance sheet date did not occur.

Signatures of Members of the BOŚ S.A. Management Board

Date	Name and surname	Position/function	Signature
12~~3~~.08.2019	Bogusław Białowąs	President of the Management Board	………………………
12~~3~~.08.2019	Arkadiusz Garbarczyk	Vice-President – first deputy of the President of the Management Board,	………………………
1~~3~~2.08.2019	Emil Ślązak	Vice-President of the Management Board	………………………

Signature of person
entrusted with keeping the Bank's books of account

1~~3~~2.08.2019	Andrzej Kowalczyk	Director of the Accounting Department	………………………

Interim condensed consolidated financial statementsin PLN thousand

II. Interim condensed financial statements of the Bank

Interim income statement of the Bank

Continued operations	Note	for the period of 3 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 3 months ended on 30-06-2018 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Interest income and similar income, in which:		160,407	314,157	160,022	314,464
financial assets measured at amortized cost		134,800	264,332	127,061	255,989
assets measured at the fair value through other comprehensive income		24,625	47,880	30,990	55,820
financial assets carried compulsorily at the fair value through the financial result		982	1,945	1,971	2,655
Interest expense and similar charges, in which:		- 55,076	- 107,787	- 68,748	- 136,303
financial liabilities measured at amortized cost		- 52,653	- 102,966	- 66,352	- 131,537
financial liabilities carried compulsorily at the fair value through the financial result		- 2,423	- 4,821	- 2,396	- 4,766
Net interest income	**6**	**105,331**	**206,370**	**91,274**	**178,161**
Fee and commission revenue		19,126	39,352	18,010	37,365
Fee and commission expense		- 2,381	- 6,468	- 3,510	- 7,031
Net fee and commission income	**7**	**16,745**	**32,884**	**14,500**	**30,334**
Dividend income	**8**	-	5,447	5,796	5,796
Result on financial instruments measured at fair value through financial result (in which receivables from clients)		5,115	4,180	22,900	27,662
Result on investment securities		290	591	1,711	1,644
Result on hedge accounting		17	136	344	833
Foreign exchange result		2,530	8,088	6,866	13,637
Other operating revenues		4,396	6,115	843	2,036
Other operating expenses		- 4,193	- 7,498	- 5,601	- 9,291
Net impairment losses	**9**	- 30,686	- 38,453	- 55,163	- 64,764
General administrative expenses		- 65,696	- 157,778	- 66,559	- 146,575
Gross profit		**33,849**	**60,082**	**16,911**	**39,473**
Tax charges		- 7,492	- 17,718	- 2,975	- 11,291
Net profit		**26,357**	**42,364**	**13,936**	**28,182**

Interim condensed consolidated financial statementsin PLN thousand

Profit per share attributable to the equity holder of the parent during the period (in PLN)	**10**				
– basic			0.46		0.45
– diluted			0.46		0.45

There were no discontinued operations during 6-month period ended 30 June 2019 and in 2018.

Notes on the pages 122 to 145 are an integral part of these interim condensed financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim statement of comprehensive income of the Bank

Continued operations	for the period of 3 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 3 months ended on 30-06-2018 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Net profit	**26,357**	**42,364**	**13,936**	**28,182**
Items that may be reclassified subsequently to profit or loss:	3,866	**- 9,176**	- 10,666	**- 1,813**
Fair value of financial assets carried at fair value through other comprehensive income gross	4,773	- 11,328	- 13,168	- 2,238
Deferred tax	- 907	2,152	2,502	425
Items that will not be reclassified subsequently to profit or loss	**-**	**-**	-	**-**
Fair value of equity instruments carried at fair value through other comprehensive income (gross)	-	-	-	**-**
Deferred tax	-	-	-	**-**
Revaluation of liabilities due to employee benefits	-	-	-	**-**
Deferred tax				
Total comprehensive income	**30,223**	**33,188**	**3,270**	**26,369**

Notes on the pages 122 to 145 are an integral part of these interim condensed financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim statement of financial position of the Bank

Assets	Note	30-06-2019 unaudited	31-12-2018
Cash and balances with the Central Bank		212,496	186,720
Receivables from other banks		132,799	170,494
Financial assets held for trading, in which:		123,918	68,773
equity securities		-	-
debt securities		63,899	-
derivatives		60,019	68,773
Derivative hedging instruments		-	-
Receivables from clients, in which:	**11**	11,678,317	11,854,887
measurement at amortized cost		11,588,546	11,750,234
measured at fair value through financial result		89,771	104,653
Investment securities:		5,760,744	5,476,293
equity securities measured at fair value through other comprehensive income		85,026	85,027
debt securities measured at the fair value through other comprehensive income		4,292,154	4,015,998
debt securities measured at amortized cost		1,383,564	1,375,268
Investments in subsidiaries		102,590	77,590
Assets held for sale		-	-
Intangible assets		103,494	110,546
Property, plant and equipment		23,357	24,102
Right to use – lease		78,179	-
Income tax assets:		88,457	91,934
current		727	-
deferred		87,730	91,934
Other assets		30,897	20,704
Total assets		**18,335,248**	**18,082,043**

Interim condensed consolidated financial statementsin PLN thousand

Liabilities	Note	30-06-2019 unaudited	31-12-2018
Amounts due to the Central Bank and to other Banks		551,783	571,784
Financial derivative instruments held for trading		58,424	53,444
Derivative hedging instruments		29,386	18,298
Amounts due to customers		14,872,485	14,809,321
Liabilities related to the issue of bank securities		46,590	46,590
Subordinated debt		371,535	370,672
Provisions	**12**	32,260	35,201
Income tax liabilities:		-	4,497
current		-	4,497
deferred		-	-
Liabilities due to leasing IFRS 16		80,086	-
Other liabilities		183,448	96,230
Total liabilities		**16,225,997**	**16,006,037**

Equity	Note	30-06-2019 unaudited	31-12-2018
Own equity attributable to equity holders of the parent:			
Core capital:		1,460,364	1,460,364
Share capital		929,477	929,477
Own shares		- 1,294	- 1,294
Share premium		532,181	532,181
Revaluation capital		48,214	57,390
Retained earnings		600,673	558,252
Total equity		**2,109,251**	**2,076,006**
Total equity and liabilities		**18,335,248**	**18,082,043**

Notes on the pages 122 to 145 are an integral part of these interim condensed financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim statement of changes in equity of the Bank

	Core capital				Retained earnings			
	Share capital	Own shares	Share premium	Revaluation reserve	Other supplementary capital	General risk fund	Retained profit	Total equity
As at 01-01-2019	**929,477**	**- 1,294**	**532,181**	**57,390**	**580,519**	**48,302**	**- 70,569**	**2,076,006**
Net profit	-	-	-	-	-	-	42,364	42,364
Other comprehensive income	-	-	-	- 9,176	-	-	-	- 9,176
Total comprehensive income	**-**	**-**	**-**	**- 9,176**	**-**	**-**	**42,364**	**33,188**
Sales result - securities reclassified according to IFRS 9	-	-	-	-	-	-	57	57
Profit distribution, including:	**-**	**-**	**-**	**-**	**65,012**	**-**	**- 65,012**	**-**
Transfer of net profit to other capital	-	-	-	-	65,012	-	- 65,012	-
As at 30-06-2019	**929,477**	**- 1,294**	**532,181**	**48,214**	**645,531**	**48,302**	**- 93,160**	**2,109,251**
As at 01-01-2018	**628,732**	**- 1,294**	**532,181**	**59,653**	**563,058**	**48,302**	**- 117,307**	**1,713,325**
Net profit	-	-	-	-	-	-	65,012	65,012
Other comprehensive income	-	-	-	- 2,263	-	-	-	- 2,263
Total comprehensive income	**-**	**-**	**-**	**- 2,263**	**-**	**-**	**65,012**	**62,749**
Sales result - securities reclassified according to IFRS 9	-	-	-	-	-	-	2,223	2,223
Issue of V series shares	300,745	-	-	-	-	-	-	300,745
Share issue costs	-	-	-	-	-	-	- 3,036	- 3,036
Profit distribution, including:	**-**	**-**	**-**	**-**	**17,461**	**-**	**- 17,461**	**-**
Transfer of net profit to other capital	-	-	-	-	24,424	-	- 24,424	-
Covering the costs of issuing shares (U series)	-	-	-	-	- 6,963	-	6,963	-
As at 31-12-2018	**929,477**	**- 1,294**	**532,181**	**57,390**	**580,519**	**48,302**	**- 70,569**	**2,076,006**

Interim condensed consolidated financial statementsin PLN thousand

As at 01-01-2018	**628,732**	**- 1,294**	**532,181**	**59,653**	**563,058**	**48,302**	**- 117,307**	**1,713,325**
Net profit	-	-	-	-	-	-	28,182	28,182
Other comprehensive income	-	-	-	- 1,813	-	-	-	- 1,813
Total comprehensive income	**-**	**-**	**-**	**- 1,813**	**-**	**-**	**28,182**	**26,369**
Sales result - securities reclassified according to IFRS 9	-	-	-	-	-	-	2,224	2,224
Profit distribution, including:	**-**	**-**	**-**	**-**	**17,461**	**-**	**- 17,461**	**-**
Transfer of net profit to other capital	-	-	-	-	24,424	-	- 24,424	-
Covering the costs of issuing shares (U series)	-	-	-	-	- 6,963	-	6,963	-
As at 30-06-2018	**628,732**	**- 1,294**	**532,181**	**57,840**	**580,519**	**48,302**	**- 104,362**	**1,741,918**

Notes on the pages 122 to 145 are an integral part of these interim condensed financial statements.

Interim condensed consolidated financial statementsin PLN thousand

Interim statement of cash flows of the Bank

Indirect method	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
CASH FLOWS FROM OPERATING ACTIVITIES		
Gross profit	**60,082**	**39,473**
Total adjustments:	**161,898**	**1,178,125**
Depreciation and amortization	23,368	15,802
Interest on investing activities	-36,547	-
Profit / loss from investing activities	-9	19
Interest on financial activities	9,551	25,121
Dividends received:	-5,447	- 5,796
- from investment securities	5,447	5,796
Change in:	182,120	1,152,856
receivables from other banks	-19,098	- 22,384
securities held-for-trading	-63,899	- 24,444
assets and liabilities due to valuation of derivative financial instruments and hedging financial instruments	24,822	91,242
investment securities	-47,654	104,708
receivables from clients	176,570	311,118
right to use – lease	-85,991	-
other assets and income tax	-10,883	- 16,258
amounts due to Central Bank and other banks	-20,001	52,858
amounts due to customers	63,164	663,438
provisions	-2,941	10,504
liabilities due to leases IFRS 16	80,086	-
other liabilities and income tax	87,945	- 17,926
Income tax paid	-16,585	- 15,673
Net cash flow from operating activities	**221,980**	**1,217,598**

Interim condensed consolidated financial statementsin PLN thousand

CASH FLOW FROM INVESTING ACTIVITIES		
Inflows	**28,260**	**2**
Disposal of property, plant and equipment	9	2
Interest received on securities measured at amortized cost	28,251	-
Outflows	**-32,797**	**-10,869**
Purchase of securities measured at amortized cost	-25,000	-
Acquisition of intangible assets	-5,011	-10,580
Acquisition of property, plant and equipment	-2,786	-289
Net cash flow from investing activities	**-4,537**	**-10,867**
CASH FLOW FROM FINANCIAL ACTIVITIES		
Inflows	**-**	**-**
Inflow from the issue of shares and additional capital contributions	-	-
Inflow from issue of bonds by the Bank, in which:	-	-
subordinated bonds	-	-
Outflows	**-8,688**	**-728,667**
Redemption of bonds issued by the Bank		-700,000
Interest paid on bonds issued by the Bank, of which:	-8,688	-28,667
subordinated bonds	-7,904	-14,657
Net cash flow from financial activities	**-8,688**	**-728,667**
TOTAL NET CASH FLOW	**208,755**	**478,064**
BALANCE SHEET CHANGE IN CASH AND CASH EQUIVALENTS	**208,755**	**478,064**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,726,005**	**2,524,536**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,934,760**	**3,002,600**
Cash and cash equivalents with limited availability for use	197,190	464,746

Notes on the pages 122 to 145 are an integral part of these interim condensed financial statements.

Additional notes to the interim condensed financial statements of the Bank

1. Basic information about Bank Ochrony Środowiska S.A.

The corporate information about Bank Ochrony Środowiska S.A., including changes in the Management Board of the Bank were described in Note 1 of the interim condensed consolidated financial statements of the BOŚ S.A. Capital Group for the 6-month period ended 30 June 2019.

Principles of preparation the financial statements

These interim condensed financial statements of BOŚ S.A. for the 6-month period ended 30 June 2019 were approved on 12 August 2019 by the Management Board of the Bank for being published on 13 August 2019.

These interim condensed financial statements BOŚ S.A are published together with the consolidated interim condensed financial statements of the BOŚ S.A. Capital Group for the 6-month period ended 30 June 2019. Information on the accounting policies adopted in the preparation of the financial statements were described in the note 3 to the interim condensed consolidated financial statements of BOŚ S.A. Capital Group.

Interim condensed financial statements of Bank Ochrony Środowiska S.A (Bank, BOŚ S.A.) comprise:

1) The Bank's interim statement of profit or loss for the period of 6 months ended 30 June 2019, comparative data for the period of 6 months ended 30 June 2018 as well as data for the period of 3 months ended 30 June 2019 together with comparative data for the period of 3 months ended 30 June 2018 (which were not subject to review and audit performed by a certified auditor),
2) interim statement of comprehensive income of the Bank for the period of 6 months ended 30 June 2019, comparative data for the period of 6 months ended 30 June 2018 as well as data for the period of 3 months ended 30 June 2019 together with comparative data for the period of 3 months ended 30 June 2018 (which were not subject to audit of review by a certified auditor),
3) interim statement of financial position of the Bank as at 30 June 2019 and comparative data as at 31 December 2018,
4) interim statement of changes in equity of the Bank for the period of 6 months ended 30 June 2019 and comparative data for the period of 6 months ended 30 June 2018,
5) interim statement of cash flows of the Bank for the period of 6 months ended 30 June 2019 and comparative data for the period of 6 months ended 30 June 2018,
6) additional explanatory notes.

2. Going concern

Due to the balance loss incurred in 2015 and in relation to the requirements defined in art. 142 of the Banking Act, on 30 March 2016 the Bank submitted to the Polish Financial Supervision Authority a Recovery Program of BOŚ S.A. approved by the Bank's Supervisory Board. (RP). The PFSA approved the above-mentioned program, added written remarks and information and then sent it to the Bank on 14 December 2016.

In 2016, the Bank increased its share capital by the amount of PLN 400 million and in 2018 by the amount of PLN 300.7 million.

On 23 February 2018 the Bank submitted to PFSA an updated version of the RP. The revision of RP resulted from failure to meet boundary conditions of the document accepted by the Financial Supervision Authority in December 2016, which gave rise to re-assessment of assumptions adopted within the business model and of risk costs. The revision concerned mostly the modification of the Bank's business model - towards a specialization in line with the Bank's mission, verification of the path of write-offs in the area of credit risk relating to the adjustment of business model and update of elements related to capital adequacy.

PFSA approved the updated RP version on 24 May 2018.

The period of realization of restructuring activities carried out by the Bank and included in the RP was defined for the years 2018-2021. Furthermore, the Bank prepared a Framework Strategy of acting for BOŚ S.A., consistent with the Recovery Program in terms of assumptions, directions and objectives planned to be achieved.

The main assumptions of the Strategy were made public in the form of current report on 20 April 2016, while the report on modification regarding the Main Strategy Assumptions was disclosed to the public on 22 March 2018 and the current report on the Strategy update on 28 November 2018. The starting point for this update were favourable market and macroeconomic conditions, as well as the change of the Bank's business model.

Below you will find assumptions of the updated version of the Framework Development Strategy of the BOŚ:

- evaluation of the business model toward concentrating on institutional banking, especially small and middle enterprises, at the same time profiling the offer for individual Clients - specialization in ecology and use of the potential on the pro ecological ventures funds market,
- after concluding the stage of stabilization and recovery actions that took place in 2016-2018, starting a stage of business development linked with implementation of the new business model and the new role of the Bank in government actions for the environment protection,
- using favourable factors of growth regarding pro-ecological investments, by financing pro-ecological projects and distributing efficiently means intended to finance activities aiming at environment protection and sustainable development.

Taking into account the described factors, as at the date of the approval of these financial statements, no circumstances are found indicating a threat to the Bank continuing as a going concern at least 12 months after the balance sheet date due to an intended or compulsory abandonment or limitation of the current activity.

3. Adjustments of the prior period errors

In these condensed consolidated financial statements, the Group has not made adjustments of errors regarding the financial statements for previous periods.

4. Bank's credit exposure to the wind farms

Bank's credit exposure to the wind farms

The Bank's total exposure to the wind farm funding as at 30 June 2019 amounted to PLN 1,794.9 million.

Relevant risks in terms of the Bank's financing of RES

Risks identified by the Bank detailed below were allocated to the farm exposure valuation model applied by the Bank, due to the level of forecasted energy and green certificate prices

The Bank assesses the risk of wind farm projects by assuming as an impairment indicator the existence of a potential cash deficit and of negative enterprise valuation (a badwill) for the scenario of potential debt restructuring in the long-term perspective modelled by the Bank. Valuation of the above-mentioned projects is performed based on the valuation model that allows a simulation of individual cash flows for specific projects by applying requested and modifiable valuation parameters (variable and periodically updated), among which:

1) Project productivity determined on an individual basis for each project, based on breeziness analysis reports (P90/P75) and current breeziness analysis obtained during the period of wind farm operation,
2) price paths for the prices of electricity and green certificates, based on the Bank's internal analysis and the analysis and on the reports of external firms with which the Bank has been cooperating since 2016 (independent experts), the adopted price scenario provides for:
   a) increase of prices in 2019, compared to 2018, as an expression of the CO2 emission costs increase and of energy production rising costs,
   b) slight decrease of the upward trend in 2020 compared to the level of prices in 2019,
   c) further increase of prices within the perspective 2021-2024 by c.a. 1.5-5% on a yearly average basis,
   d) slowdown of prices from 2025 on - a stable level of 2025 prices was adopted for the model in the long term, which is a prudential assumption as compared to the external firm reports,
   e) a stable level of green certificate prices below the current market value,
3) the weighted average cost of capital (WACC) for the restructuring scenario adopted at the level of effective interest rate for individual exposures and at the level of 10.9% for debt recovery scenario,
4) valuation scenarios defining, individually for each project, the probability of regular debt servicing, debt restructuring and debt recovery.
5) amount of the calculated real property tax

Risk of decline of green certificates' prices

As part of creditworthiness assessment of wind farms, an assessment of sensitivity of each project to changes of parameters was performed as well, to changes of parameters related to incomes and costs, especially a decrease of green certificates' prices, whilst conservative scenario of project productivity (P90) was assumed. In order to hedge against the seasonal decrease of revenues, the financed projects would normally be provisioned in the form of Debt Service Reserve Account (DSRA) where funds are accumulated in the amount corresponding to several times a monthly principal and interest instalment. The relevant contractual clauses require that customers supplement funds if the provision for repayment of debt is used.

In the first half of 2019, volatility of growing green certificates' prices was observed. Nevertheless, by applying prudent valuation principle in estimating future cash flows, the Bank adopted the green certificate price in the forecasted period below the current market value. The Bank based on the forecasts of the renowned external advisors.

Risk arising from changes of the basis for real property tax calculation

On 29 June 2018, Amendment to the act on renewable energy sources and certain other laws was published. The RES Amendment modifies a definition of the wind farm, according to which, under the Polish construction law, is defined as a building only a built part of the wind farm (foundations, tower), with effect from 01 January 2018. The above-mentioned Amendment provides for a restoration of legal status more beneficial for investors, regarding taxation of wind farms with respect to property tax perceived, applicable before 01 January 2017.

From the other hand, the Amendment did not eliminate doubts related to adequacy of the rules with respect to calculation of real property tax for 2017. Due to the first decisions by the Supreme Administrative Court, that in the legal status in force in 2017, the tax base was the construction part together with the technical equipment of a wind farm, wind companies paid the difference in property tax for 2017 together with interest or signed agreements with the municipalities in this matter.

Risk of litigation of the Bank's customers with Energa-Obrót S.A.

On 11 September 2017, Energa S.A. published a current report no. 37/2017 in which it informed about its intention to bring actions related to determination of non-existence of legal relations resulting from 22 framework agreements concluded by a related company Energa Obrót S.A. - with electricity RES producers, for the withdrawal of property rights resulting from "green certificates", due to forming their content in a manner contrary to the provisions of the Public Procurement Law ("PPL agreements") Consequently, the Management Board of Energa Obrót S.A. decided to stop realization of PPL agreements and to bring an action in competitive courts, for declaration of concluded contracts being absolutely void, against contractors and banks - grantees, due to the contracts concluded for assignment of receivables (resulting) from PPL contracts (which is a collateral for a credit granted to realize projects - construction of wind farms).

Actions of Energa - Obrót S.A. taken in September 2017 concerned 8 clients that had obtained credits from the Bank; In two cases brought by Energa Obrót S.A., BOŚ S.A and clients acting as defendants, however, once the Bank and clients signed refundable assignment agreements regarding PPL agreements and thus taking into account the loss of legal interest in bringing proceedings, Energa withdrew its claims against the Bank.

Currently, BOŚ S.A. does not act directly as co-defendant in any ongoing court litigation. Therefore, the Bank does not expect any additional expenses resulting from the disputes conducted by clients.

As on 30 June 2019, 6 clients were in court litigations, for the total engagement of PLN 122.7 million toward the Bank, i.e. 7.0% of the total engagement for exposures linked with the wind farms portfolio. The Bank conducts a special monitoring of the economic and financial standing of these clients, and of the court proceedings in progress; the Bank stays in current touch with Shareholders and Sponsors of the Projects. There are three court disputes settled positively for the Group's Customers, i.e. a dismissal of the Energa Obrót S.A. claim, two dismissals pronounced by the common court (I instance) and the third dismissal by decision of Court of Arbitration (pol: Sąd Arbitrażowy). Servicing obligations for credits granted by the above mentioned Customers is performed in a timely manner, despite transitional liquidity problems related to the partial abandonment of sale of green certificates during the dispute and the necessity to be exposed to costs of legal assistance of ongoing disputes.

Interim condensed consolidated financial statementsin PLN thousand

Wind farms portfolio:

Specification	30-06-2019 unaudited	31-12-2018
Receivables from clients measured at amortized cost		
Receivables from clients without impairment indicator:		
stage 2 - comprising exposures for which significant increase in credit risk since initial recognition has occurred.	1,377,089	1,041,435
Stage 3 - Receivables from clients with impairment indicator but with no impairment identified	306,311	627,534
Stage 3 - Receivables from clients with impairment indicator and with impairment identified	66,776	124,874
Gross total of receivables from clients	**1,750,176**	**1,793,843**
Impairment write offs for:		
receivables from clients - Stage 2	-52,467	-36,867
receivables from clients - Stage 3 with no impairment identified	-11,670	-22,215
receivables from clients - Stage 3 with identified impairment	-15,288	-31,876
Total of impairment losses write offs	**-79,425**	**-90,958**
Total of receivables from clients measured at amortized cost net	**1,670,751**	**1,702,885**
Receivables from clients measured at fair value through the financial result		
Fair value	44,709	53,083
Total of receivables from clients measured at fair value through the financial result	44,709	53,083
Total of receivables from clients	**1,715,460**	**1,755,968**

The share of the wind farm portfolio in institutional credit segment measured at amortized cost in the gross value in the Bank as at 30 June 2019 amounted to 19.8%, which accounted for 13.8% of credits portfolio. As per the value, this portfolio amounted to PLN 1,750.2 million.

The level of impaired credits coverage as at 30 June 2019 in the institutional credit segment amounts to 54.5%, including 22.9% for the wind farms portfolio.

Interim condensed consolidated financial statementsin PLN thousand

5. Capital management

The Bank decided to apply, for capital adequacy purposes, transitional arrangements during the transitional period for mitigating the impact of IFRS 9 introduction on own funds based on Article 1 (9) of the Regulation (EU) 2017/2395 of the European Parliament and of the Council dated 12 December 2017 (Regulation) amending Regulation (EU) No 575/2013. In addition, it was decided not to apply Article 1 (4) of the Regulation 2017/2395.

Taking into account the impact of implementation of IFRS 9 with or without the use of transitional arrangements, the Bank meets the capital requirements applicable as at 30 June 2019.

Due to the decision on application of transitional provisions starting from 01 February 2018, the Bank discloses own funds, capital ratios and leverage ratio, both using and not using the transitional arrangements resulting from the Article 473a of the Regulation (EU) no. 575/2013.

The level of capitals, risk-weighted assets, capital ratios, leverage ratio and internal capital in the Bank are presented below:

Specification	30-06-2019 unaudited	31-12-2018
Available capital		
Tier I core capital	2,067,858	2,045,922
Tier I core capital - without transitional provisions to IFRS 9	1,970,681	1,937,313
Tier I capital	2,067,858	2,045,922
Tier 1 capital - without transitional provisions to IFRS 9	1,970,681	1,937,313
Own funds	2,423,623	2,404,908
Own funds- without transitional provisions to IFRS 9	2,326,446	2,296,298
Risk-weighted assets		
Total amount of risk-weighted assets	13,442,169	13,341,379
- credit risk and counterparty credit risk	12,554,157	12,470,305
- Operational risk	836,715	836,715
- Market risk	33,610	14,292
- CVA Risk	17,687	20,067
Total amount of risk-weighted assets - without transitional provisions to IFRS 9	13,350,345	13,228,648
Capital ratios		
Tier I core capital ratio	15.38	15.34
Tier I core capital ratio - without transitional provisions to IFRS 9	14.76	14.64
Tier I capital ratio	15.38	15.34
Tier I capital ratio - without transitional provisions to IFRS 9	14.76	14.64
Total capital ratio	18.03	18.03
Total capital ratio - without transitional provisions to IFRS 9	17.43	17.36

Interim condensed consolidated financial statementsin PLN thousand

Leverage ratio		
The value of exposure	19,818,564	19,331,438
Leverage ratio	10.4	10.6
Leverage ratio - without transitional provisions of IFRS 9	10.0	10.1
Internal capital		
Internal capital	1,758,204	1,388,215

Own funds value and capital requirement amounts were determined according to the CRR Regulation (UE) 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, hereinafter the CRR.

In order to minimize the risk of the capital ratio decrease, the Bank monitors the range and the structure of the Bank's operations and factors that may have an impact on the Bank's own funds decreasing.

On quarterly basis the Bank calculates internal capital in order to cover:
1) Pillar I risks:
   - for the credit risk and counterparty credit risk - based on the regulatory requirement taking into account additional mark-up for unsupported loans (NPE) / impaired loans (NPL),
   - for specific types of risk within the market risk (in which CVA) and for operating risk - based on the regulatory requirements,
2) Pillar II risks:
   - with respect to the risks, the level of which has been assessed as significant.

In accordance with Article 92 of CRR, the Bank is required to maintain the total capital ratio at a minimum level of 8%. Tier I capital ratio should amount to at least 6% and the core capital ratio Tier I should amount at least to 4.5%.

According to the CRR Regulation, and the Law dated 05 August 2015 on the macro-prudential oversight of the financial system and crisis management of the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. From 1 January 2019, a safety buffer amounts to 2.5 p.p., an obligatory system risk buffer amounts to 3 p.p. and anticyclic buffer 0 p.p. Bank Ochrony Środowiska S.A. is not required to have the buffer of another institution, with systemic importance.

On 15 October 2018, the Polish Financial Supervision Authority recommended maintaining by the Bank own funds to cover additional capital requirements to hedge the risk arising from foreign currency mortgage loans for households at the level of 0.52 p.p. above the TCR ratio referred to in Article 92 (1) letter c of the CRR Regulation, which should be composed of in at least 75% of the Tier I capital (which matches the capital requirement at the level of 0.39 p.p. above the value of Tier I capital ratio which is referred to in Article 92 (1) letter b of the CRR Regulation) and in at least 56% of the Tier I core capital (which matches the capital requirement at the level of 0.29 p.p. above the value of Tier I core capital ratio referred to in Article 92 (1) letter a of the CRR Regulation).

As a result, from 01 January 2019 the minimal capital ratio recommended by the Commission increased to the levels: 11.89% for the Tier I capital ratio and 14.02 % for the total capital ratio TCR.

The capital adequacy level of the Bank as at 30 June 2019 was above the levels recommended by the Polish Financial Supervision Authority, both with application of IFRS 9 transitional solutions and without them.

Interim condensed consolidated financial statementsin PLN thousand

6. Net interest income

Specification	for the 6-month period ended 30-06-2019 unaudited				for the 6-month period ended 30-06-2018 unaudited			
Interest income and similar income on:	Financial assets measured at amortized cost	Assets measured at the fair value through other comprehensive income	Financial assets carried compulsorily at the fair value through the financial result	Total	Financial assets measured at amortized cost	Assets measured at the fair value through other comprehensive income	Financial assets carried compulsorily at the fair value through the financial result	Total
Receivables from banks and Central Bank	2,314	-	-	2,314	1,814	-	-	1,814
Receivables from institutional clients	181,706	-	1,535	183,241	172,923	-	2,339	175,262
Receivables from individual clients	63,074	-	21	63,095	67,384	-	69	67,453
Investment debt securities not held for trading	17,238	47,880	-	65,118	13,868	55,820	-	69,688
Financial instruments held for trading	-	-	389	389	-	-	247	247
Total	**264,332**	**47,880**	**1,945**	**314,157**	**255,989**	**55,820**	**2,655**	**314,464**

Interim condensed consolidated financial statementsin PLN thousand

Specification	for the 6-month period ended 30-06-2019 unaudited			for the 6-month period ended 30-06-2018 unaudited		
Interest expense and similar charges on:	**Financial liabilities measured at amortized cost**	**Financial liabilities measured at fair value through financial result**	**Total**	**Financial liabilities measured at amortized cost**	**Financial liabilities measured at fair value through financial result**	**Total**
Bank accounts and deposits from banks	547	-	547	808	-	808
Bank accounts and deposits from institutional clients	27,711	-	27,711	32,861	-	32,861
Bank accounts and deposits from individual clients	62,771	-	62,771	71,808	-	71,808
Credits and loans from banks	4	-	4	161	-	161
Credits and loans from customers	497	-	497	578	-	578
Funds resources intended for lending (JESSICA)	120	-	120	185	-	185
Financial instruments - issued own debt securities	9,554	-	9,554	25,136	-	25,136
Hedging transactions	-	4,821	4,821	-	4,766	4,766
Liabilities due to leases IFRS 16	1,762	-	1,762	-	-	-
Total	**102,966**	**4,821**	**107,787**	**131,537**	**4,766**	**136,303**

Of Bank Ochrony Środowiska S.A for a six-month period ended 30 June 2018 in PLN thousand

7. Net fee and commission income

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Fee and commission revenue		
Fees for servicing customer accounts and other domestic and international settlement transactions	19,375	21,837
Commissions on credits	17,234	13,263
Commissions on guarantees and letters of credits	2,742	2,265
Other fees	1	-
Total	**39,352**	**37,365**
Fee and commission expenses		
Payment cards fees	3,530	3,442
Current account fees	622	753
Charges for services provided by Euronet	522	510
Commissions on receivables from customers	340	341
Commissions paid to other banks in cash transactions	2	205
Other fees	1,452	1,780
Total	**6,468**	**7,031**

8. Dividend income

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Securities measured at fair value through other comprehensive income	5,447	5,796
Total	**5,447**	**5,796**

in PLN thousand

9. Net impairment losses

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Securities measured at fair value through other comprehensive income	- 22	-
Securities measured at amortized cost	1	-
Receivables from banks	60	-
Receivables from clients and off-balance liabilities, in which:	- 38,490	- 64,764
balance sheet receivables	- 34,472	- 71,051
from individual customers	- 15,365	- 22,953
from institutional clients	- 19,107	- 48,098
off-balance sheet liabilities	- 4,018	6,287
from individual customers	542	235
from institutional clients	- 4,560	6,052
Total	**- 38,453**	**-64,764**

Net impairment losses on the balance sheet receivables from customers, by measurement method

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Individual measurement	- 26,383	- 59,680
Group measurement	- 8,089	- 11,371
Total	**- 34,472**	**-71,051**

10. Earnings per share

Basic earnings per share are calculated as the quotient of profit/loss of the Bank's shareholders and of the weighted average number of ordinary shares during the year.

Specification	for the period of 6 months ended on 30-06-2019 unaudited	for the period of 6 months ended on 30-06-2018 unaudited
Net profit	42,364	28,182
Weighted average number of ordinary shares (in thousands)	92,910	62,835
Earnings per share (in PLN, groszy)	0.46	0.45

The diluted earnings per share are equal to the basic earnings per share in the presented periods.

in PLN thousand

11. Receivables from clients

Specification	30-06-2019 unaudited			31-12-2018		
	Receivables from customers gross	Impairment losses write-offs	Receivables from customers net	Receivables from customers gross	Impairment losses write-offs	Receivables from customers net
Measurement at amortized cost	**12,661,742**	**1,076,653**	**11,585,089**	**12,785,149**	**1,039,948**	**11,745,201**
Receivables from individual customers	**3,825,837**	**241,122**	**3,584,715**	**3,945,211**	**239,757**	**3,705,454**
credits on current account	1,776	1,312	464	1,765	1,271	494
cash loans	363,273	61,909	301,364	335,927	60,252	275,675
home loans	3,101,575	136,893	2,964,682	3,205,780	134,999	3,070,781
other credits and loans	359,213	41,008	318,205	401,739	43,235	358,504
Receivables from institutional clients	**8,835,905**	**835,531**	**8,000,374**	**8,839,938**	**800,191**	**8,039,747**
Revolving loans	570,931	117,147	453,784	586,940	108,870	478,070
term credits and loans	7,782,510	706,956	7,075,554	7,483,404	678,784	6,804,620
factoring receivables	400,067	10,590	389,477	412,687	9,927	402,760
leasing receivables	-	-	-	-	-	-
purchased receivables	82,397	838	81,559	113,261	1,676	111,585
commercial securities	-	-	-	243,646	934	242,712
Measurement at fair value through financial result	**-**	**-**	**89,771**	**-**	**-**	**104,653**
Receivables from individual customers	**-**	**-**	**2,448**	**-**	**-**	**3,101**
housing credits and loans	-	-	768	-	-	904
other credits and loans	-	-	1,680	-	-	2,197
Receivables from institutional clients	**-**	**-**	**87,323**	**-**	**-**	**101,552**
Revolving loans	-	-	193	-	-	181
term credits and loans	-	-	87,130	-	-	101,371
Total	**-**	**-**	**11,674,860**	**-**	**-**	**11,849,854**
Security deposits made	-	-	3,457	-	-	5,023
Other receivables	-	-	-	-	-	10

Total of receivables from clients	**-**	**-**	**11,678,317**	**-**	**-**	**11,854,887**

in PLN thousand

Changes in impairment write offs on receivables from the customers

Specification	Write-offs on receivables from individual customers				Write-offs on receivables from institutional clients			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At the beginning of the period 01-01-2019	**11,328**	**7,065**	**221,364**	239,757	**48,569**	**100,634**	**650,988**	800,191
Change of write-offs resulting from acquisition of financial assets	2,154	11	-	2,165	8,399	472	-	8,871
Change in write-offs' assessment	- 4,371	10,003	15,874	21,506	- 14,203	14,663	41,754	42,214
Change of write-offs resulting from derecognition of the financial asset in which:	- 489	- 54	- 21,866	- 22,409	- 5,928	- 2,528	- 7,186	- 15,642
change of write-offs resulting from financial instruments that were written-off from the statement of financial position	-	- 33	- 20,143	- 20,176	-	-	- 4,858	- 4,858
Change of write-offs resulting from the transfers of the financial asset to another Stage	723	- 105	- 618	-	8,118	2,833	- 10,951	-
Reclassification to Stage 1	1,005	- 789	- 216	-	14,521	- 14,521	-	-
Reclassification to Stage 2	- 219	2,989	- 2,770	-	- 5,955	19,496	- 13,541	-
Reclassification to Stage 3	- 63	- 2,305	2,368	-	- 448	- 2,142	2,590	-
Other changes	-	-	103	103	- 177	182	- 108	- 103
At the end of the period 30-06-2019	**9,345**	**16,920**	**214,857**	**241,122**	**44,778**	**116,256**	**674,497**	**835,531**

in PLN thousand

Specification	Write-offs on receivables from individual customers				Write-offs on receivables from institutional clients			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At the beginning of the period 01-01-2018	**14,704**	**9,286**	**174,013**	198,003	**42,261**	**87,695**	**594,477**	724,433
Change of write-offs resulting from acquisition of financial assets	2,053	13	1	2,067	5,058	499	30	5,587
Change in write-offs' assessment	- 3,963	67	34,099	30,203	- 9,650	13,514	70,289	74,153
Change of write-offs resulting from derecognition of the financial asset in which:	- 817	- 138	- 8,520	- 9,475	- 2,933	- 3,980	- 45,646	- 52,559
change of write-offs resulting from financial instruments that were written-off from the statement of financial position	-	-	- 6,678	- 6,678	-	-	- 41,739	- 41,739
Change of write-offs resulting from the transfers of the financial asset to another Stage	872	- 1,342	470	-	4,488	6,727	- 11,215	-
Reclassification to Stage 1	1,132	- 1,022	- 110	-	11,580	- 11,357	- 223	-
Reclassification to Stage 2	- 186	3,407	- 3,221	-	- 6,591	20,718	- 14,127	-
Reclassification to Stage 3	- 74	- 3,727	3,801	-	- 501	- 2,634	3,135	-
Other changes	- 36	- 46	622	540	776	42	585	1,403
At the end of the period 30-06-2018	**12,813**	**7,840**	**200,685**	**221,338**	**40,000**	**104,497**	**608,520**	**753,017**

in PLN thousand

12. Provisions

Specification	30-06-2019 unaudited	31-12-2018
Provisions for contingent liabilities, of which:	25,332	21,322
open credit lines	16,079	12,083
guarantees	9,253	9,239
Provision for employee benefits (retirement and pension benefits)	2,632	2,630
Provisions for liabilities and claims	4,296	11,249
Total	**32,260**	**35,201**

13. Contingent assets and liabilities

Information on instituted court proceedings regarding loans denominated in foreign currencies

As at 30 June 2019, the Bank is in the possession of the portfolio containing 8,655 of retail loans and mortgage credits related to the foreign currency (CHF, EUR, USD) mainly in CHF, as the option of credits and loans denominated, for the amount of 1,677,707~~,487.98~~ thousand PLN
As for the 30 June 2019, 63 cases against the Bank were pending before the courts, related to the credits and loans denominated, mainly in CHF, for the total value of the dispute 11,371~~0,539.54~~ thousand PLN. Provisions for legal risk related to disputes have been created for the amount of PLN 2,686~~5,618.68,~~ thousand based on the assessment of the legal risk in relation to individual cases pending against the Bank.
No proceedings against the Bank are pending under the Act of 17 December 2009 on redress in group proceedings.
Claims submitted in actions resulting from the denominated credits and loans generally relate to the recognition of the credit / loan agreement as invalid, alternatively to the recognition of abusiveness of denomination clauses (conversion clauses) and insurance clauses that regulate bridge safeguards (low deposit insurance and credit insurance until the mortgage is established).
The result of the court cases legally terminated regarding denominated credits and loans is favourable for the Bank.
In the jurisprudence of common courts, decisions made in the context of disputes related to credit and loan agreements denominated in foreign currencies were based on:

1) declaring non-abusive conversion clauses, as a result of which the action against the Bank was dismissed;
2) defining conversion clauses as abusive and maintaining the contract in force to the extent not affected by abusiveness; such decisions implied:
   - the so-called "de - franking" of credit, which means that the effect of abusiveness of the standard, which provides for the valorisation of a credit with a foreign currency exchange rate and the exchange rate norm (referring to the Bank's Exchange Rate Table) is the fall of valorisation and the determination of the borrower's liability as a PLN credit bearing the LIBOR rate appropriate for the currency CHF. The result of such decisions is that the banks are ordered to pay the differences between the sums of principal and interest instalments calculated and paid on the basis of contracts and those which will be calculated without conversion clauses,

as well as further settlement of credit agreements according to the rule that the credit is in PLN with the LIBOR rate appropriate for the CHF currency;

or

- "Supplementing" the contract with another disposable norm in place of the exchange rate standard recognized as abusive (referring to the Bank's table of exchange rates). The Supreme Court in several judgments argued in favour of applying in place of the abusive exchange rate norm referring to the Bank's Exchange Rate Table, the average exchange rate announced by the National Bank of Poland. The effect of such a decision is that the banks are ordered to pay exchange rate differences between the rate used for settling credits by banks and the average rate of NBP. Foreign exchange differences have the value similar to the currency spread value
Case-law of common courts not questioning the legality of the valorisation of credits and loans with a foreign currency exchange rate and at the same time recognizing the abusiveness of exchange rate standards (referring to the Bank's Exchange Rate Table) and seeking an alternative, objective indicator, e.g. the average exchange rate of the National Bank of Poland (disposable provision of domestic law), refers to case-law of CJEU and to the Supreme Court judgments. However, the Supreme Court's uniform case-law to date regarding the effects of abusiveness of the exchange rate norm based on the recognition that credit / loan agreements expressed by a foreign currency exchange rate are permissible and legal and that, after excluding the exchange rate norm considered abusive, the loan agreement retains the existing nature of the loan agreement indexed, has been broken recently due to two judgments in which the Supreme Court ruled on the fall of indexation with a foreign currency exchange rate and concluded that it was a PLN loan agreement bearing the LIBOR rate appropriate for the CHF currency;

3) The credit agreement was judged invalid due to the violation of law. Such a decision causes the parties to the contract to return mutual benefits. Applicable legal provisions justify the claims of banks against the borrowers for remuneration for the use of the bank's money.

Both the banking sector and the national courts are awaiting a ruling on the preliminary question referred by the Polish court to the Court of Justice of the European Union (CJEU), regarding the effects of abusive contractual provisions in credit agreements indexed to a foreign currency rate. The CJEU ruling will affect the case law of national courts. As at the date of these financial statements, the ruling of CJEU has not been issued. According to the CJEU General Ombudsman's opinion dated 14 May 2019, the foreign exchange difference clause is an unfair contractual condition which may result in transforming the contract from an indexed agreement to CHF into a loan in the national currency PLN, with an interest rate LIBOR CHF applicable to the CHF currency.
Currently, it is not possible to determine the impact of the CJEU ruling on the national case law, which means it is impossible to assess the effects of any changes in the national case law on the legal risk related to credit agreements indexed to a foreign currency rate.
The Bank performs a current monitoring of the court rulings -law regarding the credits denominated in foreign currency in terms of possible changes in ruling lines.

in PLN thousand

Off-balance assets and contingent liabilities

Specification	30-06-2019 unaudited	31-12-2018
Contingent liabilities:	**2,363,351**	**1,857,718**
Financial, in which:	2,004,787	1,524,835
open credit lines, in which:	1,972,186	1,508,653
- revocable	1,710,089	1,253,371
- irrevocable	262,097	255,282
open import letters of credit	13,849	14,065
commitments to grant credits, of which:	18,752	2,117
- irrevocable	18,752	2,117
Guarantees, in which:	328,138	332,883
collaterals and credit repayment guarantees	14,453	14,833
performance bonds	313,685	314,100
guarantees for a subsidiary	-	3,950
Securities to be obtained	30,426	-
Contingent assets:	**649,179**	**599,354**
Financial, in which:	191,340	193,500
open credit lines	191,340	193,500
Guarantees	457,839	405,854
Total contingent assets and contingent liabilities	**3,012,530**	**2,457,072**

14. Related-party transactions

The parent entity of the BOŚ S.A. is a National Fund for Environmental Protection and Water Management.

Key management personnel is treated as related party as well.

Description of transactions with related parties (subsidiaries)

Dom Maklerski BOŚ S.A.

The Bank's Branches are maintaining current and term deposit accounts of DM BOŚ S.A. Transactions on the current accounts constitute mostly DM BOŚ clients cash payments. According to the liquidity management at the end of every day O/N deposits are made based on WIBOR rate.
The Bank granted the Company with the working capital loan and for the cards fees.
All transactions are temporary and were made for the purposes of the bank's and the BOŚ Group's business operations and on the arm's length basis.

BOŚ Eko Profit S.A.

The Bank holds current accounts and term deposits of the company BOŚ Eko Profit S.A. The Bank granted the Company with the working capital loan and with the investment loan.

Moreover, the Bank realized the contract for rental of the office space for two Bank branches.
The Bank handles the contracts previously concluded for funding leasing contracts granted by the Company to external entities.

All transactions are temporary including the lease and were concluded on the arm's length basis for the purposes of the bank's and the BOŚ Group's business operations.

On 26 March 2019, the Management Board adopted the resolution no. 73/2019 on the capital increase of BOŚ Eko Profit SA by the amount of PLN 25,000 thousand.
The payment for the capital increase took place on 29 May 2019.

MS Wind sp. z o.o.

The Bank maintains current accounts, technical account, deposit bill and deposits O/N of the company MS Wind Sp. z o. o. The Bank granted the company with an investment loan, a working capital loan, guarantees and opened letters of credit for the Company.

Moreover, the Company concluded with the Bank contracts for treasury instruments: IRS, FX Forward, FX Spot and implements them in the form of concluded contracts.

All transactions with the Bank were concluded on the arm's length basis for the purposes of the bank's and the BOŚ Group's business operations.

Interim condensed financial statements in PLN thousand

30-06-2019 unaudited	Financial assets held for trading	Receivables from clients	Other assets	Goodwill	Amounts due to customers	Provisions	Contingent liabilities
Subsidiaries							
Dom Maklerski BOŚ S.A.	-	44,600	147	-	749,289	567	34,585
BOŚ Eko Profit S.A.	310	29,742	-	35	28,640	35	24,600
Indirect subsidiaries							
MS Wind sp. z o.o.	1,776	22,538	-	-	5,179	-	-
Total	**2,086**	**96,880**	**147**	**35**	**783,108**	**602**	**59,185**

31-12-2018	Financial assets held for trading	Receivables from clients	Other assets	Goodwill	Amounts due to customers	Provisions	Other liabilities	Contingent liabilities
Subsidiaries								
Dom Maklerski BOŚ S.A.	-	32,511	186	-	710,049	511	58	47,582
BOŚ Eko Profit S.A.	237	50,238	1	- 35	16,884	13	267	3,465
Indirect subsidiaries								
MS Wind sp. z o.o.	1,836	23,779	-	-	4,520	-	-	-
Total	**2,073**	**106,528**	**187**	**-35**	**731,453**	**524**	**325**	**51,047**

Interim condensed financial statements in PLN thousand

Income and expenses for the 6-month period ended 30 June 2019 unaudited	Interest income and similar income	Interest expense and similar income	Fee and commission revenue	Fee and commission expenses	Result on financial instruments measured at fair value through the financial result (in which receivables from clients)	Other operating revenues	Result on impairment losses	General administrative expenses
Subsidiaries								
Dom Maklerski BOŚ S.A.	779	-3,972	1,008	-	-	-	-607	-5
BOŚ Eko Profit S.A.	1,328	-135	29	-135	112	77	878	-473
Indirect subsidiaries								
MS Wind sp. z o.o.	446	-8	1		207	-	-50	-
Total	**2,553**	**-4,115**	**1,038**	**-135**	**319**	**77**	**221**	**-478**

Income and expenses for the period of 6 months ended on 30 June 2018	Interest income and similar income	Interest expense and similar charges	Fee and commission revenue	Result on financial instruments measured at fair value through the financial result (in which receivables from clients)	Other operating revenues	Net impairment losses	General administrative expenses
Subsidiaries							
Dom Maklerski BOŚ S.A.	468	- 3,983	1,457	-	1	-	31
BOŚ Eko Profit S.A.	-	4	-	-	40	-	-
BOŚ Capital sp. z o. o.	790	- 180	62	57	33	-	5,332
Indirect subsidiaries							
MS Wind sp. z o.o.	474	- 7	2	171	-	1,324	-
Total	**1,732**	**-4,174**	**1,521**	**228**	**74**	**1,324**	**5,363**

15. Seasonality or cyclicality of operations during the mid-year (interim)

The Bank's operations do not have seasonal or cyclical character.

16. Nature and amounts of items affecting assets, liabilities, equity, net financial result or cash flows, which are unusual due to their nature, amount or impact

In the first half of 2019, there were no events that might be found unusual and having a significant impact on the assets, liabilities, equity, net income or cash flows of the Bank.

17. Nature and amount of changes in estimates reported in prior interim periods of the current financial year or changes in estimates reported in prior financial years, if they have a significant impact on the current interim period

In the first half of 2019 there were no changes in assumptions which are the base for calculation of estimated amounts reported in prior interim periods of the current year or current financial years.

18. Dividends paid (in total and per share), per ordinary and other shares

Following the implementation of the Recovery Program by BOŚ S.A. and limitations resulting from the Banking law, the Bank's Management Board did not file a request to the Ordinary General Meeting for the payment of dividend. On 18 June 2019 the Ordinary General Meeting adopted a resolution to allocate the entire profit for 2018 to supplementary capital.

19. Subsequent events

Significant events after the balance sheet date did not occur.

Signatures of Members of the BOŚ S.A. Management Board

Date	Name and surname	Position/function	Signature
12.08.2019 r.	Bogusław Białowąs	President of the Management Board	....
12.08.2019 r.	Arkadiusz Garbarczyk	Vice-President – first deputy of the President of the Management Board,	....
12.08.2019 r.	Emil Ślązak	Vice-President of the Management Board	....

Signature of person
entrusted with keeping the Bank's books of account

12.08.2019 r.	Andrzej Kowalczyk	Director of the Accounting Department	....