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

FOR THE SIX MONTHS ENDED JUNE 30TH 2022

Warsaw, August 2022

Contents

I. Interim condensed consolidated financial statements of the BOŚ Group

Interim consolidated statement of profit or loss of the BOŚ Group

Continuing operations	Note	for 3 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2022 unaudited	for 3 months ended Jun 30 2021 unaudited	for 6 months ended Jun 30 2021 unaudited
Interest and similar income, including:		272,894	443,093	103,475	205,991
financial assets measured at amortised cost		206,995	346,112	92,929	184,532
assets measured at fair value through other comprehensive income		63,189	92,708	9,545	19,445
financial assets measured at fair value through profit or loss		2,710	4,273	1,001	2,014
Interest expense and similar charges including:		- 78,896	- 109,064	- 13,425	- 28,471
financial liabilities measured at amortised cost		- 78,902	- 109,064	- 11,761	- 25,168
financial liabilities measured at fair value through profit or loss		6	-	- 1,664	- 3,303
Net interest income	9	**193,998**	**334,029**	**90,050**	**177,520**
Fee and commission income		39,677	90,531	43,586	90,490
Fee and commission expense		- 9,624	- 21,972	- 9,821	- 20,696
Net fee and commission income	10	**30,053**	**68,559**	**33,765**	**69,794**
Dividend income	11	7,024	7,025	6,321	6,324
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)	12	17,063	21,187	6,657	30,952
Gain (loss) on hedge accounting		753	425	- 112	228
Gain (loss) on foreign exchange transactions		13,568	21,339	12,175	13,394
Other income	13	9,303	19,710	7,219	14,674
Other expenses	14	- 13,219	- 26,442	- 19,051	- 25,870
Effect of legal risk of mortgage loans denominated in foreign currencies	15	- 3,942	- 4,983	- 9,050	- 9,050
Net impairment losses	16	- 67,547	- 92,452	- 24,291	- 63,149
Administrative expenses	17	- 111,705	- 237,308	- 93,678	- 197,060
Profit before tax		**75,349**	**111,089**	**10,005**	**17,757**
Income tax expense	18	- 14,859	- 27,212	- 5,261	- 10,893
Net profit		**60,490**	**83,877**	**4,744**	**6,864**
of which attributable to:					
owners of parent			83,877		6,864

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Earnings per share attributable to owners of parent during period (PLN)	19				
basic			0.90		0.07
diluted			0.90		0.07

No operations were discontinued in the six months ended June 30th 2022 or in 2021.

The notes presented on pages 13 to 111 are an integral part of these financial statements.

for the six months ended June 30th 2022 (all amounts in PLN thousand)

Interim consolidated statement of comprehensive income of the BOŚ Group

Continuing operations	for 3 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2022 unaudited	for 3 months ended Jun 30 2021 unaudited	for 6 months ended Jun 30 2021 unaudited
Net profit	**60,490**	**83,877**	**4,744**	**6,864**
Items that may be reclassified to profit or loss:	**- 20,161**	**- 61,011**	**- 14,915**	**- 15,068**
Fair value of financial assets measured at fair value through other comprehensive income, gross	- 24,890	- 75,322	- 18,414	- 18,603
Deferred tax	4,729	14,311	3,499	3,535
Items that will not be reclassified to profit or loss:	**-**	**- 1**	**-**	**-**
Fair value of equity instruments measured at fair value through other comprehensive income, gross	-	- 1	-	-
Total comprehensive income	**40,329**	**22,865**	**- 10,171**	**- 8,204**
of which attributable to:				
owners of parent	40,329	22,865	- 10,171	- 8,204

The notes presented on pages 13 to 111 are an integral part of these financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Interim consolidated statement of financial position of the BOŚ Group

Assets	Note	Jun 30 2022 unaudited	Dec 31 2021
Cash and balances with central bank		379,245	361,581
Amounts due from banks	20	280,753	400,747
Financial assets held for trading, including:	21	298,961	155,705
equity securities		14,339	13,308
debt securities		15,068	5,321
derivative instruments		269,554	137,076
Derivative hedging instruments		31,113	9,121
Investment securities:	22	10,141,689	7,108,931
equity securities measured at fair value through other comprehensive income		85,487	85,483
debt securities measured at fair value through other comprehensive income		8,150,119	5,311,853
debt securities measured at amortised cost		1,803,541	1,582,366
debt securities measured at fair value through profit or loss		102,542	129,229
Amounts due from clients, including:	23	11,713,954	11,855,647
measured at amortised cost		11,705,420	11,841,536
measured at fair value through profit or loss		8,534	14,111
Intangible assets		116,272	112,861
Property, plant and equipment		89,489	84,082
Right of use – leases		70,037	78,538
Tax assets:		172,578	151,072
current		1,186	-
deferred	27	171,392	151,072
Other assets		315,472	267,455
Total assets		**23,609,563**	**20,585,740**

The notes presented on pages 13 to 111 are an integral part of these financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Liabilities	Note	Jun 30 2022 unaudited	Dec 31 2021
Amounts due to central bank and other banks		356,296	420,389
Financial liabilities held for trading, including:	21	174,490	99,659
equity securities		-	-
derivative instruments		174,490	99,659
Amounts due to clients	24	19,979,047	17,007,863
Subordinated liabilities	25	372,965	369,107
Provisions	26	458,937	450,803
Tax liabilities:		13,121	8,810
current		12,266	8,335
deferred	27	855	475
Lease liabilities		72,747	81,170
Other liabilities	28	293,300	282,144
Total liabilities		**21,720,903**	**18,719,945**
Equity	**Note**	**Jun 30 2022 unaudited**	**Dec 31 2021**
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT			
Common equity:	30	1,461,036	1,461,036
Share capital		929,477	929,477
Treasury shares		-1,292	-1,292
Share premium		532,851	532,851
Revaluation reserve		-87,974	-26,962
Retained earnings		515,598	431,721
Total equity		**1,888,660**	**1,865,795**
Total equity and liabilities		**23,609,563**	**20,585,740**

The notes presented on pages 13 to 111 are an integral part of these financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Interim consolidated statement of changes in equity of the BOŚ Group

	Equity attributable to owners of the Bank								Total equity
	Common equity			Revaluation reserve	Retained earnings				
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	Other capital reserves	General risk fund	Undistributed profit (loss)	
As at Jan 1 2022	**929,477**	**- 1,292**	**532,851**	**- 26,962**	**398,628**	**23,605**	**48,302**	**- 38,814**	**1,865,795**
Net profit	-	-	-	-	-	-	-	83,877	83,877
Other comprehensive income	-	-	-	- 61,012	-	-	-	-	- 61,012
Total comprehensive income	**-**	**-**	**-**	**- 61,012**	**-**	**-**	**-**	**83,877**	**22,865**
Profit distribution, including:	**-**	**-**	**-**	**-**	**58,851**	**-**	**-**	**- 58,851**	**-**
Transfer of net profit to reserves	-	-	-	-	58,851	-	-	- 58,851	-
As at Jun 30 2022	**929,477**	**- 1,292**	**532,851**	**- 87,974**	**457,479**	**23,605**	**48,302**	**- 13,788**	**1,888,660**

(all amounts in PLN thousand)

	Equity attributable to owners of the Bank								Total equity
	Common equity			Revaluation reserve	Retained earnings				
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	Other capital reserves	General risk fund	Undistributed profit (loss)	
As at Jan 1 2021	**929,477**	**- 1,292**	**532,851**	**67,869**	**776,085**	**23,605**	**48,302**	**- 463,727**	**1,913,170**
Net profit	-	-	-	-	-	-	-	47,456	47,456
Other comprehensive income	-	-	-	- 94,831	-	-	-	-	- 94,831
Total comprehensive income	**-**	**-**	**-**	**- 94,831**	**-**	**-**	**-**	**47,456**	**- 47,375**
Profit distribution, including:	**-**	**-**	**-**	**-**	**- 377,457**	**-**	**-**	**377,457**	**-**
Offset of prior year losses	-	-	-	-	- 374,421	-	-	374,421	-
Offset of 2018 issue costs against statutory reserve funds	-	-	-	-	- 3,036	-	-	3,036	-
As at Dec 31 2021	**929,477**	**- 1,292**	**532,851**	**- 26,962**	**398,628**	**23,605**	**48,302**	**- 38,814**	**1,865,795**
As at Jan 1 2021	**929,477**	**- 1,292**	**532,851**	**67,869**	**776,085**	**23,605**	**48,302**	**- 463,727**	**1,913,170**
Net profit	-	-	-	-	-	-	-	6,864	6,864
Other comprehensive income	-	-	-	- 15,068	-	-	-	-	- 15,068
Total comprehensive income	**-**	**-**	**-**	**- 15,068**	**-**	**-**	**-**	**6,864**	**- 8,204**
Profit distribution, including:	**-**	**-**	**-**	**-**	**- 377,457**	**-**	**-**	**377,457**	**-**
Offset of prior year losses	-	-	-	-	- 374,421	-	-	374,421	-
Offset of 2018 issue costs against statutory reserve funds	-	-	-	-	- 3,036	-	-	3,036	-
As at Jun 30 2021	**929,477**	**- 1,292**	**532,851**	**52,801**	**398,628**	**23,605**	**48,302**	**- 79,406**	**1,904,966**

There were no non-controlling interests in the six months ended June 30th 2022 or in 2021.

The notes presented on pages 13 to 111 are an integral part of these financial statements.

(all amounts in PLN thousand)

Interim consolidated statement of cash flows of the BOŚ Group

Indirect method	for 6 months ended Jun 30 2022	for 6 months ended Jun 30 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**111,089**	**17,757**
Total adjustments:	**2,923,801**	**516,100**
Amortisation/depreciation	30,498	27,448
Interest income on investing activities	-48,414	-31,857
Gain (loss) on investing activities	-23	12
Interest income on financing activities	12,545	7,930
Dividends received:	-7,025	-6,324
on securities held for trading	101	38
on investment securities	6,924	6,286
Change in:		
amounts due from banks	17,267	49,212
assets on securities held for trading	-10,778	-29,774
assets and liabilities from measurement of derivative and hedging financial instruments	-79,639	-49,120
investment securities	12,540	819,313
amounts due from clients	141,693	476,066
other assets and income tax	-49,741	40,549
amounts due to central bank and other banks	-64,093	-287,533
amounts due to clients	2,971,184	-510,517
liabilities arising from securities held for trading	-	960
Provisions	8,134	3,061
other liabilities and income tax	11,344	9,867
Income tax paid	-28,716	-9,517
Net cash flows from (used in) operating activities	**3,034,890**	**533,857**

(all amounts in PLN thousand)

CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows	**153,199**	**24,012**
Cash receipts from sale of property, plant and equipment	23	4
Cash receipts from redemption of securities measured at amortised cost	126,471	-
Interest income on securities measured at amortised cost	26,705	24,008
Outflows	**-356,670**	**-83,144**
Payments for acquisition of securities measured at amortised cost	-325,937	-70,595
Payments for acquisition of intangible assets	-17,974	-8,480
Payments for acquisition of property, plant and equipment	-12,759	-4,069
Net cash flows from (used in) investing activities	**-203,471**	**-59,132**
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows	**-**	**-**
Outflows	**-17,035**	**-15,985**
Redemption of bonds issued by the Group	-	-
Interest paid on bonds issued by the Group, including:	-6,652	-6,035
subordinated bonds	-6,652	-6,035
Lease payments, IFRS 16	-10,383	-9,950
Net cash flows from (used in) financing activities	**-17,035**	**-15,985**
TOTAL NET CASH FLOWS	**2,814,384**	**458,740**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**3,605,927**	**2,479,832**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,420,311**	**2,938,572**
Restricted cash and cash equivalents	562,759	30,765

The notes presented on pages 13 to 111 are an integral part of these financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Notes to the interim consolidated financial statements

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

1.1. Bank Ochrony Środowiska S.A.

Name of the reporting entity or other identification data	Bank Ochrony Środowiska S.A. Group
Explanation of changes to the name of the reporting entity or other identification data since the end of the previous reporting period	-
Registered office	ul. Żelazna 32, 00-832 Warsaw
Legal form	Joint Stock Company (*spółka akcyjna*)
Country of registration	Poland
Address	00-832 Warsaw, ul. Żelazna 32
Principal place of business	Poland
Principal business activity	The Bank's primary objective is to effectively manage the shareholders' equity and clients' funds, ensuring the profitability of its business and the security of the funds entrusted. The Bank's business consists in banking activities, including accumulating funds, granting credits, effecting cash settlements, performing other banking services as well as providing financial consulting and advisory services.
Name of the parent	Bank Ochrony Środowiska S.A.
Name of the ultimate parent of the group	Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Environmental Protection and Water Management)

Bank Ochrony Środowiska S.A. (the "Bank", "BOŚ S.A.", the "Company"), with its registered office at ul. Żelazna 32, 00-832 Warsaw, was established by Decision No. 42 of the Governor of the National Bank of Poland No. 42 of September 15th 1990, and a notarial deed of incorporation of September 28th 1990.

The Bank is entered in the National Court Register of the District Court for the Capital City of Warsaw, 12th Commercial Division, under No. KRS 0000015525, and has Industry Identification Number (REGON) 006239498.

According to the Polish Classification of Business Activities (PKD), the Bank's activities are classified as PKD 6419Z.

The Bank was established for an indefinite period.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

The Bank's mission: We support green transition in an innovative and effective manner.

The Bank pursues its mission mainly by:

- providing banking services to retail and institutional clients, in particular those implementing environmentally-friendly projects or operating in the environmental protection and water management sectors, and to people who value eco-friendly lifestyles,
- participating in distribution of funds for environmental protection projects and sustainable development in Poland.

Since January 24th 1997 the Bank shares have been traded on the Warsaw Stock Exchange and listed in the finance/banking segment of the market.

These interim consolidated financial statements of the Group were authorised by the Management Board of the parent on August 9th 2022 for issue on the Warsaw Stock Exchange on August 10th 2022.

1.2. Shareholders of Bank Ochrony Środowiska S.A.

Shareholders holding directly and indirectly 5% or more of total voting rights in the Bank as at June 30th 2022:

Shareholder	Jun 30 2022 unaudited		Dec 31 2021	
	Number of voting rights (shares)	% voting interest (ownership interest)	Number of voting rights (shares)	% voting interest (ownership interest)
Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej (National Fund for Environmental Protection and Water Management)	53,951,960	58.05	53,951,960	58.05
PFR Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych*	8,000,000	8.61	8,000,000	8.61
Dyrekcja Generalna Lasów Państwowych (Directorate General of State Forests)	5,148,000	5.54	5,148,000	5.54

* On May 4th 2022, Fundusz Inwestycji Polskich Przedsiębiorstw Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych changed its name to PFR Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

1.3. The Group – consolidated entities

Consolidated subsidiaries of the Group and the consolidation method as at June 30th 2022:

No.	Subordinated entities	Registered office	% equity interest as at	% voting interest as at	Consolidation method
Direct subsidiaries					
1.	Dom Maklerski BOŚ S.A.	Warsaw	100%	100%	Full consolidation
2.	BOŚ Leasing - EKO Profit S.A.	Warsaw	100%	100%	Full consolidation
Indirect subsidiary (subsidiary of BOŚ Leasing - Eko Profit S.A.)					
1.	MS Wind sp. z o.o.	Warsaw	100%	100%	Full consolidation

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

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

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

1.4. Composition of the Management Board and the Supervisory Board of the Bank

Management Board

As at June 30th 2022, the Management Board consisted of:

- Wojciech Hann, President of the Management Board
- Arkadiusz Garbarczyk, Vice President of the Management Board, First Deputy President of the Management Board
- Robert Kasprzak, Vice President of the Management Board
- Jerzy Zań, Vice President of the Management Board.

As at January 1st 2022, the Management Board consisted of:

- Wojciech Hann, President of the Management Board
- Arkadiusz Garbarczyk, Vice President of the Management Board, First Deputy President of the Management Board
- Robert Kasprzak, Vice President of the Management Board
- Marzena Koczut, Vice President of the Management Board
- Jerzy Zań, Vice President of the Management Board.

In the six months ended June 30th 2022, the composition of the Management Board changed as follows:

- M. Marzena Koczut resigned as Vice President of the Management Board, effective as of 6.00 pm on May 23rd 2022.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

As at the date of these financial statements, the composition of the Management Board was as follows:
- Wojciech Hann, President of the Management Board
- Arkadiusz Garbarczyk, Vice President of the Management Board, First Deputy President of the Management Board
- Robert Kasprzak, Vice President of the Management Board
- Jerzy Zań, Vice President of the Management Board.

As at the date of this report, the composition of the Management Board has not changed.

Supervisory Board

As at June 30th 2022, the composition of the Supervisory Board was as follows:
- Emil Ślązak, Chair of the Supervisory Board
- Iwona Marciniak – Deputy Chair of the Supervisory Board
- Andrzej Matysiak – Secretary of the Supervisory Board

Members of the Supervisory Board:
- Piotr Bielarczyk
- Janina Goss
- Piotr Sadownik
- Paweł Sałek
- Aleksandra Świderska
- Tadeusz Wyrzykowski.

As at January 1st 2022, the composition of the of the Supervisory Board was as follows:
- Emil Ślązak, Chair of the Supervisory Board
- Ireneusz Purgacz, Deputy Chair of the Supervisory Board
- Mr Paweł Sałek, Secretary of the Supervisory Board

Members of the Supervisory Board:
- Leszek Banaszak
- Robert Czarnecki
- Zbigniew Dynak
- Janina Goss
- Marcin Jastrzębski
- Andrzej Matysiak
- Piotr Wróbel.

In the six months ended June 30th 2022, the composition of the Supervisory Board changed as follows:

1. On June 30th 2022, the Annual General Meeting of the Bank passed resolutions to appoint the following persons as members of the Supervisory Board for the joint 12th term:

- Piotr Bielarczyk
- Janina Goss
- Iwona Marciniak
- Andrzej Matysiak
- Piotr Sadownik
- Paweł Sałek
- Emil Ślązak
- Aleksandra Świderska
- Tadeusz Wyrzykowski.

2. Following the closing of the General Meeting of BOŚ S.A., at its meeting held on June 30th 2022 the Supervisory Board appointed from among its members:

- Emil Ślązak as Chair of the Supervisory Board,
- Iwona Marciniak as Deputy Chair of the Supervisory Board,
- Andrzej Matysiak as Secretary of the Supervisory Board.

Accordingly, the composition of the Supervisory Board as of June 30th 2022 was as follows:

- Emil Ślązak, Chair of the Supervisory Board
- Iwona Marciniak – Deputy Chair of the Supervisory Board
- Andrzej Matysiak – Secretary of the Supervisory Board

Members of the Supervisory Board:

- Piotr Bielarczyk
- Janina Goss
- Piotr Sadownik
- Paweł Sałek
- Emil Ślązak
- Aleksandra Świderska
- Tadeusz Wyrzykowski.

Until the date of preparation of these financial statements, the composition of the Supervisory Board has not changed.

2. Seasonal or cyclical nature of the business in the reporting period

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

The performance of the BOŚ Brokerage House is influenced by conditions on the stock market.

3. Compromise and Settlement Programme for residential mortgage-backed loans tied to foreign currency exchange rates

In January 2021, a group of banks, including Bank Ochrony Środowiska S.A., acting on the basis of assumptions of the proposal of the Chairman of the Polish Financial Supervision Authority (announced in December 2020), commenced cross-sectoral consultations to establish a catalogue of best practices to seek voluntary compromise and settlement with clients.

Based on these consultations and a proposal from the Chairman of the PFSA, the Bank prepared a Compromise and Settlement Programme (the "Programme") for clients who repay residential loans tied to foreign currency exchange rates. The Programme enables clients to avoid foreign exchange risk by converting the currency of the loan into PLN and repaying the remaining loan balance (i.e., after its reduction to the level resulting from the actual payments made to the Bank) in accordance with a repayment schedule defined in PLN as if the loan had been a PLN loan since its origination, with interest accruing at WIBOR plus an appropriate margin.

On December 8th 2021, the Extraordinary General Meeting of the Bank approved the Programme. Effective January 31st 2022, the Bank launched the Programme on the terms proposed by the Chairman of the PFSA.

The Programme is available to clients with outstanding loans taken out for the clients' own residential purposes, as well as clients who instituted court proceedings against the Bank for invalidation of a loan agreement if such proceedings have not yet concluded with a final judgment. For details of the Programme, see the Bank's website at https://www.bosbank.pl/przewalutowanie-kredytu

In estimating the provision for legal risk related to foreign currency mortgage loans as of December 31st 2021 and December 31st 2020, the Management Board factored in a compromise and settlement scenario due to the high expected willingness of clients to reach an agreement with the Bank. Thus, the operational launch of the Programme in January 2022 did not require any significant adjustments to the amount of the provision. As at August 9th 2022, 202 settlements agreements were concluded under the Compromise and Settlement Programme.

4. Climate change

The mission of BOŚ, set out in the Bank's Articles of Association, is to provide innovative and effective support for green transition by engaging in the financing of pro-environmental projects aimed at generating not only business results but also environmental effects. The Bank undertakes to co-finance various projects that improve the environment, in particular environmental projects supported by the policies of the state authorities and the European Union, including measures to develop a low-carbon economy. The Bank's business model is based on the pursuit of maximising green assets through such environmental objectives climate change mitigation, climate change adaptation, sustainable use and conservation of water and marine resources, transition to a closed loop economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. In financing pro-environmental undertakings, the Bank cooperates with public and state entities and institutions whose mission is to support such undertakings, including the National Fund for Environmental Protection and Water Management, the Provincial Funds for Environmental Protection and Water Management, Bank Gospodarstwa Krajowego, and European banks that finance sustainable development.

The Bank has extensive structures and specialised expert resources committed to environmental protection.

The Bank has implemented the process of identifying ESG risks as a new factor to be assessed in the credit risk assessment process. Credit risk assessment involves assessment as to whether the client has ESG risks. Any such risks identified are measured. Depending on the degree of ESG risk faced by a client seeking financing, financing may be made conditional on the client taking actions to mitigate those risks, or financing may ultimately be denied on the basis of an unacceptable level of ESG risk – irrespective of the client's creditworthiness or the degree of collateral offered to support the debt.

5. Statement of accounting policies

5.1. Basis of preparation and statement of compliance

The interim condensed consolidated financial statements of the Group include:

- the interim consolidated statement of profit or loss for the six months ended June 30th 2022 and comparative data for the six months ended June 30th 2021, as well as data for the three months ended June 30th 2022 and comparative data for the three months ended June 30th 2021,
- the interim consolidated statement of comprehensive income for the six months ended June 30th 2022, comparative data for the six months ended June 30th 2021, data for the three months ended June 30th 2022 and comparative data for the three months ended June 30th 2021,
- the interim consolidated statement of financial position as at June 30th 2022 and comparative data as at December 31st 2021,
- the interim consolidated statement of changes in equity for the six months ended June 30th 2022 and comparative data for the six months ended June 30th 2021 and for the 12 months ended December 31st 2021,
- the interim consolidated statement of cash flows for the six months ended June 30th 2022 and comparative data for the six months ended June 30th 2021,
- notes to the financial statements.

These interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU), effective as at the reporting date, i.e. June 30th 2022, using the same accounting policies for each period, and on a historical cost basis, except for the following items measured at fair value:

Recognition of changes in fair value through:	
Financial instruments held for trading	profit or loss
Fair value hedging derivatives	profit or loss
Amounts due from clients whose cash flows fail to meet the SPPI (solely payment of principal and interest) test	profit or loss
Investment debt securities held within a business model whose objective is achieved by collecting contractual cash flows or selling financial assets	other comprehensive income
Investment equity securities	other comprehensive income

IFRSs comprise the standards and interpretations adopted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Dom Maklerski BOŚ S.A., BOŚ Leasing - EKO Profit S.A. and MS Wind Sp. z o.o. prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union (EU).

These interim condensed financial statements have been prepared in the Polish złoty (PLN), rounded to PLN thousand.

These interim condensed consolidated financial statements of the BOŚ Group and the interim condensed financial statements of the Bank for the six months ended June 30th 2022 do not include all the disclosures required to be included in the full-year financial statements and should be read in conjunction with the BOŚ Group's and the Bank's full-year financial statements for the financial year ended December 31st 2021.

These interim condensed consolidated financial statements of the BOŚ Group and the interim condensed financial statements of the Bank for the six months ended June 30th 2022 follow the same accounting policies as those used in the preparation of the full-year financial statements for the year ended December 31st 2021.

5.2. Standards, interpretations and amendments to standards first applied in 2022

IFRS	Amendment	Effective as of	Impact on the Group
Amendments to IFRS 3 *Business Combinations;* Amendments IAS 16 *Property, Plant and Equipment;* Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; Annual Improvements to IFRS Standards 2018–2020	The amendments to IFRS 3 *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. IFRS 3 describes the accounting treatment when an acquirer acquires control of a business (e.g., through an acquisition or merger). Such business combinations are accounted for using the acquisition method, which generally requires that the assets acquired and liabilities assumed be measured at their fair values at the date of acquisition. The amendments to IAS 16 *Property, Plant and Equipment* prohibit deducting from the cost of property, plant and equipment the amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise proceeds from the sale and the related costs in the statement of profit or loss. The amendments to IAS 37 *Provisions, Contingent Liabilities* and Contingent Assets specify what costs an entity considers when assessing whether a contract will result in a loss. The Annual Improvements make minor changes to IFRS 1 *First-time Adoption of IFRS*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases*. The amendments to IFRS9 clarify what fees an entity takes into account when it performs the 10% test to derecognise a financial asset. For IFRS 16, the example illustrating the treatment of lease incentives has been changed to avoid confusion.	January 1st 2022	The amendment had no material effect on the financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

5.3. Going concern

As a result of accounting losses incurred in 2015, the Bank implemented a Recovery Programme pursuant to Article 142(1) of the Banking Law in the wording effective until October 8th 2016, in accordance with Article 381(4) of the Act of June 10th 2016 on the Bank Guarantee Fund, deposit guarantee scheme and forced restructuring. In 2021, the Bank continued the Recovery Programme.

On July 17th 2020, the Bank received a decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020, whereby the Bank was ordered to prepare a group recovery plan for Bank Ochrony Środowiska S.A., pursuant to Article 141n.1 of the Banking Law Act of August 29th 1997. On July 20th 2020, the Bank received the second decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020 to limit the scope of the group recovery plan to entities of the BOŚ Group (i.e., Bank Ochrony Środowiska S.A., Dom Maklerski S.A., BOŚ Leasing EKO-Profit S.A. and MS Wind sp. z o.o.).

The Bank prepared the Group Recovery Plan and submitted it to the PFSA in October 2020. In a letter dated January 21st 2021, in connection with the administrative proceedings to approve the Group Recovery Plan, the Polish Financial Supervision Authority instructed the Bank to supplement and amend the Group Recovery Plan, with the audited financial data as at December 31st 2020 to be used as the point of reference. In accordance with the PFSA's request, BOŚ corrected the Group Recovery Plan and submitted it to the authority. On December 17th 2021, the PFSA approved the Group Recovery Plan.

The approval of the plan by the PFSA marks the discharge of the reorganisation obligations under the Recovery Programme.

In 2021, the Bank prepared a Framework Strategy for BOŚ S.A. for 2021–2023 (the “Strategy”), whose assumptions, directions and objectives are consistent with those of the Group Recovery Plan.

On June 22nd 2022, the Supervisory Board passed a resolution approving an update of the Strategy. The reason for updating the Strategy were changes in the Bank’s external environment, including market and macroeconomic conditions, which will result in the Bank setting itself higher financial goals. The Bank’s existing business model and strategic development directions remain unchanged.

The Bank’s objectives defined in the Strategy, to be achieved by the end of 2023, are as follows:
- Net banking income above PLN 734 million,
- ROE of 6.3%,
- C/I ratio of approximately 54%,
- 50% share of green loans in the total loan volume,
- 58% employee engagement.

The Strategy contains future-related assumptions which are based on the expectations of the Bank’s Management Board, but which are dependent on various factors beyond the control of the Bank’s Management Board. As a result, actual data may significantly differ from those presented in the forward-looking statements.

On December 31st 2021, the Bank decided to launch the Group Recovery Plan approved by the PFSA. The corrective actions taken under the Group Recovery Plan are designed to achieve sustainable profitability of the Bank. After six months of plan implementation efforts, all leading and complementary indicators covered by the Group Recovery Plan, both on standalone and consolidated basis, reached safe levels.

In June 2022, in accordance with the provisions of Article 141 m (4) of the Banking Law of August 29th 1997, the Bank submitted an updated Group Recovery Plan to the PFSA.

The COVID-19 pandemic period and the armed conflict in Ukraine did not have a significant impact on the liquidity position and capital adequacy of the Bank. The Bank maintained its full operational capacity.

The Group maintains its capital adequacy ratios above the levels recommended by the Polish Financial Supervision Authority (see Note 8.3 for details). The Bank's liquidity is adequate and exceeds the regulatory requirements (see Note 8.2.1 for details).

Taking into consideration the factors described above, as at the date of authorisation of these financial statements for issue, there are no circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of its current operations.

5.4. New standards, interpretations and amendments thereto published and approved by the European Union but not yet effective and not yet applied by the Bank

IFRS	Amendment	Date of entry into force in the EU / approval by the EU	Effect on the Bank
IFRS 17 *Insurance Contracts*, amendments to IFRS 17	IFRS 17 *Insurance Contracts* will replace IFRS 4 *Insurance Contracts*, which currently allows continued recognition of insurance contracts in accordance with the accounting policies applicable in national standards and which, as a result, implies a number of different solutions. IFRS 17 requires consistent accounting for all insurance contracts. Contractual obligations will be recognised at present value rather than historical cost. The standard is to be applied on a full retrospective basis (if that is not practicable, the entity should use either the modified retrospective approach or the fair value approach). The purpose of the amendments is to: – reduce costs by simplifying some of the standard requirements; - facilitate clarification of financial results; and – facilitate transition to the new standard by deferring the effective date of the standard until 2023 and introducing additional expedients to facilitate the first implementation of IFRS 17.	January 1st 2023 / November 19th 2021	The amendment will have no material effect on the financial statements.
Amendments to IFRS 3 *Business Combinations;* Amendments IAS 16 *Property, Plant and Equipment;* Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets; Annual Improvements to IFRS Standards 2018–2020*	The amendments to IFRS 3 *Business Combinations* update the reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. The amendments to IAS 16 *Property, Plant and Equipment* prohibit deducting from the cost of property, plant and equipment the amounts received from the sale of items produced in preparation for the asset's intended use. Instead, the company should recognise proceeds from the sale and the related costs in the statement of profit or loss. The amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specify what costs an entity considers when assessing whether a contract will result in a loss. The Annual Improvements make minor changes to IFRS 1 *First-time Adoption of IFRS*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture* and the Illustrative Examples accompanying IFRS 16 *Leases*.	January 1st 2022 / June 28th 2021	The amendment will have no material effect on the financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

6. Corrections of prior period errors

In these condensed consolidated financial statements, the Group has not corrected any errors in the financial statements of prior periods.

7. Significant estimates and judgments

The preparation of the Group's financial statements requires judgments, estimates and assumptions that affect the reported income, expenses, assets, and liabilities and related notes, as well as disclosure of contingent liabilities. Uncertainties related to these assumptions and estimates may result in changes to carrying amounts of assets and liabilities in the future. They also require exercising professional judgment in the process of applying the adopted accounting policies.

The Group made the assumptions and estimates concerning the future based on historical data and its knowledge as at the time of preparation of these financial statements. The estimates and assumptions are reviewed on an ongoing basis. The assumptions and estimates may change in the future due to market developments or other events beyond the Group's control. Changes in assumptions and estimates are recognised in the period of the change or in the period of the change and future periods if the change in estimates and assumptions relate to the current period and future periods.

The Group recognises and measures current and deferred tax assets and liabilities in compliance with the requirements of IAS 12 *Income Taxes*, based on taxable income (tax loss), tax base, unused tax losses, unused tax credits and tax rates, taking into account the assessment of uncertainty related to tax settlements. Whenever there is uncertainty as to whether and to what extent a tax authority would accept a tax settlement, the Group discloses such settlement taking into account the assessment of uncertainty.

7.1. Financial assets

Impairment of amounts due from clients

The Group reviews all credit exposures on a monthly basis to identify credit exposures threatened with impairment and measures the impairment of credit exposures. The measurement of impairment is based mainly on estimating the probability of impairment based on historical analysis, estimating potential losses (LGD parameter) and assessing the macroeconomic environment in which the Group operates.

The models used to estimate allowances for expected credit losses constructed in accordance with IFRS 9 consist of elements for which the Group uses all available historical information and forecasts. When using these models, the Group estimates the level of credit risk with the highest possible accuracy.

Expected credit losses are calculated using the survival model with monthly granularity, as well as the PG, LGD and EAD parameters determined individually for each exposure, taking into account the exposure's expected duration.

The resulting amount of expected credit losses is the sum total of expected losses in each period (over the 12-month horizon for Bucket 1 or the remaining lifetime for Buckets 2 and 3 and the POCI assets) discounted using the effective interest rate.

The structure of the models used to estimate expected credit losses includes modelling for the following parameters:

- PD (probability of default) – estimated probability of default over a given time horizon (12-month or lifetime),
- LGD (loss given default) – part of the exposure that would not be recovered in case of default,
- EAD (exposure at default) – expected amount of exposure at the time of default.

In the six months ended June 30th 2022, the Bank updated its portfolio parameters. The changes included updating the catalogue of impairment triggers and changing the methodology for identifying quantitative material increases in credit risk.

The Bank also made an expert adjustment to the write-downs with respect to macro factors and the geopolitical situation. The adjustment affected the retail segment and reduced the Bank's net result by about PLN 6 million.

The model also contains a component comprising macroeconomic forecasts. Due to the significant share of unique credit exposures in the Group's portfolio, whose characteristics and structure indicate little connection between their risk and the macroeconomic environment, the historically observed impact of forecasts was not material to the valuation. Accordingly, the sensitivity of the estimated loss to changes in macroeconomic forecasts is very limited.

Because of the outbreak of the COVID-19 pandemic and the risk of deterioration in the quality of the Group's loan portfolio, a decision was made to make an expert adjustment to the PD parameter to reflect the sensitivity of individual sectors of the economy to the COVID-induced crisis. The following three severity groups have been identified:

1. clients whose business has not been affected by the pandemic;
2. clients whose industries/sectors have been affected by the pandemic to a limited extent;
3. clients from industries/sectors severely affected by the credit/default risk.

The sensitivity assessment of each industry is updated quarterly, which allows for the rapid recognition of observed changes in the environment in the amount of expected credit losses. A lesser impact of the COVID-19 pandemic has been observed in recent periods. A PLN 5.3m allowance for expected credit losses has been reversed since the beginning of the year.

With the epidemic emergency ongoing, the amount of the allowance may be expected to vary from period to period due to changes in the classification of exposures. A factor that can significantly affect the amount of allowances is rising inflation and the resulting increase in interest rates. The impact of inflation on the financial position of businesses varies widely and depends largely on the industry. Estimating expected credit losses over the life of an exposure is subject to greater estimation uncertainty than estimating losses over the next 12 months due, in principle, to the longer period over which unexpected factors affecting the risk may occur. The financial condition of some of the Bank's clients may deteriorate, despite the support and relief offered to mitigate the effects of the pandemic and inflation.

Theoretical reallocation as at June 30th 2022 of 1% of Bucket 1 exposures with the highest risk level to Bucket 2 for each type of exposure would result in a PLN 27.5 million increase in the amount of allowances.

In June 2022, the sensitivity of the amount of impairment allowances to changes in the LGD parameters was analysed using the group method. If recovery rates changed by +/- 10 percentage points, the estimated amount of loss allowances for clients would decrease by PLN 34.4 million or increase by PLN 34.4 million, respectively.

SPPI test

The SPPI test is an assessment of whether the cash flows arising from financial assets held in the HtC and HtCS models constitute only payments of principal and interest on the principal. This assessment (in addition to the business model) determines the classification of financial assets into the category of measurement at amortised cost or fair value through other comprehensive income. Therefore, this assessment is crucial for the adoption of a correct measurement principle for loan agreements and other financial contracts that are the core business of the Group.

Under IFRS 9, the amount of principal amount is the fair value the financial assets at initial recognition. Interest represents consideration for the time value of money, a margin for the credit risk and other risks incurred in holding the principal, and a profit margin.

The SPPI test includes an analysis of concluded contracts/agreements to determine cash flow characteristics resulting from these contracts/agreements. The SPPI test is considered to permit classification into the amortized cost or fair value through other comprehensive income measurement categories if there are no identified characteristics of cash flows whose timing or formula for determining their value depends on factors other than those that meet the definition of principal and interest on principal. The characteristics that do not meet this definition include:

- leverage,
- making the consideration contingent on conditions unrelated to the time value of money or the risk incurred,
- early repayment options, but early repayment in an amount equal to the unpaid portion of principal and interest including reasonable early repayment consideration is deemed to satisfy the SPPI test.

The Group conducts the SPPI test for all financial assets subject to this assessment, with the SPPI test being conducted at the product group level for assets originated under standard documentation, while for negotiated assets it is conducted on a contract-by-contract basis.

The SPPI test resulted in the identification of a portion of loan agreements where the interest rate is based on a multiplier formula (leverage). These are some of the preferential loans provided with support from the National Fund for Environmental Protection. Accordingly, the loans were classified as measured at fair value through profit or loss.

Business model

Assessment of the business model is an important estimation due to the fact that, under IFRS 9, it is one of the elements determining the classification of financial assets to an appropriate measurement category. The Group establishes business models within which financial assets are managed, based primarily on their business objectives and the manner in which financial results are achieved. Changes in the business model may occur only in case of material internal or external changes in the activities of the Group, and will be determined by the management. Business models are expected to be changed rarely. Specifically, a change in business objective for a particular financial asset does not constitute a change in the business model.

7.2. Fair value of financial instruments

The value of financial instruments not listed in active markets is determined using valuation models accepted by the market. They take into account, among other things, the present value of future cash flows (discounted using a zero coupon curve with a margin), comparable transaction prices (if any), as well as reference to similar instruments quoted in active markets. In the rare cases where it is not possible to use such models and fair value cannot be determined reliably, financial instruments are carried at cost. For information on the sensitivity of financial instruments, see Note 34.

7.3. Taxation

The Polish law on corporate income tax, personal income tax, value added tax or social security contributions is subject to frequent changes, resulting in the lack of well-established practice, ambiguity and inconsistency. This situation gives rise to differences in the interpretation of tax legislation by public authorities and taxpayers. Tax settlements and other settlements (e.g., settlement of customs duties) may be subject to inspection by competent authorities for up to six years. The competent authorities have the power to impose significant penalties with interest. There is a risk that the authorities bodies will take a different stance from that of the Company with respect to the interpretation of the regulations, which could affect the amount of public charges disclosed in the financial statements.

The Group recognises a deferred tax asset based on the assumption that taxable profit will be earned in the future to allow the asset to be utilised. If taxable profit deteriorates in the future, this assumption may prove unwarranted.

7.4. Provision for legal risk concerning the portfolio of mortgage-backed loans tied to foreign currency exchange rate

The estimate of the provision for legal risk of mortgage-backed loans tied to foreign currency exchange rates may be subject to error due to the relatively small number of court cases that ended with a final judgement. Therefore, this estimate is uncertain and the amount of the provision may change in the future. The provision is subject to periodic monitoring and reviews.

The Bank performed a sensitivity analysis of the estimate of the litigation provision due to the change in key parameters related to the probability of the Bank losing court cases and the probability of the scenario whereby loan agreements are declared invalid.

amounts in PLN million

MODEL SENSITIVITY	PARAMETER CHANGE		
	-25 p.p.	BASE-CASE SCENARIO	+25 p.p.
PROBABILITY OF LOSING COURT CASE*	-97	481	35
PROBABILITY OF LOAN BEING DECLARED INVALID*	-15	481	6
WILLINGNESS OF THE CLIENTS TO REACH AGREEMENT	-36	481	48

* – in the case of the +25% option, the maximum value of the parameter, i.e., 100%, was assumed.

7.5. Provision for refund of loan costs in case of early repayment

The provision for reimbursement of consumer credit costs on account of early repayment was recognised in accordance with IAS 37, with the assumptions regarding early repayment of consumer credit made for the loan portfolio as at June 30th 2022.

As at June 30th 2022, five court proceedings were pending against the Bank for reimbursement of consumer credit costs on account of early repayment. The amount of the provision for early repayment refunds was PLN 0.51 million.

8. Risk management

8.1. Credit risk

Definition of credit risk

Credit risk is defined as the risk of potential loss due to default by a client or counterparty at a contractual date.

In the six months ended June 30th 2022, in order to limit the negative impact of the economic consequences of the COVID-19 pandemic on the quality of the loan portfolio, the Bank continued to apply specific financing and client monitoring policies first adopted in 2020, adapting them to the current market and epidemic situation.

Credit risk management methods

The Group pursues its credit risk management policy on an individual basis (credit transaction) and on a portfolio basis taking into account the level of risk appetite.

The risk appetite was determined within the limits set by prudent and stable risk management practices and was assumed to be moderate.

The credit risk management process at the Group included in particular:
1. procedures for assessing the risk of a single transaction, establishing collateral and making credit decisions,
2. monitoring the level of risk, setting exposure limits, and stress-testing,
3. rating and scoring models applied to assess the risk of retail and institutional clients,
4. principles of responsibility in the credit risk assessment process,
5. portfolio-based assessment of credit risk,
6. rules for management of retail and mortgage-backed exposures,
7. rules for identifying impaired exposures and determining impairment losses,
8. rules of reporting to the Bank's management staff,
9. IT systems supporting the implementation of these tasks.

Credit risk at the transaction level was managed in accordance with the following rules:
1. each credit transaction required a comprehensive assessment of credit risk, reflected in an internal rating or scoring,
2. credit decisions were based on client's creditworthiness,
3. credit risk of potential and concluded credit transactions was measured at origination and was subsequently monitored,
4. the credit process ensured independence of the credit risk assessment functions from the sales function,
5. credit decisions were made by bodies authorised to do so,
6. terms of credit transactions offered to clients depended on the level of credit risk associated with a given client and/or transaction.

The financing of a single transaction was conditional on:
1. the borrower’s ability to repay the requested facility in accordance with the schedule agreed upon with the Bank,
2. provision of collateral in the form and in the amount acceptable to the Bank in so far as internal regulations require,
3. fulfilment by the borrower of other criteria, such as, in particular, results of the client's relationship with the Bank to date and assessment of the client's credit history in the banking sector.

The portfolio credit risk was managed using various methods of credit risk measurement and assessment, including:
1. assessment of the likelihood of insolvency,
2. assessment of the expected credit loss,
3. the matrix of migration between delinquency periods and classes of risk,
4. credit generation analysis (analysis of loans provided over a given period of time),
5. the share and structure of impaired exposures and exposures that are not impaired but for which impairment indicators have been identified.

The Group has a Credit Risk Management Committee whose purpose is to shape the principles of credit risk management and monitoring, within the framework defined by the relevant strategy, policy or rules adopted by the Management Board or the Supervisory Board of the Bank.

The Committee operates in the following core areas:

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

In addition, the Supervisory Board is supported in its risk oversight functions by the Risk Committee. The Risk Committee is composed of members of the Supervisory Board. In particular, the Committee gives its opinion on the Bank's overall current and future risk appetite and risk management strategy, supports the Supervisory Board in the implementation of this strategy, and verifies whether the prices of assets and liabilities offered to clients are fully consistent with the Bank's business model and its risk strategy.

Processes established for risk management

In the six months ended June 30th 2022, the Group continued efforts to improve the efficiency of its risk assessment processes, including optimisation of the credit monitoring, credit decision, and credit application processes, and took steps to reduce the credit portfolio concentration level.

As part of its risk monitoring process, the Group performed risk assessments prior to the origination and throughout the life of loan transactions. For risk assessment principles, see 'Risk assessment techniques'.

The frequency and scope of risk monitoring depended on the level of the identified risk. The monitoring was carried out by a separate organisational unit within the credit risk assessment and management functions; the units responsibilities include monitoring of the loan portfolio and valuation of individually significant exposures.

The risk of untimely debt service or default as well as the risk of loss or decrease in the value of collateral were mitigated using an early warning system, managed by the risk monitoring unit.

If the Group identified a situation that could jeopardize timely debt repayment, the Group used reminders and carried out restructuring procedures using appropriate IT tools.

The Group had in place a Policy for Management of Non-Performing Exposures, which defines steps to be taken to achieve reduction, within a prescribed time limit, of non-performing exposures and an action plan that supports the implementation of this policy.

In the process of risk assessment and monitoring, the Bank used information from internal databases and external sources, including from Biuro Informacji Kredytowej S.A. (credit bureau), Krajowy Rejestr Długów (debt register) and Centralna Bazy Danych – Bankowy Rejestr (bank register).

The Group assessed credit risk using rating and scoring models. The models were built, developed, monitored and supervised by the Risk Area, taking into account internal and external requirements. Significant models were subject to periodical validation at least annually, performed by an independent validation unit.

The Group operated a multi-level credit decision-making system based on the principle that the higher the risk of a transaction resulting due to its complexity, the amount of exposure or the client's economic and financial standing, the higher the decision-making level at which the credit decision must be made. The decision-making levels with the highest authority are the Head Office Credit Committee and the Management Board of the Bank. Credit decisions are made upon prior verification of risk made by a risk assessment and management specialist, i.e., a risk expert from a separate organizational unit in the Bank's Head Office, independent from the sales functions.

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

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

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

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

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

1. adequate protection of the Group's interests,
2. the amount of costs related to establishing the security,
3. the ability to quickly liquidate collateral.

In assessing, monitoring, verifying and updating the value of collateral, the Group uses external databases, including AMRON and Cenatorium Sp. z o.o.

Risk assessment techniques

Clients and transactions were subject to a comprehensive credit risk assessment process incorporating the relevant supervisory requirements.

The Group applied various risk assessment models, depending on the type of client and credit transaction.

The credit risk assessment model for retail clients (natural persons) seeking financing for non-business purposes included quantitative analysis (determination of the amount and stability of sources of funds for debt repayment) and qualitative analysis (assessment of characteristics of the client that have a material bearing on the client's willingness to repay the credit obligation in accordance with the agreed schedule, including scoring and assessment of the client's behaviour based on information from Biuro Informacji Kredytowej S.A.). The assessment process took into account the provisions of Recommendations T and S of the PFSA, in particular with respect to the levels of DtI/DStI and LtV ratios and the applicability of the simplified credit assessment procedure.

The credit risk assessment model for retail clients seeking financing for business purposes or for statutory activity (municipal borrowers) focused on two areas: assessment of the client and assessment of the transaction.

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

To the extent specified in the Bank's internal regulations, client assessment was made against the background of the economic situation in the client's industry, on the local market and in the country. In addition, for selected transactions, the assessment took into account the scale of the client's exposure to negative effects of movements in interest rates and foreign exchange rates as well as the client's policy of hedging against foreign exchange and interest rate risks.

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

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

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

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

Impact of the COVID-19 pandemic on the Group's credit risk

In order to mitigate the negative impact of the COVID-19 pandemic on the quality of the loan portfolio, in 2020 the Bank implemented a number of risk mitigating measures, including with respect to new financial applications, including:

1. blanket ban on funding for industries that were particularly affected by the pandemic,
2. reducing LtV limits for mortgage loans,
3. tighter criteria for retail lending.

The Group also continued to apply assistance instruments and facilities for borrowers, first introduced in 2020, to mitigate the effects of the pandemic, including but not limited to:
1. special rules governing financing and monitoring of clients, in line with the solutions proposed by the PFSA in the Supervisory Stimulus Package for Security and Development,
2. possibility of granting financing based on forward-looking creditworthiness and simplified liquidity projections, while adjusting the main measures of credit risk to the degree of economic uncertainty,

During the pandemic, the Group modified the restrictions depending on market conditions, reducing or removing most of the restrictions on personal financing and the LtV limits for residential loans.

Armed conflict in Ukraine

In view of the armed conflict in Ukraine, a number of countries and international organisations imposed economic sanctions on Russia and Belarus. The conflict has also contributed to rising inflation and disrupted business relations, which includes rising interest rates. The Bank monitors the impact of these events on its financial condition and the financial condition of its clients.

The Bank has placed special monitoring on customers involved in business activities in Ukraine, Russia and Belarus. Their classification in terms of risk incurred was determined accordingly, taking into account the principles of assessing the recognition of impairment of credit exposures.

The Bank has 27 clients with organisational, commercial or organisational links to Ukraine, Russia and Belarus with a total amount of the exposure of PLN 1.2bn.

Credit risk assessment tools

In order to measure credit risk, the Bank uses various tools/applications in which the applicable rating/scoring models and creditworthiness assessment methodology have been implemented.

The diversity of applications used is related to customer segmentation and/or types of credit transactions.

Description of individual concentration risks, methods of their assessment and monitoring

The Bank managed concentration risk in accordance with the rules set out in the Concentration Risk Management Policy.

The Group identified, measured, monitored and reported the concentration risk on the following levels:
1. an individual client/transaction, and
2. the loan portfolio.

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

At the loan portfolio level, the concentration risk was managed by observing internal limits or warning values approved by the Management Board or the Supervisory Board for limits used by the Bank to determine the acceptable level of appetite for credit risk.

In particular, the Group applied the following limits:
- geographical limits – limit of exposure to other countries;
- product-specific limits – e.g., maximum LTV;
- limits for the portfolio of mortgage loans and loans financing real property – in compliance with the PFSA Recommendations,
- limits for selected sectors of the economy,
- limits concerning the share of foreign currency loans in the Bank's portfolio,

- limits for the aggregate exposure to related entities/groups of related entities with respect to which the Bank's exposure exceeds 10% of the Tier 1 capital,
- limits for the aggregate exposure to related entities/groups of related entities, depending on the rating of the related entity/group of related entities,
- sector limits;
- limits for credit exposures towards the Bank's subsidiaries.
- limit for exposures under credit transactions to which special funding rules were applied in connection with the COVID-19 pandemic,

In the concentration risk management process, the Group used an early warning system for internal limits. The system is based on distinguishing three levels of limit utilisation and gradual implementation of measures mitigating the risk of exceeding the limit.

The utilisation of the limits was monitored and reported to the Bank's governing bodies on a regular basis, in accordance with the Bank's internal regulations.

8.1.1. Methodology for recognising impairment of credit exposures

At each reporting date, the Group reviews credit exposures, which consists in identification of credit exposures threatened with impairment and exposures with regard to which a significant increase in credit risk has been reported since their initial recognition – taking into account reasonable and supportable information, including forward-looking information. Subsequently, it designates an allowance for expected credit losses based on the allocation of the exposure to three Buckets depending on changes in credit quality. As a general rule, all new exposures other than POCI assets and clients on the watch list are allocated to Bucket 1 exposures.

Based on the amount and the risk profile, the Group classifies credit exposures into exposures measured individually and exposures measured using the group method, and assesses them for any indications of impairment.

Apart from POCI assets, the Group recognises as impaired those exposures for which there has been indications of impairment due to one or more events occurring after the initial recognition and the event giving rise to a loss affects the exposures expected cash flows which can be reliably estimated.

The rules of determining days past due are based on the continuity of the material past due situation, as referred to in the "Regulation of the Minister of Finance, Investment and Development dated October 3rd 2019 on the level of materiality of past due credit obligations".

The Group considers a past due credit receivable to be material when both materiality thresholds are exceeded: 1) the sum of all past due liabilities of the obligor exceeds PLN 400 for retail exposures or PLN 2,000 for non-retail exposures and 2) the share of the past due liabilities in the obligor's balance sheet is greater than 1%. The calculation of the number of days past due is performed at the obligor level and begins when a material past due situation occurs, i.e., when both the absolute and relative materiality thresholds are exceeded.

In particular, the Group considers the following as evidence of impairment:

1. material delay in payment of principal or interest of more than 90 days past due and, for banks, a delay in payment of principal or interest of more than 7 days past due. The Group also considers a delay in payment of more than 90 days past due from the maturity date of the principal or interest to be an indication of default if the exposure is not deemed to be materially past due when the past due amount exceeds PLN 100,
2. deterioration of the economic and financial standing of the debtor during the facility term which causes reclassification of the debtor to rating class 14 or worse, reflecting a threat to the repayment of the debt,
3. granting by the Group to the client, for economic or legal reasons arising from the client's economic and financial distress, of a concession in the terms of financing (conclusion of a restructuring agreement),
4. deterioration of financial metrics, including liquidity and debt service capacity of the client,
5. granting credit holidays under public moratories (on the basis of the Tarcza 4.0 government aid scheme),
6. a claim being challenged in court by the obligor,

7. declaration of bankruptcy, high probability of bankruptcy or other reorganisation affecting the debtor's financial condition and solvency,
8. other circumstances defined in the EBA Guidelines and occurrence of other events that are equivalent to the client's becoming insolvent, resulting in the client's inability to repay the debt on time.

Additionally, credit exposures related to the financing of wind farm projects are also considered to be impaired if there is a cash deficit during the term of the facility and if the company's valuation turns negative in the scenario of potential debt restructuring modelled by the Bank until the end of the financing period.
Measurement of impairment of credit exposures using the case-by-case approach is based on the calculation of the present value of expected future cash flows discounted at the original effective interest rate. For loans with collateral, the present value of expected future cash flows includes the cash flows that may be obtained from enforcement of the collateral, less the costs of enforcement and sale of the collateral. For credit exposures related to financing of wind farm projects, the present value of expected future cash flows is estimated on the basis of a valuation model which simulates individual cash flows that are likely to be generated by a given project based on specified, modifiable valuation parameters. If the present value of realisable cash flows declines, an allowance is recognised in the amount corresponding to the expected credit loss due to the debtor's failure to meet its obligations to the Group.

The individual (case-by-case) approach to impairment assessment is applied to:
1. individually significant credit exposures:
   a. which meet the criteria for recognition of individual impairment or which are quarantined; or
   b. which are an exposure to a client to which the Group has other credit exposures for which an indication of impairment has been identified (propagation of impairment); or
2. individually non-significant credit exposures for which an indication of impairment has been identified or exposures are quarantined, provided that at the time of recognition of impairment they were individually significant and met additional conditions specified by the Group,
3. individual non-significant credit exposures with unique credit risk characteristics.

Impairment losses on receivables which are considered individually non-significant and for which evidence of impairment has been identified are calculated based on impairment measurement parameters estimated using statistical methods based on historical data for separate portfolios grouped for combined measurement of impairment according to similar credit risk characteristics. Historical loss trends are adjusted for non-recurring events.

As art of the group approach, the Group applies a breakdown into the following seven homogeneous risk portfolios within the two client segments (retail and institutional):
1. retail mortgage loans (the portfolio is further segmented by level of LTV and loan currency),
2. retail cash loans,
3. retail mortgage-backed cash loans,
4. retail credit exposures to micro retail businesses (excluding mortgage loans),
5. other retail clients,
6. corporate clients, including financial institutions,
7. public finance clients.

Reversal of a loss, i.e., reclassification of a loan to unimpaired exposures is possible after the evidence of impairment ceases to exist and after the lapse of a quarantine period in which no impairment evidence is identified.

For the exposures for which no evidence of impairment has been identified, the Group recognises loss allowance the group approach.

For the purposes of assessing whether there has been a significant increase in credit risk since initial recognition, the Group compares the risk of default over the expected period of funding as at the reporting date and as at the date of initial recognition. The Group considers that a significant increase in credit risk has been identified for an asset if the quantitative or qualitative criterion is met or if the time past due exceeds 30 days; the criteria are reviewed at the level of exposures.

Quantitative criteria

The reference underlying the allocation of retail exposures to Bucket 2 is determined by the Bank as the difference between:

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

The Group determines a significant deterioration in credit risk by comparing the observed value of a relative change in risk assessment with its theoretical value, which is the threshold above which the Group considers a significant deterioration in credit risk to have occurred.

The allocation threshold at the level of a single exposure is determined using a statistical model based, among other things, on information about credit risk assessment as at the date of initial recognition and the time since the date of initial recognition.

For corporate exposures, allocation to Bucket 2 is based on the assumption that the rating of the exposure remains stable over time (the Group did not expect the rating to improve over time) and occurs as a result of a deterioration in the debtor's economic and financial standing during the facility term, which is reflected in rating grade 12 or 13, or allocation to a rating grade 9-11 if the rating assigned an initial recognition was lower than 6.

Qualitative criteria

The Group allocates exposures to Bucket 2 in the following cases:

1. there is a delay in repayment (beyond a specified material threshold) of more than 30 days as at the reporting date or such delay has been reported at least once on the last three reporting dates,
2. forborne exposure for which the evidence of impairment has ceased to exist and the quarantine period, during which the evidence was not identified, has expired,
3. an exposure become a forborne exposure.

In addition to the above criteria, the Group defined other specific qualitative criteria, such as criteria specific to clients in a given sector, criteria identified in the course of monitoring of institutional clients (exposures with higher risk, exposures on watch list), or exposures identified through multi-factor and holistic credit risk analysis.

In accordance with IFRS 9 5.5.10, the Group distinguishes exposures with low credit risk. A credit exposure has a low risk of default if the borrower has a strong short-term capacity to meet its contractual obligations and adverse changes in economic and business conditions over the longer term may – but not necessarily will – reduce the borrower's ability to meet its contractual cash flow obligations.

The Group applies the Low Credit Risk criterion for exposures to the State Treasury, National Bank of Poland, Bank Gospodarstwa Krajowego, central government institutions, clearing houses, the European Investment Bank and local government units that do not meet the qualitative criteria for classification to Bucket 2 and for which no evidence of impairment has been identified.

For the purposes of estimating impairment losses (expected credit losses), the Group continues to use its own estimates of risk parameters based on internal models consistent with the requirements of IFRS 9 requirements (such as exposure lifetime estimates or forecasts of future macroeconomic conditions). The Group has developed a parametrisation methodology and built models consistent with IFRS 9. Expected credit losses are the product of individual estimated values of PD, LGD, EAD and CCF parameters for each exposure, and the final amount of expected losses is the sum of expected losses in individual periods (depending on the Bucket – over the next 12 months or over the remaining life), discounted using the effective interest rate. The parameters estimated in accordance with IFRS 9 are subsequently adjusted to reflect expectations regarding the macroeconomic situation. The Group adjusts risk parameters to take account of future macroeconomic information (such as GDP, unemployment rate, WIBOR, FX rates, inflation) for portfolios for which it has identified relevant relationships with such information. Internally developed scenarios are used. Forecasts prepared by the Group's economic analysts are the source of macroeconomic inputs.

The amount of allowances for expected credit losses, provisions for financial guarantees and financing commitments in the Polish and in foreign currencies (including currency exchange differences) is recognised as the Group's expense or income arising from the allowances and provisions.

The methodology and assumptions adopted by the Group to estimate impairment are reviewed on a regular basis in order to reduce the difference between estimated and actual losses. Backtesting is performed to assess the adequacy of impairment losses determined using the group method and the case-by-case approach; results of back-testing are used to determine process improvement measures.

8.1.2. Amounts due from banks

Below are presented gross amounts due from other banks by rating groups:

Item	Jun 30 2022 unaudited	Dec 31 2021
AA+	-	-
AA	141,598	284,621
AA-	13,413	10,062
A+	55,823	68,423
A	45,836	11,671
A-	209	280
BBB+	7,834	10,212
BBB-	- -	969
unrated		
	16,040	14,509
Total	**280,753**	**400,747**

Internal rating	Rating groups	Jun 30 2022 unaudited	Rating groups	Dec 31 2021
A	AAA, AA+, AA, AA-		AAA, AA+, AA, AA-	
B	A+, A, A-		A+, A, A-	
C	BBB+, BBB, BBB-		BBB+, BBB, BBB-	
D	BB+, BB, BB-, B+, B, B-		BB+, BB, BB-, B+, B, B-	
E		14,668		14,509
F		1,372		
Total		**16,040**		**14,509**

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8.1.3. Amounts due from clients

Item	Jun 30 2022 unaudited	Dec 31 2021
AMOUNTS DUE FROM CLIENTS MEASURED AT AMORTISED COST		
Amounts due from clients without indications of impairment, including:	10,970,332	11,146,432
exposures without significant credit risk increase since initial recognition (Bucket 1)	9,273,619	9,883,695
exposures with significant increase in risk since initial recognition (Bucket 2)	1,696,713	1,262,737
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	19,958	22,382
Amounts due from clients with indication of impairment, impaired (Bucket 3)	1,934,049	1,757,830
Total amounts due from clients measured at amortised cost (gross)	**12,924,339**	**12,926,644**
Impairment losses on:		
amounts due from clients – (Bucket 1)	- 89,693	- 88,097
amounts due from clients – (Bucket 2)	- 89,197	- 80,534
amounts due from clients – (Bucket 3) with no indication of impairment	- 388	- 588
amounts due from clients – (Bucket 3) with indication of impairment	- 1,075,522	- 953,407
Total impairment losses	**- 1,254,800**	**- 1,122,626**
Total amounts due from clients measured at amortised cost (net)	**11,669,539**	**11,804,018**
AMOUNTS DUE FROM CLIENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Fair value	8,534	14,111
Total amounts due from clients measured at fair value through profit or loss	**8,534**	**14,111**
Security deposits	31,550	32,768
Other amounts due from clients	4,331	4,750
Total amounts due from clients	**11,713,954**	**11,855,647**

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Classification of amounts due from clients by measurement category, by segment:

Jun 30 2022 unaudited	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Amounts due from clients measured at amortised cost					
Amounts due from clients without indications of impairment, including:	8,051,447	2,918,885	2,416,877	502,008	10,970,332
exposures without significant credit risk increase since initial recognition (Bucket 1)	6,618,042	2,655,577	2,178,396	477,181	9,273,619
exposures with significant increase in risk since initial recognition (Bucket 2)	1,433,405	263,308	238,481	24,827	1,696,713
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	16,154	3,804	2,618	1,186	19,958
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,369,437	564,612	415,167	149,445	1,934,049
individually assessed	*1,295,215*	*113,448*	*97,468*	*15,980*	*1,408,663*
Total amounts due from clients measured at amortised cost (gross)	**9,437,038**	**3,487,301**	**2,834,662**	**652,639**	**12,924,339**

(all amounts in PLN thousand)

Jun 30 2022 unaudited	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Impairment losses on:					
amounts due from clients – (Bucket 1)	-71,967	-17,726	-10,429	-7,297	-89,693
amounts due from clients – (Bucket 2)	-79,526	-9,671	-7,717	-1,954	-89,197
amounts due from clients – (Bucket 3) with no indication of impairment	-369	-19	-10	-9	-388
amounts due from clients – (Bucket 3) with indications of impairment,	-745,862	-329,660	-218,633	-111,027	-1,075,522
individually assessed	-708,761	-69,145	-60,485	-8,660	-777,906
Total impairment losses	**-897,724**	**-357,076**	**-236,789**	**-120,287**	**-1,254,800**
Total amounts due from clients measured at amortised cost (net)	**8,539,314**	**3,130,225**	**2,597,873**	**532,352**	**11,669,539**
Amounts due from clients measured at fair value through profit or loss					
Fair value	8,109	425	150	275	8,534
Total amounts due from clients measured at fair value through profit or loss	**8,109**	**425**	**150**	**275**	**8,534**
Security deposits	31,550	-	-	-	31,550
Other amounts due from clients	3,587	744	-	744	4,331
Total amounts due from clients	**8,582,560**	**3,131,394**	**2,598,023**	**533,371**	**11,713,954**

(all amounts in PLN thousand)

Dec 31 2021	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Amounts due from clients measured at amortised cost					
Amounts due from clients without indications of impairment, including:	8,041,552	3,104,880	2,575,685	529,195	11,146,432
exposures without significant credit risk increase since initial recognition (Bucket 1)	6,957,132	2,926,563	2,423,287	503,276	9,883,695
exposures with significant increase in risk since initial recognition (Bucket 2)	1,084,420	178,317	152,398	25,919	1,262,737
Amounts due from clients with indication of impairment (Bucket 3) but with no impairment identified given the estimated cash flows	18,393	3,989	2,732	1,257	22,382
Amounts due from clients with indications of impairment, impaired (Bucket 3), including:	1,275,958	481,872	356,593	125,279	1,757,830
individually assessed	*1,241,155*	*105,197*	*90,382*	*14,815*	*1,346,352*
Total amounts due from clients measured at amortised cost (gross)	**9,335,903**	**3,590,741**	**2,935,010**	**655,731**	**12,926,644**

(all amounts in PLN thousand)

Dec 31 2021	Institutional clients	Retail clients	Retail client – housing loans	Retail clients – other loans	Total
Impairment losses on:					
amounts due from clients – (Bucket 1)	-69,694	-18,403	-9,357	-9,046	-88,097
amounts due from clients – (Bucket 2)	-64,860	-15,674	-10,831	-4,843	-80,534
amounts due from clients – (Bucket 3) with no indication of impairment	-569	-19	-11	-8	-588
amounts due from clients – (Bucket 3) with indications of impairment,	-671,404	-282,003	-186,718	-95,285	-953,407
individually assessed	-646,537	-54,331	-48,396	-5,935	-700,868
Total impairment losses	**-806,527**	**-316,099**	**-206,917**	**-109,182**	**-1,122,626**
Total amounts due from clients measured at amortised cost (net)	**8,529,376**	**3,274,642**	**2,728,093**	**546,549**	**11,804,018**
Amounts due from clients measured at fair value through profit or loss					
Fair value	13,460	651	257	394	14,111
Total amounts due from clients measured at fair value through profit or loss	**13,460**	**651**	**257**	**394**	**14,111**
Security deposits	32,768	-	-	-	32,768
Other amounts due from clients	2,879	1,871	-	1,871	4,750
Total amounts due from clients	**8,578,483**	**3,277,164**	**2,728,350**	**548,814**	**11,855,647**

(all amounts in PLN thousand)

8.1.4. Rating/scoring groups of amounts due from Group clients (gross), by client segment

Item	Rating*	Jun 30 2022 unaudited	Dec 31 2021
Amounts due from institutional clients	(1-3)	5,588	7,508
	(4-5)	146,229	107,909
	(6-7)	1,626,031	1,047,769
	(8-9)	2,572,528	3,128,574
	(10-11)	3,208,136	3,261,097
	(12-13)	880,710	672,555
	(14-16)	817,208	837,231
	unrated	188,717	286,720
Total amounts due from institutional clients		**9,445,147**	**9,349,363**
Amounts due from retail clients	unrated	3,487,726	3,591,392
Total amounts due from retail clients		**3,487,726**	**3,591,392**
Total		**12,932,873**	**12,940,755**

General characteristics of the rating classes are presented below:

Rating 1 Highest credit quality
Rating 2 Very high credit quality
Rating 3 High credit quality
Ratings 4-5 Very good credit quality
Ratings 6-7 Good credit quality
Ratings 8-9 Satisfactory credit quality
Ratings 10-11 Average and poor credit quality
Ratings 12-13 Very weak credit quality
Ratings 14-16 No creditworthiness (credit quality does not exist).

The ratings are presented as at the reporting date.

*\ The ratings are consistent with the Bank's internal classification, where "1" is the best rating and "16" is the worst rating.

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8.1.5. Concentration of exposures to industries and geographical markets, with assessment of the concentration risk

Industry	Credit risk exposure	Jun 30 2022 unaudited % share in total
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,483,727	11.5%
Real estate activities	1,456,633	11.3%
Wholesale trade, except trade in motor vehicles	1,174,748	9.1%
Hospitality	557,732	4.3%
Construction of buildings	493,264	3.8%
Public administration and defence; compulsory social security	406,880	3.1%
Sports, entertainment and recreational activities	326,049	2.5%
Activities of head offices; management consultancy	284,630	2.2%
Manufacture of food products	281,969	2.2%
Manufacture of chemicals and chemical products	239,563	1.9%
Financial services, except insurance and pension funds	207,060	1.6%
Crop and animal production, hunting and related service activities	171,209	1.3%
Manufacture of fabricated metal products, except machinery and equipment	155,226	1.2%
Retail trade, except retail trade in motor vehicles	144,493	1.1%
Other sectors, including:	5,549,691	42.9%
retail clients	3,487,726	27.0%
Total gross amounts due from clients	**12,932,874**	**100.0%**
Impairment losses	- 1,254,801	
Security deposits	31,550	
Other amounts due from clients	4,331	
Total net amounts due from clients	**11,713,954**	

(all amounts in PLN thousand)

Industry	Credit risk exposure	Dec 31 2021 % share in total
Real estate activities	1,542,030	11.9%
Generation and supply of electricity, gas, steam, hot water and air for air conditioning systems	1,396,393	10.8%
Wholesale trade, except trade in motor vehicles	1,273,899	9.8%
Hospitality	574,772	4.4%
Public administration and defence, compulsory social security	480,915	3.7%
Construction of buildings	439,025	3.4%
Sports, entertainment and recreational activities	347,042	2.7%
Manufacture of food products	237,262	1.8%
Activities of head offices; management consultancy	235,909	1.8%
Financial services, except insurance and pension funds	228,854	1.8%
Manufacture of chemicals and chemical products	201,939	1.6%
Crop and animal production, hunting and related service activities	177,240	1.4%
Retail trade, except retail trade in motor vehicles	164,648	1.3%
Manufacture of fabricated metal products, except machinery and equipment	160,067	1.2%
Other sectors, including:	5,480,760	42.4%
retail clients	3,591,392	27.8%
Total gross amounts due from clients	**12,940,755**	**100.0%**
Impairment losses	- 1,122,626	
Security deposits	32,768	
Other amounts due from clients	4,750	
Total net amounts due from clients	**11,855,647**	

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8.1.6. Debt securities

Securities by rating assigned to issuers

Jun 30 2022 unaudited	State Treasury	NBP	Banks	Public finance	Other financial institutions	Corporate	Total
1	-	-	-	-	50,540	-	50,540
6	3,332,097	-	-	-	-	-	3,332,097
7	-	-	476,596	-	-	-	476,596
8	-	-	-	-	-	-	-
none	-	5,799,031	-	88,582	323,708	716	6,212,037
Total	**3,332,097**	**5,799,031**	**476,596**	**88,582**	**374,248**	**716**	**10,071,270**

Dec 31 2021	State Treasury	NBP	Banks	Public finance	Other financial institutions	Corporate	Total
1	-	-	-	-	49,787	-	49,787
6	2,840,160	-	142,882	-	-	-	2,983,042
7	-	-	522,753	-	-	-	522,753
8	-	-	-	-	135,233	-	135,233
none	-	2,899,014	-	91,056	346,763	1,121	3,337,954
Total	**2,840,160**	**2,899,014**	**665,635**	**91,056**	**531,783**	**1,121**	**7,028,769**

The tables present a unified rating scale, as specified below. If an issuer is rated by more than one agency, the highest rating is presented.

For municipal bonds for which there is no active market, internal ratings are assigned, in one of the following categories:

4-5 Very good credit quality
6-7 Good credit quality
8-9 Satisfactory credit quality
10 Average and poor credit quality

(all amounts in PLN thousand)

Risk classes for issuers of municipal bonds serviced by the Bank are assigned in accordance with the credit rating methodology for local government units applied by the Bank .

Public finance		
Internal rating	Jun 30 2022 unaudited	Dec 31 2021
4	2,529	
5	-	9,642
6	-	3,450
7	72,808	68,848
8	13,245	9,116
Total	**88,582**	**91,056**

8.2. Financial risk in the bank book and the trading book, and risk limits

The financial risk in the Group is concentrated mainly at the Bank and at Dom Maklerski BOŚ S.A. and includes:

1. liquidity risk,
2. market risk, including:
   a. interest rate risk (in the banking book and the trading book),
   b. currency risk (mainly in the trading book; currency risk from the banking book is transferred to the trading book),
   c. other risks (general and specific risk of equity instruments, commodities risk and position risk in collective investment undertakings).

Liquidity risk and interest rate risk occur mainly at the Bank, and currency risk – at DM BOŚ S.A. (in the trading book and the non-trading book) and at the Bank (in the trading book; currency risk from the banking book is transferred to the trading book). DM BOŚ S.A. is also exposed to equity risk, commodity price risk and position risk at collective investment undertakings.

The key principles of financial risk management at Bank Ochrony Środowiska S.A. and at the Group are set out in the Banking Risk Management Strategy. This strategy is an integral part of the Bank's strategy.

The risk management system at the Group includes examination of individual risks related to both the Bank's and the Group's operations. The Bank, as the parent, oversees the risk management system at the Group. The risk management process is subject to periodic reviews aimed at adapting the process to changes in the environment and taking into account changes occurring within the Bank and the Group.

The Bank manages risks on the basis of the risk appetite and tolerance determined by the Supervisory Board using a set of internal limits. The Group has in place policies to manage liquidity risk, interest rate risk in the banking book and market risk in the trading book, which define, among other things, maximum levels of financial risk, consistent with the risk appetite adopted by the Supervisory Board of the Bank. Based on these, an early warning system has been established which focuses on identifying, measuring, monitoring, controlling and reporting the risks.

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

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

In line with the Group's strategy, the trading book business is complementary to the banking book business. The trading book contains transactions that were entered into by the Bank on its own account for trading purposes, i.e., to gain financial profits in short-term periods due to actual or expected differences between bid and offer prices in the market, as well as other movements of prices or price parities, including in particular interest rates and foreign exchange rates. Transactions held in the trading book are not sold for liquidity purposes. The purpose of the trading book is to ensure the highest quality of services for clients. To this end, the Bank and Dom Maklerski BOŚ S.A. maintain open positions within the applicable risk limits.

The purpose of risk management by the Group is to maintain individual risks at the level consistent with the approved risk appetite and tolerance in order to protect the value of shareholders' capital, maintain the safety of client deposits and achieve adequate efficiency of the Group's operations, including ensuring the Group's ability to adapt its operations to changing market conditions, competence and commitment of managers and employees, and the quality of management information systems.

In the six months ended June 30th 2022, the Group monitored the economic and market situation associated with the COVID-19 pandemic and the war in Ukraine and analysed its impact on financial risks, including the market and liquidity risks. Although the levels of individual risks have increased compared to the pre-pandemic period, they have generally remained within the limits adopted by the Group.

In the six months ended June 30th 2022, the main objectives, principles and organisation of the financial risk management process at the Group did not change. The level and profile of financial risk is monitored on a regular basis by the Financial Risk Department (2nd line of defence) of the Bank and by the Risk Management Department of DM BOŚ S.A. and reported to the Supervisory Board of the Bank, the Supervisory Board of DM BOŚ S.A., the Risk Committee (at the Supervisory Board of the Bank), the Management Board of the Bank, the Management Board of DM BOŚ S.A., the Committee of Assets and Liabilities Management (ALCO) and the ALCO Liquidity and Market Risk Committee (ALCO LMRC).

Impact of the war in Ukraine on financial risk, including liquidity risk

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

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

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

With the current developments under the stress scenario for the ongoing Russian-Ukrainian conflict, the Bank has not experienced any liquidity problems or adverse impact on other financial risks. Despite short-lasting liquidity problems on the interbank market and a temporary sharp increase in cash withdrawals, no major threats to the Bank's liquidity have been observed.

From the financial risk perspective, depreciation of the domestic currency and growing interest rates have no negative impact on the Bank's liquidity.

8.2.1. Liquidity risk

The purpose of liquidity management by the Group is to maintain the ability to finance assets and pay liabilities in a timely manner and to maintain a sustainable structure of assets and liabilities, which ensures a safe liquidity profile in specific time bands, split into liquidity in PLN and the main foreign currencies, but mostly – for the total liquidity position. Liquidity risk is generated primarily at the Bank.

The liquidity risk management strategy and processes are tailored to the Bank's business profile and scale. The 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, designates key directions and quantitative targets for selected volumes, and is an integral part of the Bank's Framework Strategy. The liquidity risk tolerance, adjusted to the Bank's risk appetite through a system of internal limits and warning values, is set out in the Liquidity Management Policy approved by the Supervisory Board.

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

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

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

To measure the liquidity and intra-day, current and short-term liquidity risk, the Bank uses the following measures and tools:

1. the level of intraday liquidity – reflects the level of funds required to be maintained in the Bank's account with the National Bank of Poland to enable the Bank to pay its liabilities during the day, in both normal and stress situations,
2. liquid assets (excess liquidity) – a buffer for expected and unexpected outflows over a period of 30 days,
3. liquidity reserve – which measures the level of liquid assets less expected and unexpected outflows, determined for a period of 30 days, including a concentration margin,
4. net liquidity coverage ratio (%)
5. assessment of the stability of the deposit base,
6. short-term liquidity gap (for PLN, EUR, CHF and USD) – showing the level of mismatch in foreign currency funding structures; the gap consists primarily of flows from wholesale and derivatives transactions,
7. stress tests (which enable the Bank to, among other things, verify its ability to maintain liquidity in a defined time horizon under particular scenarios).

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

1. the contractual and actual liquidity gap (which is supplemented by regular analyses of the stability of the deposit base, the concentration of the deposit base, the amount of loan prepayments and the level of deposit breakage),
2. the non-current assets to non-current liabilities ratio;
3. the coverage of loans used by clients to finance long-term needs with the most stable sources of funding (LKD);
4. the net stable funding ratio (NSFR),
5. the forecast of LCR, NSFR and liquid assets.

In order to assess the effectiveness of the liquidity risk management process, for most of the above measures, alert limits or values are set within a set of internal liquidity risk limits whose structure is hierarchical (i.e., they are set at the level of the Supervisory Board, the Management Board and the ALCO Committee). The limits and warning values in place are reviewed regularly so that liquidity can be monitored effectively. The limits and warning values define the framework for the Bank's liquidity tolerance and are consistent with the Bank's risk appetite. The shaping of an appropriate liquidity risk profile is supported by taking into account the cost of liquidity under the Bank's transfer pricing system.

The measures and tools used by the Bank are reviewed on a regular basis and are regularly updated to better map the liquidity profile. The process of monitoring liquidity and liquidity risk in the Bank is supported by a dedicated IT system (used in particular to generate reports on contractual and actual liquidity gaps, on regulatory liquidity measures and on internal limits, and to prepare mandatory reports). At least once a year, the Bank prepares a review of the Internal Liquidity Adequacy Assessment Process (ILAAP), in compliance with the EBA/GL/2016/10 Guidelines on ICAAP and ILAAP information collected for SREP (Supervisory Review and Evaluation Process) purposes. The ALCO Committee gives its opinion on the review, and the document requires approval by the Management Board and the Supervisory Board of the Bank. The ILAAP review carried out by the Bank as at December 31st 2020 showed that the process complied with the Bank's internal regulations and external guidelines. The ALCO Committee gives its opinion on the review, and the document requires approval by the Management Board and the Supervisory Board of the Bank. The ILAAP review carried out by the Bank as at December 31st 2021 showed that the process complied with the Bank's internal regulations and external guidelines.

Liquidity risk reports are presented to all the Bank's units involved in the liquidity risk management process. Results of the risk analysis, the degree of utilization of regulatory standards and internal limits, as well as results of stress tests are presented in reports prepared for the ALCO Committee (on a weekly basis), for the Management Board and the ALCO Committee (on a monthly basis), and for the Supervisory Board and its Risk Committee (on a quarterly basis). The reports are part of the Management Information System, the purpose of which is to support the Bank's management, streamline the performance of its tasks and ensure the security and stability of its operations.

Overall liquidity risk profile

The main source of funding for the Bank continues to be a systematically built and diversified deposit base with a considerable share of stable retail deposits (supplemented by deposits from corporate clients and the public sector), followed by loans from international financial institutions (which, together with long-term bilateral interest rate swap agreements secured by debt papers and FX swap transactions, constitute a source of liquidity funding in foreign currencies). The Bank monitors the risk of concentration of the deposit base on an ongoing basis. The internal liquidity measures take into account an additional concentration surcharge on stable funds, calculated on the basis of deposit balances for large deposits and deposits of large clients (classified in accordance with the definitions applied at the Bank).

The Bank's liquid assets (excess liquidity) are primarily held in the form of highly liquid NBP bills (as at June 30th 2022, representing 64% of the liquid portfolio of unsecured securities) and treasury bonds (June 30th 2022: 36%), posing a low specific risk. The portfolio of these securities is supplemented with cash and funds held with the National Bank of Poland (above the declared obligatory reserves) and in nostro accounts with other banks. As at June 30th 2022, liquid assets amounted to approximately PLN 9 billion. Liquid assets constitute a buffer to secure liquidity in potential crisis situations, i.e., they can be pledged, liquidated under repo transactions or sold at any time without significant loss of value. The Bank's ability to sell liquid assets (product liquidity risk) is monitored on a regular basis. The primary considerations in these analyses are issue size, market turnover, and bid/ask price volatility.

In accordance with the recommendations of the Polish Financial Supervision Authority and the National Bank of Poland, the Bank may use additional sources of funding in the form of a technical loan and a lombard loan from the NBP, and may apply for a refinancing facility from the NBP.

The Bank determines internal capital for liquidity risk, which is considered a significant constant risk, in accordance with the applicable internal capital estimation process. This capital is estimated on the basis of the cost of restoring regulatory and internal measures and liquidity limits under the conditions of stress test scenarios.

Measures of liquidity risk

The Bank determines regulatory measures of liquidity in accordance with the following regulations: the CRR Regulation and Regulation 2019/876 on prudential requirements for credit institutions and investment undertakings (amending Regulation 575/2013 Regulation) and related delegated and implementing regulations as regards liquidity.

The currently applicable norms regarding short-term liquidity include the liquidity coverage requirement – LCR (the ratio of liquid assets to net outflows (i.e., the difference between net outflows and net inflows) for a 30-day period of extreme conditions). The LCR is calculated on an aggregated basis for all currencies (translated into PLN) and separately for significant currencies, i.e., for PLN and EUR. For the ratio in EUR, the Bank identifies a currency mismatch related to the method of financing long-term loans granted in this currency.

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

The Bank, in accordance with Commission Implementing Regulation (EU) 2021/451 of December 17th 2020 regarding the reporting of additional liquidity monitoring metrics, prepares and submits ALMM reports to the NBP.

In accordance with EBA/GL/2017/01 Guidelines on LCR disclosure to complement the disclosure of liquidity risk management under Article 435 of Regulation (EU) No 575/2013, the Bank presents quantitative and qualitative data on the net liquidity coverage ratio, the net stable funding ratio and the liquidity risk in the Information on BOŚ Group. Such disclosures comply with the instructions given by the European Banking Authority.

The Bank also performs an in-depth analysis of its long-term liquidity. Results of these analyses are used to manage the Bank's liquidity. At the same time, the process of preparing short- and long-term financial plans of the Bank includes assessment of liquidity, to ensure an adequate financing structure and compliance with the supervisory liquidity measures.

In the six months ended June 30th 2022, the supervisory liquidity measures, i.e., LCR and NSFR, were calculated daily (i.e., every working day), and remained at a safe level, significantly above the regulatory requirements. As at June 30th 2022, these measures were as follows:

Metric	Jun 30 2022	Dec 31 2021
LCR	213%	141%
NSFR	161%	133%

The Bank has in place an Emergency Liquidity Action Plan approved by the Management Board, which sets out potential sources of deterioration/loss of liquidity, rules of conduct and contingency powers. It is intended to estimate the survival horizon as well as the ability and costs of restoring stable liquidity. This plan, in addition to a scenario analysis of liquidity in contingencies (the assumptions of which are consistent with the stress tests performed), also includes measurable and non-measurable symptoms ahead of contingencies, allowing for systematic monitoring of the sources of liquidity crises.

The contingency liquidity scenario analyses and stress tests include three types of scenarios:

1. internal crisis – its source is the loss of confidence in the Bank by market participants ("bank run"), reduced availability of financing, materialisation of concentration risk and downgrading of the Bank's rating;
2. external crisis – assumes materialization of currency risk, rising interest rates, crisis in financial markets and possible second round effects;
3. mixed crisis – a combination of elements of both internal and external crises.

The stress tests enable the Bank to identify factors whose materialisation may generate liquidity risk and to develop actions necessary to be taken in the event of a crisis situation.

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As part of its analysis, the Bank also carries out a sensitivity analysis for individual factors generating liquidity risk, as well as reverse tests. The contingency liquidity plan shall be regularly reviewed and updated so as to ensure that the Bank is operationally prepared to activate potential measures that can be taken in the event of a liquidity risk. The contingency liquidity scenario analysis is carried out a semi-annual basis and stress tests – on a monthly basis. The assumptions adopted for stress tests are regularly reviewed to account for conclusions of the scenario-based analysis contingency liquidity analysis. The assumptions for each stress test scenario reflect the expected negative effects of the COVID-19 pandemic, such as increased outflow of cash and deposits, increased number of terminations of term deposits and higher EUR/PLN and CHF/PLN exchange rates. Conclusions from the tests are used in managing liquidity and liquidity risk and are the basis for building the structure of assets and liabilities.

In its analyses, the Bank also takes into account the possibility of unfavourable changes in foreign exchange rates, in particular CHF and EUR, potentially triggering increased liquidity needs.

In the interbank market, the Bank enters into transactions with financial counterparties under agreements based on ISDA and GMRA templates, or their equivalents provided by the Polish Bank Association.

Some of the agreements include provisions relating to a rating downgrade or withdrawal by one of the internationally recognised credit rating agencies. Such provisions allow the counterparty to invoke the right of early termination of the agreement. Another clause with a similar effect concerns a reduction in the number of shares held by the National Fund for Environmental Protection and Water Management to below 51% or with respect to the shares value to a level which deprives the Fund of the right to 51% of the total vote at the General Meeting.

The stress tests performed in the six months ended June 30th 2021, as in 2020, show that the Bank has a stable liquidity position and its liquid assets (excess liquidity) allow it to survive the assumed stress scenarios in which the Bank assumes a survival over a certain period of time.

In the six months ended June 30th 2022, as in 2021, the Group’s liquidity position was monitored on a regular basis and remained safe.

Effect of the COVID-19 pandemic on the Bank’s liquidity

In the highly uncertain environment caused by the COVID-19 pandemic, the Bank keeps monitoring the economic developments, assessing their potential impact on the condition of the Bank and its clients, especially in terms of liquidity. Information on the situation within specific sectors and client behaviour is also analysed, which includes monitoring of cash and deposit outflows, upward movements in EUR/PLN and CHF/PLN exchange rates, and their impact on individual areas of the Bank’s business. The Bank reviewed its assumptions adopted for stress tests to factor in specific risks associated with the pandemic.

In the six months ended June 30th 2022, there were no material adverse impacts of pandemic-related events on the Bank's liquidity.

In the current situation, the Bank is monitoring the balances of deposits and loans, especially in light of the changing interest rates and facilities for borrowers introduced under the government’s anti-crisis shield. The Bank is taking steps to correlate demand for credit capital with funding obtained, while ensuring a safe liquidity buffer.

8.2.2. Interest rate risk

Interest rate risk is defined as a potential negative impact of changes in interest rates on the projected financial result, economic value of equity and present value of debt securities held. The interest rate risk is primarily generated in the Bank, both in the banking book and the trading book.

Interest rate risk in the banking book

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

To achieve this, the Bank uses two tools: the investment portfolio held and derivative transactions entered into as part of hedge accounting. The investment portfolio, built in the banking book, should help to, among others, secure net interest income generated by the Bank's equity and to secure core deposits in current accounts insensitive to interest rate movements. On the other hand, this portfolio is a source of volatility of the revaluation reserve.

The Bank applies fair value hedge accounting. Its purpose is to secure the fair value of the fixed-rate Treasury bonds, which are part of the HtC&S bond portfolio and also serve as the Bank's liquidity buffer. IRS hedging transactions reduce the extent of capital fluctuations caused by movements in interest rates.

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

1. repricing gap, presenting the values of assets, liabilities and on-balance-sheet items sensitive to interest rate movements at maturity or repricing,
2. simulation of net interest income – a dynamic analysis reflecting the projection of net interest income over a given period of time, based on the Bank's growth scenarios, as well as assumptions regarding market factors,
3. net present value (NPV) simulation, presenting values of all cash flows discounted at given market parameters; results of the NPV analysis are used to calculate EVE,
4. price shocks for basis risk analysis, the purpose of which is to estimate the impact on the net interest income of varying changes in interest rates of products whose interest rates are based on different base rates,
5. yield curve risk analysis, which aims to estimate the impact on the economic value of equity of unparallel movements in the shape of the yield curve,
6. client option risk analysis, whose objective is to assess the impact of client options embedded in interest bearing products on the Bank's financial result,
7. stress tests, including reverse tests and the Supervisory Outlier Test – the objective is to determine how extreme changes in market factors affect the net interest income and the economic value of equity,
8. the level of internal capital for interest rate risk in the banking book.

Measures of interest rate risk in the banking book

In order to control the interest rate risk in the banking book, the Bank uses two measures: sensitivity of net interest income to interest rate movements by +/-100 bps (NII) and sensitivity of the economic value of capital to interest rate movements by +/-200 bps (EVE). Interest rate risk in the banking book is measured on the basis of product characteristics (capital flow schedules, interest rate re-pricing, embedded options), resulting from contracts with counterparties. For current products where the client may flexibly determine, among other things, the repayment schedule or use of funds, the Bank builds replicating portfolios that reflect the economic timing of capital flows. In the replicating portfolios, the average maturity of deposits with undetermined maturity is 6 months, and the maximum maturity is 12 months. The Bank also takes into consideration client behaviour patterns, such as: early credit repayment levels or deposit breakage levels, which are estimated in accordance with internal regulations of the Bank. The assumptions are consistent with the EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading book activities.

The following table provides a comparison of the NII and EVE measures between June 30th 2022 and December 31st 2021:

Date	ΔNII		ΔEVE	
	-100 bps	+100 bps	-200 bps	+200 bps
Jun 30 2022	-44,042	29,570	98,362	-97,609
Dec 31 2021	-68,395	41,247	84,372	-102,232
Change	**24,353**	**-11,677**	**13,990**	**4,623**

In the six months ended June 30th 2022, both NII and EVE were within limit/at warning levels consistent with the risk appetite approved by the Supervisory Board. Changes in the values of these measures have a certain cyclical nature, which is due to the regular approximation of the timing of the repricing of floating rate positions and the maturity of fixed rate positions. The lower sensitivity of net interest income in the six months ended June 30th 2022 to a 100 bps decrease in market interest rates was caused, among other factors, by six interest rate rises implemented by the Monetary Policy Council, which resulted in a

rising interest rates results from the characteristics of interest rates on specific items sensitive to interest rate movements, including reduction of interest rates on certain sources of financing to 0%, under the conditions of the analysed market interest rate movements (i.e. by -100 bps).The decrease in sensitivity of EVE to interest rate hikes was attributable, among other factors, to a rise in retail deposits and a fall in the balance of corporate securities. In the six months ended June 30th 2022, the COVID-19 pandemic and the war in Ukraine had no direct impact on the interest rate risk measures in the banking book. However, these developments had an indirect positive effect on the Bank's interest income through higher interest rates.

In accordance with the EBA/GL/2018/02 Guidelines on the management of interest rate risk arising from non-trading book activities the Bank is obliged to carry out a Supervisory Outlier Test (SOT).

(all amounts in PLN thousand)

Results of (SOT) for the six standard shock scenarios related to interest rate risk specified in the Guidelines are presented in the table below as at June 30th 2022 and December 31st 2021, along with their change:

Date	ΔEVE in a given SOT scenario					
	parallel upward shift of the interest rate curve	parallel downward shift of the interest rate curve	steepener shock[1]	flattener shock[2]	short rates shock up[3]	short rates shock down[3]
Jun 30 2022	-82,317	33,949	-133	-34,345	-60,947	12,752
Dec 31 2021	-81,118	21,719	5,598	-64,604	-89,159	5,843
Change	**-1,199**	**12,230**	**-5,731**	**30,259**	**28,212**	**6,909**

The results of the SOT analysis indicate that the Bank is most vulnerable to a decline in the economic value of equity (EVE) in the parallel shock up scenario. The level of sensitivity of the economic value of equity is clearly below the supervisory warning levels, which indicates moderate exposure to interest rate risk.

Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors.

In the banking book, the Bank examines the impact of these scenarios on the following elements:

1. sensitivity of the net interest income (NII):
   - scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
   - scenarios of exchange rate movements by ±5%, ±10% and ±25%,
   - scenarios of cumulative changes in the parallel shifts of interest rate curves by ±100 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,
2. sensitivity of the economic value of equity (EVE):
   - scenarios of parallel shifts of interest rate curves within the range of [-500 bps, +500 bps],
   - scenarios of exchange rate movements by ±5%, ±10% and ±25%,
   - scenarios of cumulative changes in the parallel shifts of interest rate curves by ±200 bps and ±500 bps, and foreign exchange rates by ±5%, ±10% and ±25%,
3. sensitivity of revaluation reserve in scenarios of interest rates movements within the range [-500 bps., +500 bps],
4. sensitivity of the present value of the bond portfolio in scenarios of interest rate movements within the range of [-500 bps, +500 bps] – by issuer (SP&NBP (excluding FVH), corporations, local governments) and by portfolio (H2C&S (excluding FVH), H2C).

The Bank also conducts reverse tests:

1. for the EVE – tests of the impact of changes in market factors, the purpose of which is to show when the sensitivity of the EVE falls below 20% of equity,
2. for the NII:
   - tests to show when the projected interest income falls below zero,
   - tests designed to identify areas of vulnerability to risks arising from collateral and risk management strategies and behavioural responses of clients.

The results of the stress test as at June 30th 2022 show that, in extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to interest rate risk, the banking book risk remained at a safe level.

Given the nature of the Bank's business and the structure of its securities portfolio, the interest rate risk in the banking book is consistently significant. The Bank, as part of the ICAAP process, estimates internal capital for this risk. In accordance with supervisory and internal regulations, internal capital for interest rate risk in the banking book refers to both potential changes in the economic value of equity and net interest income due to adverse movements of interest rates and is adjusted to the structure and nature of the Bank's business.

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In order to hedge the interest rate risk of 10-year fixed-rate PLN 150 million BGK bonds (issued to the COVID-19 Fund and guaranteed by the State Treasury) held within the HtC&S business model, as of July 2020 the Bank applies the option of measurement at fair value through profit or loss (the FVPL option). The related IRS hedging transactions enable the Bank to change interest on the bonds accrued at a fixed interest rate into interest accrued at WIBOR 6M plus margin, which hedges the Bank's position against adverse effects of potential increase in market interest rates.

Results of monitoring the banking book interest rate risk are presented in weekly reports prepared for the Liquidity and Market Risk ALCO Committee, in monthly reports prepared for the Assets and Liabilities Committee and the Management Board, and in quarterly reports prepared for the Risk Committee and the Supervisory Board (quarterly).

Interest rate risk in the trading book

The objective of interest rate risk management in the trading book is to achieve a financial result in this line of business in keeping with the financial plan, at an acceptable level of exposure of the Bank to the risk, and to minimise the adverse effects of holding interest rate-sensitive instruments in the trading book.

Measures of interest rate risk in the trading book

In order to monitor the interest rate risk, the Bank uses:
1. the value at risk (VaR) model determined for the 99% confidence level based on daily volatility of interest rates for 250 business days preceding the date of analysis,
2. the basis point value (BPV), i.e., sensitivity of securities and derivative instruments generating the interest rate risk to a 1 pp movement of interest rates,
3. a system of limits,
4. stress tests.

In the six months ended June 30th 2022, there were no significant changes in the techniques applied to measure the interest rate risk of the Bank's trading book.

The value of interest rate VaR in the trading book and the impact of the stress test scenario – parallel movement of IRS and BOND yield curves by ±200 bps – on the Bank's profit or loss in semi-annual periods are presented below (maximum, minimum, mean and as at the reporting date).

Date	10-day VaR				Stress tests ±200 bps
	mean	max	min	as at	as at
Jan 1 2022 Jun 30 2022	413	1,093	128	553	-1,766
Jan 1 2021 Jun 30 2021	164	413	49	64	-2,609

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

The system of interest rate risk limits in the trading book includes:
1. the 10-day VaR limit,
2. the BPV limit for instruments generating interest rate risk in the trading book, both intra-day and end-of-day, separately for positions in debt securities and for IRS, and combined for these instruments,
3. maximum, two-day and monthly trailing loss limits for assets in the trading book.

The utilisation of each limit is calculated and monitored as at each business day, and for BPV limits – also during the day, and reported to the management on a regular basis.

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Once a month, the Bank conducts stress testing analysis, examining the development of the interest rate risk in the banking and trading book in case of materialisation of extreme changes in risk factors.
In the trading book, the Bank examines the impact of extreme adverse movements of market interest rates on the Bank's profit or loss as well as the volatility of interest rates over 250 business days and the correlation between the interest rate volatility and VaR using both the historical and parametric methods. The historical method took into account the volatility of interest rates caused by the COVID-19 pandemic.

The Bank uses the following scenarios to analyse the impact of stress:

1. historical:
   - parallel movements of the yield curves (including fat tails and spread),
   - curvature of the yield curves,
   - changes in the slope of yield curves,
2. parametric:
   - parallel movement of the yield curves,
   - increase in interest rate volatility,
   - extremely adverse changes in the correlation of interest rates.

Stress test scenarios are also run for market liquidity changes and for situations where positions cannot be closed.

Results of the analysis show that in the event of extremely adverse market conditions and the Bank's increased exposure to instruments sensitive to the interest rate risk both the Bank's banking and trading positions are maintained at a safe level.

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

The interest rate volatility caused by the COVID-19 pandemic and the hostilities in Ukraine did not lead to any material increase in interest rate risk. The measures of interest rate risk in the trading book were monitored on an ongoing basis, and although their levels generally increased, they remained within the limits applied by the Bank.

8.2.3. Currency risk

Currency risk is understood as the risk of loss to the Group due to changes in exchange rates. This risk is generated by DM BOŚ S.A. (in the trading and non-trading book) and in the Bank (mainly in the trading book).

The objective of the Bank's currency risk management policy for the banking book is to not maintain open individual positions. Foreign currency exposures arising in the banking book are transferred systematically to the trading book on the same day or on the following business day at the latest.

The Bank's main currency positions are denominated in PLN, USD, EUR and CHF.

The currency risk in DM BOŚ S.A.'s non-trading book is attributable to deposits of foreign currency cash in the accounts of foreign brokers who buy and sell financial instruments on foreign exchanges on behalf of DM BOŚ clients. DM BOŚ S.A. has open currency positions in USD and EUR in the non-trading book, and the portfolio's currency risk is managed within the limit of the total currency position for the trading book and the non-trading book.

A currency position resulting from transactions in the banking book which has not been transferred on a given day to the trading book is controlled with end-of-day limits of open currency positions in the banking book.

Currency risk in the trading book is generated by both the Bank and DM BOŚ S.A. The currency risk in the trading book was primarily attributable to DM BOŚ S.A., and to a lesser extent to the Bank. Open currency positions in DM BOŚ S.A.'s trading book result from the provision of services to clients in the derivatives trading market and from the provision of services on a regulated market.

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

Measures of currency risk

In order to monitor the currency risk of open foreign exchange positions (on- and off-balance-sheet) in the trading book of the Bank, the following measures are used:

1. the value at risk (VaR) model determined for the 99% confidence level based on daily volatility of foreign exchange rates for 250 business days preceding the date of analysis,
2. a system of limits,
3. stress testing.

The value of foreign exchange VaR in the trading book of the Bank and of the Group and the impact of the stress test scenario – a 30% decline in the exchange rates of all currencies in relation to PLN – on the Group's profit or loss in semi-annual periods are presented below (maximum, minimum, mean and as at the reporting date).

Date	10-day VaR						Stress tests of the Group – increase/decrease of foreign exchange
	Bank				DM	Group	
	mean	max	min	as at	as at	as at	as at
Jan 1 2022 Jun 30 2022	296	1,357	12	1,357	3,510	2,764	-296
Jan 1 2021 Jun 30 2021	279	1,700	16	193	2,132	2,101	-4,187

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

The system of foreign exchange risk limits in the trading book includes:
1. the 10-day VaR limit,
2. limits on the amount per total position and per individual position for the main currencies, both intra-day and end-of-day,
3. daily and monthly trailing loss limits for currency exchange transactions.

Utilisation of the limits is monitored every business day, and for total position and individual limits in the Bank's main currencies – also during the day. During the day, the Bank also monitors additional limits for client transactions, within the amount limits for foreign exchange positions. Formation on the utilisation of individual limits is regularly reported to the Bank's management.

Analyses show that the Group's foreign exchange risk during the reporting period remained moderate.

Once a month, the Bank conducts stress testing analysis, examining the development of the currency risk in the banking book and the trading book in case of materialisation of extreme changes in risk factors. The Bank tests mainly the impact of extremely unfavourable movements in the exchange rates against PLN and cross currency pairs EUR/USD and EUR/CHF on gain (loss) on foreign exchange transactions and changes in volatility of exchange rates during the 250-business-day period and correlation between the volatility and the level of VaR, using both the historical and parametric methods. The historical method took into account the volatility of foreign exchange rates caused by the COVID-19 pandemic.

for the six months ended June 30th 2022 (all amounts in PLN thousand)

The Bank uses the following scenarios to analyse the impact of stress:

1. historical:
   - historical increase/decrease in foreign exchange rates against PLN (including fat tails),
   - Increase/decrease in cross currency EUR/CHF and EUR/USD rates,
2. parametric:
   - a 30% increase/decrease in foreign exchange rates against PLN,
   - increase in volatility of foreign exchange rates,
   - extremely adverse changes in the correlation of foreign exchange rates.

Stress test scenarios are also run for market liquidity changes and for situations where positions cannot be closed.

Results of the stress test analysis show that under extremely unfavourable market conditions and increased exposures, the Bank's foreign exchange risk remains at a safe level.

Results of monitoring the currency risk in the trading book are reported: daily to members of the Management Board and the Alco Committee, weekly to the Liquidity and Market Risk ALCO Committee, monthly to the ALCO Committee and the Management Board, and quarterly to the Risk Committee and the Supervisory Board.

The volatility of exchange rates caused by the COVID-19 pandemic did not significantly increase the level of currency risk. The measures of currency risk were monitored on an ongoing basis, and although their levels generally increased, they remained within the limits applied by the Bank.

8.2.4. Other market risks

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

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

Transactions in equity instruments executed for own account by DM BOŚ S.A. relate to DM BOŚ S.A.'s activities as market maker and in most cases are closed at the end of the day. Significant exposure to equity instruments exists only in the case of hedged (arbitrage) transactions opened by DM BOŚ S.A., including as part of short selling. Hedged (arbitrage) transactions involve taking advantage of temporary price imbalances between two markets (e.g. between the prices of derivative financial instruments and the prices of the underlying instruments). This risk is limited by total exposure limits for hedged (arbitrage) and unhedged transactions. These limits are monitored on a daily basis. DM BOŚ S.A. also executed transactions (as a market maker) in four investment certificates (BETA ETF WIG20TR Portfelowy FIZ, BETA ETF WIG20Short Portfelowy FIZ, BETA ETF WIG20Lev Portfelowy FIZ and BETA ETF mWIG40 Portfelowy FIZ). As a result, DM BOŚ S.A. recorded the risk of positions in collective investment undertakings, and the risk of profit or loss resulting from holding those positions was mitigated by taking opposite positions on WIG20 and mWIG40 futures contracts.

Commodity price risk occurs mainly as part of transactions on the OTC market, transactions with clients of DM BOŚ S.A., and hedging transactions with Saxo Bank A/S, X-Trade Brokers Dom Maklerski S.A. or Interactive Brokers (UK) Ltd.

The COVID-induced volatility of equity and commodity prices and investment certificates had no material adverse effect on the level of other market risks. The measures of these risks were monitored on an ongoing basis, and although their levels generally increased, they remained within the limits applied by DM BOŚ S.A.

8.3. Capital management

For capital adequacy purposes, the Group applies transitional arrangements to mitigate the impact of the first-time application of IFRS 9 on own funds, pursuant to Article 1(9) of Regulation (EU) 2017/2395 of the European Parliament and the Council dated December 12th 2017 (Regulation) amending Regulation (EU) No 575/2013. The Bank also made a decision not to apply the provisions of Article 1.4 of Regulation (EU) 2017/2395.

Taking into account the impact of IFRS 9 both with and without the transitional arrangements, the Group met the applicable capital standards as at June 30th 2022.

Following the decision to apply the transitional provisions, as of February 1st 2018 the Group discloses its own funds, capital ratios and leverage ratio, both with and without applying the transitional arrangements under Article 473a of Regulation (EU) No 575/2013.

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

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

Item	Jun 30 2022 unaudited	Dec 31 2021
Available capital		
Common equity Tier 1 capital	1,741,535	1,796,302
Common equity Tier 1 capital – without IFRS 9 transitional provisions	1,706,844	1,739,139
Tier 1 capital	1,741,535	1,796,302
Tier 1 capital – without IFRS 9 transitional provisions	1,706,844	1,739,139
Own funds	1,887,882	1,978,861
Own funds – without IFRS 9 transitional provisions	1,853,192	1,921,698
Risk-weighted assets		
Total amount of risk-weighted assets	13,179,229	13,544,071
Credit risk and counterparty credit risk	11,759,399	11,998,340
Operational risk	1,060,015	1,060,015
Market risk	316,729	463,378
CVA risk	43,085	22,338
Total amount of risk-weighted assets – without IFRS 9 transitional provisions	13,153,362	13,491,884
Capital ratios		
Common equity Tier 1 capital ratio	13.21	13.26
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.98	12.89
Tier 1 capital ratio	13.21	13.26
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.98	12.89
Total capital ratio	14.32	14.61
Total capital ratio – without IFRS 9 transitional provisions	14.09	14.24
Leverage ratio		
Exposure value	25,648,152	22,821,635
Leverage ratio	6.8	7.9
Leverage Ratio – without IFRS 9 transitional provisions	6.7	7.6
Internal capital		
Internal capital	1,479,962	1,519,695

The amount of own funds and capital requirements were determined in accordance with Regulation (EU) No 575/2013 of June 26th 2013 on prudential requirements for credit institutions and investment firms, hereinafter referred to as CR.

In order to mitigate the risk of a decrease in capital ratios, the Group monitors the scale and structure of the Group's business and factors that may adversely affect the level of the Group's equity.

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On a quarterly basis, the Group estimates internal capital to cover:

1. Pillar 1 risks:
   - for credit risk and counterparty credit risk – on the basis of the regulatory requirement taking into account an additional mark up for non-performing exposures (NPE) / non-performing loans (NPL),
   - for specific types of risk within the market risk, including CVA risk and operational risk – based on the regulatory requirements,
2. Pillar 2 risks:
   - for other permanently significant risks and risks for which assessment of significance is performed periodically, internal capital is determined using methodologies specified in the internal regulations of the Group. These regulations were the basis for monitoring, assessment of significance and determination of internal capital for particular risks incurred by the Bank and Dom Maklerski BOŚ S.A.

In accordance with Article 92 of the CRR, the Group is required to maintain the total capital ratio at a minimum of 8%. The Tier 1 capital ratio and common equity Tier 1 capital ratio should amount at least to 6% and 4.5%, respectively.

According to the CRR Resolution, and the Act of August 5th 2015 on macro-prudential oversight of the financial system and crisis management in the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. As of January 1st 2019, the capital conservation buffer is 2.5 bps, and the countercyclical buffer is 0 bps. The Bank is not required to maintain the buffer defined for other systemically important institution. The systemic risk buffer was released by decision of the Minister of Finance dated March 18th 2020.

On December 9th 2021, the Polish Financial Supervision Authority recommended that the Bank maintains consolidated own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and household loans at the level of 0.63 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.47 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the CRR Regulation) and of at least 56% of the common equity Tier I capital (which corresponds to the capital requirement at the level of 0.35 p.p. above the common equity Tier I capital ratio referred to in Article 92 (1) letter a) of the CRR Regulation).

On February 10th 2022, the Polish Financial Supervision Authority recommended that own funds should be maintained, both on a separate and consolidated basis, to cover the additional capital add-on to absorb potential losses resulting from the occurrence of stress conditions, at the level of 0.38 percentage point above the total capital ratio referred to in Article 92(1)(c) of the CRR Regulation, increased by the additional own funds requirement referred to in Art. 138.2.2 of the Banking Law and by the combined buffer requirement referred to in Art. 55.4 of the Macroprudential Supervision Act. The additional add-on should consist entirely of Common Equity Tier 1 capital.

As a result, as at June 30th 2022 the minimum capital ratios recommended by the Polish Financial Supervision Authority for the Group are 9.35% for Tier 1 capital ratio and 11.51% for the TCR ratio.

The capital adequacy ratio of the Group as at June 30th 2022 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional arrangements.

8.4. Operational risk

Operational risk management at the Group focuses on the Bank and those companies which, in accordance with internal procedures, have been identified as those generating significant operational risk. As at June 30th 2022, operational risk was identified at the Bank, at Dom Maklerski BOŚ S.A. and at BOŚ Leasing - EKO Profit S.A.

The Bank seeks to develop a Group-wide uniform operational risk management system, covering identification, measurement, monitoring, reporting and control of operational risk. The unified approach is aimed, among other things, at defining and implementing instruments to organise operational risk management in the Group, modelled on the instruments applied by the Bank. The Bank analyses information on operational risk within the Group, with particular focus on losses incurred due to the risk, provides opinions on the risk-relevant internal regulations observed by the subsidiaries and presents recommendations for actions in the area of operational risk management.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk, taking into account operational risk events characterised by low frequency of occurrence but high losses; reputational and strategic risks are not part of operational risk.

The Bank applies an operational risk management system under which the responsibility for the day-to-day operational risk management rests with all the Bank's employees, and in particular with the heads of organizational units/offices of the Head Office and Business Centres and Branches of the Bank – in accordance with respective responsibilities and tasks.

Information on significant operational risk events is collected at the Bank and at the subsidiaries that are significant in terms of the operational risk generated. The information is collected by the Bank in a dedicated IT application and used to:

1. monitor the level of operational risk on an ongoing basis,
2. monitor the action taken in response to operational risk incidents,
3. measure or estimate losses arising from operational risk,
4. generate reports on operational risk events, including reports for external institutions.

The Bank sets basic limits for operational risk, including in particular tolerance and appetite limits across the Bank, as well as a target operational risk profile. The degree of utilisation of the tolerance limits and appetite for operational risk is controlled by periodic monitoring of the amount of losses incurred due to operational risk events.

Operational risk is measured using quantitative, qualitative and mixed methods, including, but not limited to:

1. calculation of the capital requirement for operational risk in accordance with the standardised approach,
2. calculation and monitoring of key risk indicators (KRI),
3. reviews of operational risk (self-assessment of potential operational risk),
4. stress tests.

At the Bank, stress tests for operational risk are carried out using three methods: sensitivity analysis, reverse analysis, and scenario analysis. Stress tests are conducted once a year. As a result of the stress tests carried out so far, the amount of losses assumed in the scenarios, compared with the amount of available capital in the form of a tolerance limit and capital requirement for operational risk, confirmed the ability of the Bank to absorb operational risk losses through its operational risk capital requirement and, under most of the scenarios – through the operational risk tolerance limit.

In order to reduce its exposure to operational risk, the Bank uses the following instruments (methods, techniques and tools):

1. organisation of work to mitigate the occurrence of operational risk by, among other things, separating executive and control functions, setting decision and transaction limits, and managing access rights to premises and systems to reduce the possibility of unauthorised actions,
2. the HR policy,
3. internal control functions,
4. strategic internal limits for operational risk, i.e., tolerance and appetite limits,
5. periodic reviews of operational risk based on the self-assessment process,
6. risk maps built to identify the sources of potential threats and assessment of related risk levels,
7. operational risk stress testing,
8. threshold values of key risk indicators (KRI),
9. clauses in contracts with third parties that mitigate operational risk,
10. insurance of bank property with specialized firms,
11. documenting the methodological, process, organisational and IT solutions applied by the Bank,
12. automation of activities with the use of IT solutions and increasing the quality of operations through the use of specialised software,
13. continuity and contingency plans developed for the critical business processes of the Bank,
14. analysis of the adequacy of the calculated capital requirements for operational risk to the actual operational risk incurred by the Bank,
15. internal training for the Bank's employees aimed at raising their awareness and understanding of the role, impact and ways of conduct with respect to operational risk.

The level and profile of operational risk, the utilisation of operational risk limits and the amount of losses arising from operational risk events are regularly monitored at the Operational Risk Office and reported to: the Supervisory Board, the Risk Committee of the Supervisory Board, the Management Board and the Operational Risk Committee.

In the six months ended June 30th 2022, there was no significant increase in the number of operational risk incidents due to the COVID-19 pandemic. There were few COVID-19-induced incidents related to interruptions in the provision of services to branch network clients. The operational risk incidents related to the COVID-19 pandemic did not result in any losses.

8.5. Compliance risk

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

The Bank ensures compliance with laws, internal regulations and market standards through the control function (application of control mechanisms and monitoring their observance) and the compliance risk management process, which includes identification, assessment, control and monitoring of compliance risk and reporting in this respect to the Management Board and the Supervisory Board.

The basic rules for ensuring compliance as part of the compliance risk management function and process are defined in the Compliance Policy of Bank Ochrony Środowiska S.A., prepared by the Management Board and approved by the Supervisory Board, and its implementing acts, including:

a. Principles of compliance risk management at Bank Ochrony Środowiska S.A.,
b. Principles of internal control at Bank Ochrony Środowiska S.A.

The Bank has a separate, independent compliance function reporting directly to the President of the Management Board and responsible for performing its duties within the control function and tasks related to compliance risk management.

Compliance risk management at the Bank aims to:

1. identify, assess and control the potential for negative consequences of non-compliance with the laws, internal regulations and market standards, including in particular legal sanctions, financial losses, or loss of reputation that may result from non-compliance with the laws, internal regulations and market standards;
2. consolidate the Bank's image as an institution operating in compliance with the law, honest, reliable, environmentally friendly, credible and responsible in business.

The Bank identifies the following key compliance areas:
1. implementing and monitoring compliance with laws and market standards,
2. implementing and monitoring compliance with ethical standards,
3. accepting/giving benefits or gifts,
4. advertising and marketing activities,
5. offering products, including in particular implementation of new products,
6. handling client complaints,
7. preventing and managing conflicts of interest,
8. preventing money laundering and terrorist financing (AML),
9. trading in financial instruments.

In the six months ended June 30th 2022, there were no events which would have a material impact on the level of compliance risk, and the Bank focused its efforts on preventing the occurrence of compliance risk.

8.6. Model risk

Model risk in the Group is concentrated in the Bank. BOŚ Leasing – EKO Profit S.A. has only non-significant models for which the risk is not assessed. As at June 30th 2022, Dom Maklerski BOŚ S.A did not use models in its activities.

Model risk is defined by the Bank in accordance with supervisory requirements as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation or use of such models (Art. 3.1, Section 11, CRD IV).

The process of identifying, assessing and monitoring model risk includes areas related to:
1. the risk of using incorrect and incomplete data,
2. the risk of erroneous assumptions of models, which are inadequate to the estimated process,
3. the methodological risks resulting from the use of inappropriate estimation methodologies and techniques in the model construction process,
4. the risk of insufficient monitoring, validation and update of models, also the risk of applying an incorrectly implemented but correct model.

Due to the extensive use of models in its business, including in the credit process, the capital management processes, or the credit risk and market risk management processes, the Bank considers the model risk as consistently significant. Internal capital is estimated and established for model risk.

The Group manages model risk in accordance with internal regulations, including the internal capital estimation and allocation rules, the model risk management policy, the model risk management methodology and the significant model validation methodologies. This is coordinated by an independent unit of the Model Validation Office and the Operational Risk Office, reporting directly to Vice President of the Management Board who coordinates organisation of the Risk Area.

In order to quickly and accurately identify model risk, the Bank has in place a standardized, comprehensive model risk management process, which includes:
1. model life cycle,
2. the principles of assessing the materiality of the Bank's models,

3. the principles of operation of model logs, which contain information regarding the models, sets of their parameters, changes to the models, their updates and reviews. The logs provide a baseline of information on the relevance of the models, monitoring results, validation and risk levels carried by the models,
4. the standards and principles of monitoring and reporting of model risk – significant models are monitored on a quarterly basis, and non-significant models – annually. In exceptional cases, due in particular to limited availability of the data or significant operational intensity of monitoring, models may be monitored less frequently (but not less frequently than once year for significant models and not less frequently than once every three for non-significant models). Model risk is reported on a quarterly basis. Implementation of the Policy is assessed on an annual basis and the assessment results are approved by the Supervisory Board,
5. the principles of model validation – models are validated by an independent Model Validation Office, at least once a year for significant models. Certain types of significant models may be validated less frequently than once year (but not less frequently than once every three years), if such frequency results directly from the nature of the model operation. Other models are validated on an ad-hoc basis when ordered by the Management Board or a relevant Committee, based on external or internal recommendations, or at the request of the model owner.

As at June 30th 2022, the Group operated seven significant models, out of 24 production models. Significant models are used only at the Bank. Risks of the Bank's significant models are assessed on a regular basis, in accordance with the standards adopted in internal regulations, taking into account the calculation of internal capital related to hedging the Bank against the model risk. Reporting on the status of model management and validation includes model risk assessment, risk tolerance level and the associated level of capital allocated to the model risk. Reports on validation for significant models are presented and approved during meetings of the relevant Committees appointed by the Management Board.

As at June 30th 2022, the aggregate risk of significant models was moderate. None of the significant models generated above-moderate risks. The aggregate model risk fell within the tolerance level determined and approved by the Supervisory Board.

9. Net interest income

Item	for 6 months ended Jun 30 2022 unaudited				for 6 months ended Jun 30 2021 unaudited			
	Interest income		Income similar to interest income		Interest income		Income similar to interest income	
	Financial assets measured at amortised cost	Assets measured at fair value through other comprehensi ve income	Financial assets mandatorily measured at fair value through profit or loss	Total	Financial assets measured at amortised cost	Assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss	Total
Amounts due from banks and the central	20,468	-	-	20,468	2,127	-	-	2,127
Amounts due from institutional clients	237,368	-	312	237,680	124,984	-	391	125,375
Amounts due from retail clients	65,840	-	8	65,848	44,859	-	1	44,860
Non-trading investment debt securities	22,436	92,708	-	115,144	12,562	19,445	-	32,007
Financial instruments held for trading	-	-	1,846	1,846	-	-	1,622	1,622
Hedging transactions	-	-	2,107	2,107	-	-	-	-
Total	**346,112**	**92,708**	**4,273**	**443,093**	**184,532**	**19,445**	**2,014**	**205,991**

(all amounts in PLN thousand)

Item	for 6 months ended Jun 30 2022 unaudited			for 6 months ended Jun 30 2021 unaudited		
Interest expense and similar charges on:	**Financial liabilities measured at amortised cost**	**Financial liabilities measured at fair value through profit or loss**	**Total**	**Financial liabilities measured at amortised cost**	**Financial liabilities measured at fair value through profit or loss**	**Total**
Bank accounts and deposits from banks	1,057	-	1,057	513	-	513
Bank accounts and deposits from institutional clients	47,351	-	47,351	754	-	754
Bank accounts and deposits from retail clients	47,570	-	47,570	15,828	-	15,828
Borrowings from banks	-	-	-	-	-	-
Borrowings from clients	114	-	114	83	-	83
Lending support funds (JESSICA)	420	-	420	28	-	28
Financial instruments – own debt securities	10,514	-	10,514	5,987	-	5,987
Hedging transactions	-	-	-	-	3,303	3,303
Lease liabilities	2,035	-	2,035	1,953	-	1,953
Other	3	-	3	22	-	22
Total	**109,064**	**-**	**109,064**	**25,168**	**3,303**	**28,471**

(all amounts in PLN thousand)

10. Net fee and commission income

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Fee and commission income		
Brokerage service fees	49,580	50,626
Fees for maintaining client accounts, other domestic and international settlement transactions	18,229	17,986
Commission fees on loans	18,379	18,423
Commission fees on guarantees and letters of credit	4,076	3,144
Fees for portfolio management services and other management fees	263	310
Other fees	4	1
Total	**90,531**	**90,490**
Fee and commission expense		
Brokerage fees, including:	16,564	15,269
for custody services	327	310
Payment card fees	3,872	3,688
Current account fees	675	794
ATM service charges	466	613
Fees on amounts due from clients	74	52
Other fees	321	280
Total	**21,972**	**20,696**

(all amounts in PLN thousand)

11. Dividend income

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Securities held for trading at fair value through profit or loss	101	38
Securities measured at fair value through other comprehensive income	6,924	6,286
Total	**7,025**	**6,324**

12. Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Securities held for trading	- 8,046	544
Derivative financial instruments	31,549	26,928
Amounts due from clients	6	19
Securities measured at fair value through profit or loss and related derivative financial instruments	- 2,322	3,461
Total	**21,187**	**30,952**

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13. Other income

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Reversal of provisions for liabilities, including:	712	394
provisions for liabilities and claims	476	106
other provisions	236	288
Reversal of impairment losses on receivables	3,857	2,524
Recoveries of prescribed, cancelled or uncollectible receivables	124	4
Proceeds from sale or retirement of property, plant and equipment	50	133
Reimbursement of debt collection costs	768	1,441
Revenue from sale of goods and provision of services	10,666	8,236
Adjustment of interest on cancelled deposits from previous years	695	259
Income from damages, penalties and fines	35	11
Other	2,803	1,672
Total	**19,710**	**14,674**

(all amounts in PLN thousand)

14. Other expenses

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Retirement of property, plant and equipment and intangible assets	107	60
Donations	1,447	783
Recognised provisions for liabilities and claims, including:	1,440	868
provision for refund of commission fees due to early loan repayment	9	-
provision for other liabilities and claims	1,394	868
other provisions	37	-
Impairment losses on receivables	12,537	4,514
Costs of debt collection	1,705	1,658
Adjustment to interest and commission fees on loans earned in previous years*\	3,249	12,454
Lease payments	1,473	1,298
Costs of maintenance and administration of own leased premises	177	2,034
Costs damages, penalties and fines	670	146
Costs of erroneous brokerage transactions	149	115
Other	3,488	1,940
Total	**26,442**	**25,870**

*\ In 2021, 'Adjustment to interest and commission fees on loans earned in previous years' included adjustments to previous years' income arising on accounting for transactions involving sale of portfolios of receivables.

15. Effect of legal risk of mortgage loans denominated in foreign currencies

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Effect of legal risk of mortgage loans tied to currency exchange rates	- 3,942	- 9,050
Total	**- 3,942**	**- 9,050**

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Clients' debt under mortgage loans tied to currency exchange rates	for 6 months ended Jun 30 2022 unaudited	Dec 31 2021
CHF	849,591	877,489
EUR	531,071	552,439
USD	38,395	36,781
Total	**1,419,057**	**1,466,709**

Impairment losses and legal risk provisions	for 6 months ended Jun 30 2022 unaudited	Dec 31 2021
Provisions:		
CHF	396,661	373,001
EUR	10,297	31,442
USD	6,205	3,703
	413,163	**408,146**
Impairment losses:		
CHF	64,731	53,817
EUR	1,409	143
USD	2,137	290
	68,277	**54,250**
Total provisions and impairment losses	**481,440**	**462,396**

The Bank recognises provisions for legal risk as a liability in accordance with IAS 37 based on certain assumptions about cash outflows or decrease in amounts due from clients. The provision covers the costs assumed in the adopted scenarios of possible resolution of the issue, i.e. reaching out-of-court settlements with clients or unfavourable court rulings.

As of 31 January 2022, clients may enter into arrangements with the Bank on terms consistent with the guidelines proposed by the Chairman of the Financial Supervision Commission. According to the adopted framework, arrangements are based on the conversion of an existing loan denominated or tied to a foreign currency into a loan denominated in PLN. Previous repayments of loans denominated in or linked to foreign currencies will be settled based on repayment schedules as if the loans had been denominated in the Polish currency from the outset, i.e., with interest accruing at the relevant WIBOR rate plus margin. As a result of such conversion, the value of the existing portfolio of loans denominated in foreign currencies will decrease, which is reflected in the amount of the provision.

(all amounts in PLN thousand)

In connection with court cases the Bank also estimates the value of the provision resulting from the filed lawsuits and lawsuits that are expected to be filed in the future. The amount of the provision is estimated based on the likelihood that an adverse court judgement will be made against the Bank and its expected financial impact. The scenarios of unfavourable outcomes are based on legal opinions and the Bank's experience to date. The adopted scenarios include declaration of invalidity of the agreement, or conversion of the loan into PLN.

The provision calculation model also contains assumptions as to the forecast increase in the number of lawsuits filed by clients over a period of five years. The projection assumes that the launch of the Compromise and Settlement Programme will have a positive effect on (i.e., decrease in) the number of new lawsuits over the life of the Programme. For this reason, the Bank estimates a gradually decreasing number of expected new lawsuits over a horizon of five years.

To estimate the financial loss, the Bank assesses loan agreements on a case-by-case basis, taking into account such parameters as loan origination date, which determines the limitation period for claims.

Apart from the provision recognised in accordance with IAS 37, the Bank also recognises impairment allowances for mortgage loans denominated in convertible currencies, assuming that the fact of bringing a court action for invalidation of the agreement is an indicator of impairment.

16. Net impairment losses

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Securities measured at fair value through other comprehensive income	1,906	1,300
Securities measured at amortized cost	- 23	- 56
Amounts due from banks	89	80
Amounts due from clients and off-balance-sheet liabilities, including:	- 94,424	- 64,473
on-balance-sheet receivables	- 91,662	- 58,516
from retail clients	- 24,412	- 19,027
from institutional clients	- 67,250	- 39,489
off-balance-sheet liabilities	- 2,762	- 5,957
from retail clients	152	- 120
from institutional clients	- 2,914	- 5,837
Total	**- 92,452**	**- 63,149**

Net impairment losses on amounts due from clients:

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Individual assessment	- 64,322	- 39,815
Group assessment	- 27,340	- 18,701
Total	**- 91,662**	**- 58,516**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

17. Administrative expenses

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Employee benefits	109,682	92,112
Administrative expenses, including:	97,128	77,500
material costs	58,222	51,528
taxes and charges	4,187	3,323
contribution and payments to BGF	33,127	21,366
contribution and payments to PFSA	1,446	1,168
contribution to cover operating expenses of Financial Ombudsman	100	69
contribution to Chamber of Brokerage Houses (Izba Domów Maklerskich, IDM)	46	46
Amortisation and depreciation, including:	30,498	27,448
depreciation of property, plant and equipment	7,431	6,861
amortisation of intangible assets	14,563	13,480
depreciation of rights-of-use assets	8,504	7,107
Total	**237,308**	**197,060**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

18. Income tax expense

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Current tax	- 32,839	- 7,917
Deferred tax	5,627	- 2,976
Total	**- 27,212**	**- 10,893**
Profit before tax	**111,089**	**17,757**
Income tax at 19% tax rate	- 21,107	- 3,374
Permanent differences between profit before tax and tax base	- 6,099	- 7,519
decreasing:	11,471	4,311
reversed impairment losses	1,200	1,017
dividends received	1,639	1,202
valuation of equity-accounted subsidiaries	5	55
release of provisions, including provisions for court proceedings and claims for legal risk related to foreign currency mortgage loans	8,627	2,037
increasing:	- 17,845	- 12,493
recognised impairment losses	- 966	- 5,455
provisions recognised for other liabilities, including provisions for legal proceedings and claims related to foreign currency mortgage loans	- 9,394	- 1,802
contributions paid to BGF	- 6,133	- 4,054
valuation of companies	- 5	- 244
other	- 1,347	- 938
deductions from taxable income:	275	663
tax loss	-	514
donations	275	149
Tax expense on profit or loss for current year	**- 27,206**	**- 10,893**
Change in tax expense on profit or loss for previous years	**- 6**	**-**
Total tax expense on profit or loss	**- 27,212**	**- 10,893**
Effective tax rate	**24%**	**61%**

For detailed information on deferred tax, see Note 27.

(all amounts in PLN thousand)

19. Earnings per share

Basic earnings per share are calculated as the quotient of profit attributable to shareholders of the Bank and the weighted average number of ordinary shares during the year.

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Net profit	83,877	6,864
Weighted average number of ordinary shares (thousand)	92,910	92,910
Basic earnings per share (PLN)	**0.90**	**0.07**

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

20. Amounts due from banks

Item	Jun 30 2022 unaudited	Dec 31 2021
Deposits with other banks, recognised as cash equivalents	242,035	343,543
Deposits with other banks up to 3 months	1,911	5,757
including: deposits with other banks up to 3 months (funds of Dom Maklerski BOŚ clients)	1,911	5,757
Derivative hedging receivables	22,138	36,938
Debt securities classified as amounts due from other banks	15,149	15,078
Total gross	**281,233**	**401,316**
Impairment losses on debt securities classified as receivables from other banks	- 480	- 569
Total net	**280,753**	**400,747**

21. Financial assets and liabilities held for trading

Assets	Jun 30 2022 unaudited	Dec 31 2021
Derivative financial instruments, including:	269,554	137,076
foreign exchange and currency derivative transactions	16,429	13,475
interest rate derivative transactions	222,103	103,854
forward contracts and options	31,022	19,747
Securities held for trading	29,407	18,629
debt securities	15,068	5,321
equity securities	14,339	13,308
Total financial assets held for trading	**298,961**	**155,705**

Liabilities	Jun 30 2022 unaudited	Dec 31 2021
Derivative financial instruments, including:	174,490	99,659
foreign exchange and currency derivative transactions	5,207	23,083
interest rate derivative transactions	160,220	71,620
forward contracts and options	9,063	4,956
Total financial liabilities held for trading	**174,490**	**99,659**

(all amounts in PLN thousand)

22. Investment securities

Item	Jun 30 2022 unaudited				Dec 31 2021			
	Measured at fair value through other comprehensive income	Measured at amortised cost	Measured at fair value through profit or loss	Total	Measured at fair value through other comprehensive income	Measured at amortised cost	Measured at fair value through profit or loss	Total
Debt securities:	**8,150,119**	**1,803,541**	**102,542**	**10,056,202**	**5,311,853**	**1,582,366**	**129,229**	**7,023,448**
Treasury bonds	1,722,210	1,595,535	-	3,317,745	1,462,432	1,373,528	-	2,835,960
NBP money market bills – recognised as cash equivalents	5,799,031	-	-	5,799,031	2,899,014	-	-	2,899,014
municipal bonds	88,582	-	-	88,582	91,056	-	-	91,056
bonds of other banks	287,342	86,712	102,542	476,596	448,695	87,711	129,229	665,635
bonds of other financial institutions	252,954	121,294	-	374,248	410,656	121,127	-	531,783
Equity securities	**85,487**	**-**	**-**	**85,487**	**85,483**	**-**	**-**	**85,483**
listed	18,543	-	-	18,543	18,543	-	-	18,543
unlisted	66,944	-	-	66,944	66,940	-	-	66,940
Total	**8,235,606**	**1,803,541**	**102,542**	**10,141,689**	**5,397,336**	**1,582,366**	**129,229**	**7,108,931**

Interim condensed consolidated financial statements of the BOŚ Group for the year ended June 30th 2021 (all amounts in PLN thousand)

BOŚ BANK

23. Amounts due from clients

Item	Jun 30 2022 unaudited			Dec 31 2021		
	Gross amounts due from clients	Impairment losses	Net amounts due from clients	Gross amounts due from clients	Impairment losses	Net amounts due from clients
Measured at amortised cost	**12,924,339**	**1,254,800**	**11,669,539**	**12,926,644**	**1,122,626**	**11,804,018**
Amounts due from retail clients	**3,487,301**	**357,076**	**3,130,225**	**3,590,741**	**316,099**	**3,274,642**
overdraft facilities	4,071	2,746	1,325	1,605	1,381	224
cash loans	353,722	85,059	268,663	382,496	81,570	300,926
housing loans	2,834,662	236,789	2,597,873	2,935,010	206,917	2,728,093
other credit facilities	294,846	32,482	262,364	271,630	26,231	245,399
Amounts due from institutional clients	**9,437,038**	**897,724**	**8,539,314**	**9,335,903**	**806,527**	**8,529,376**
working capital facilities	980,885	87,653	893,232	727,367	78,626	648,741
term facilities	7,307,869	773,205	6,534,664	7,472,953	700,987	6,771,966
factoring receivables	574,453	7,516	566,937	606,900	6,934	599,966
lease receivables	176,932	15,114	161,818	151,194	14,552	136,642
purchased receivables	104,519	884	103,635	129,665	2,354	127,311
commercial paper	292,380	13,352	279,028	247,824	3,074	244,750
Measurement at fair value through profit or loss	**-**	**-**	**8,534**	**-**	**-**	**14,111**
Amounts due from retail clients	**-**	**-**	**425**	**-**	**-**	**651**
overdraft facilities	**-**	**-**	25	-	-	-
housing loans	-	-	150	-	-	257
other credit facilities	-	-	250	-	-	394
Amounts due from institutional clients	**-**	**-**	**8,109**	**-**	**-**	**13,460**
working capital facilities	-	-	-	-	-	19
term facilities	-	-	8,109	-	-	13,441
Total	**-**	**-**	**11,678,073**	**-**	**-**	**11,818,129**
Security deposits	31,591	41	31,550	32,811	43	32,768
Other amounts due from clients	4,331	-	4,331	4,750	-	4,750
Total amounts due from clients	**-**	**-**	**11,713,954**	**-**	**-**	**11,855,647**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Amounts due from clients included preferential loans with subsidised interest from NFOŚiFW and WFOŚiGW; in the reporting period, the amounts were as follows (nominal values):

Item	Jun 30 2022 unaudited	Dec 31 2021
Preferential loans with subsidies, including:	**74,861**	**61,503**
measured at amortised cost	56,188	48,120
measured at fair value through profit or loss	18,673	13,383

(all amounts in PLN thousand)

Change in impairment losses on amounts due from clients:

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period Jan 1 2022	**18,403**	**15,674**	**281,990**	**32**	**316,099**	**69,694**	**64,860**	**670,974**	**999**	**806,527**
Increase due to origination and purchase of financial assets	1,042	1	-	236	1,279	9,430	454	106	-	9,990
Changes due to change in credit risk	- 4,122	- 1,640	50,180	58	44,476	- 318	17,573	82,997	1,913	102,165
Decrease due to derecognition of financial assets including:	- 880	- 392	- 9,387	2	- 10,657	- 2,905	- 3,007	- 9,167	-	- 15,079
change in impairment losses on financial instruments written-off from the statement of financial position	-	-	- 47	-	- 47	-	-	- 10	-	- 10
Change in impairment losses due to reallocations of financial assets between Buckets	3,083	- 4,557	1,474	-	-	- 3,722	225	3,497	-	-
Reallocation to Bucket 1	4,420	- 3,435	- 985	-	-	4,055	- 4,054	- 1	-	-
Reallocation to Bucket 2	- 900	3,367	- 2,467	-	-	- 5,816	5,486	330	-	-
Reallocation to Bucket 3	- 437	- 4,489	4,926	-	-	- 1,961	- 1,207	3,168	-	-
Other changes	200	585	5,094	-	5,879	- 212	- 579	- 5,088	-	- 5,879
At end of period Jun 30 2022	**17,726**	**9,671**	**329,351**	**328**	**357,076**	**71,967**	**79,526**	**743,319**	**2,912**	**897,724**

(all amounts in PLN thousand)

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period Jan 1 2021	**15,511**	**21,689**	**299,369**	**-**	**336,569**	**69,263**	**104,433**	**692,719**	**25**	**866,440**
Increase due to origination and purchase	1,581	28	-	-	1,609	10,483	392	110	-	10,985
Change in gross carrying amount of existing portfolio	- 5,769	4,756	22,221	-	21,208	- 13,134	23,349	49,456	1	59,672
Change in impairment losses due to derecognition of financial assets, including:	- 443	- 312	- 92,170	-	- 92,925	- 3,675	- 9,238	- 85,209	-	- 98,122
change in impairment losses on financial instruments written-off from the statement of financial position	-	-	- 88,976	-	- 88,976	-	-	- 79,495	-	- 79,495
Change in impairment losses due to reallocations of financial assets between Buckets	3,307	- 6,620	3,313	-	-	20	3,308	- 3,328	-	-
Reallocation to Bucket 1	4,709	- 4,562	- 147	-	-	13,698	- 13,342	- 356	-	-
Reallocation to Bucket 2	- 733	3,620	- 2,887	-	-	- 11,064	19,918	- 8,854	-	-
Reallocation to Bucket 3	- 669	- 5,678	6,347	-	-	- 2,614	- 3,268	5,882	-	-
Other changes	- 3	1	2	-	-	112	- 112	-	-	-
At end of period Jun 30 2021	**14,184**	**19,542**	**232,735**	**-**	**266,461**	**63,069**	**122,132**	**653,748**	**26**	**838,975**

(all amounts in PLN thousand)

24. Amounts due to clients

Item	Jun 30 2022 unaudited	Dec 31 2021
Retail clients	11,611,565	8,515,701
current/checking accounts	3,882,629	4,942,698
term deposits	7,728,936	3,573,003
Institutional clients	7,744,675	7,799,099
current/checking accounts	4,612,047	6,255,578
term deposits	3,132,628	1,543,521
Other clients	83,366	84,032
Borrowings from international financial institutions	499,890	510,954
Lending support funds	39,551	98,077
Total	**19,979,047**	**17,007,863**

In the six months ended June 30th 2022 and in 2021, the Group made all principal and interest payments on time, and did not breach any other contractual provisions regarding its payment obligations.

25. Subordinated liabilities

Series	Currency	Interest rate	Maturity	Nominal value	Amount outstanding	Nominal value	Amount outstanding
				Jun 30 2022 unaudited		Dec 31 2021	
AA1	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	34,214	35,316	34,214	34,889
AA2	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	65,786	66,900	65,786	66,347
P	PLN	6M WIBOR + margin (six-month	10 years (with early repayment option after 5 years)	150,000	153,701	150,000	151,814
R1	PLN	6M WIBOR + margin (six-month	10 years (with early repayment option after 5 years)	83,000	84,552	83,000	83,572
W	PLN	6M WIBOR + margin (six-month	7 years (with early repayment option after 5 years)	32,500	32,496	32,500	32,485
Total				**365,500**	**372,965**	**365,500**	**369,107**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

26. Provisions

Item	Jun 30 2022 unaudited	Dec 31 2021
Provisions for contingent liabilities, including:	32,106	29,347
open lines of credit	18,585	15,914
guarantees	13,521	13,433
Provision for employee benefits – retirement and disability benefits	3,674	3,794
Provision for legal risk related to foreign currency mortgage loans	413,163	408,146
Provision for refund of commission fees due to early loan repayment	507	952
Provision for other liabilities and claims	9,487	8,564
Total	**458,937**	**450,803**

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

As of June 30th 2022, there were a total of 817 cases pending before the courts against the Bank, relating to loans denominated mainly in CHF, with the total value of disputed claims of PLN 265.31 million. The claims raised in the lawsuits generally involve declaring the credit/loan agreement invalid and awarding repayment of loan instalments paid or, alternatively, declaring the denomination clauses abusive and awarding payment.

As at June 30th 2022, the amount of provisions for the legal risk related to mortgage loans denominated in foreign currencies was PLN 413,163 thousand.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

27. Deferred income tax

Deferred income tax is calculated on all temporary differences using an income tax rate of 19%.

Deferred tax liabilities and assets are allocated to the following items:

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Deferred tax liabilities arising from:		
accrued income	41,711	32,419
increase on valuation of assets	63,710	34,886
non-depreciated property, plant and equipment covered by investment tax relief	13,000	12,040
income from unsettled short sales	5	-
net value of lease contracts	35,666	36,423
paid commission fees to be accounted for using effective tax rate	7,571	8,356
IBNR recognised as tax-deductible in previous years	622	870
other temporary differences	-	294
Total	**162,285**	**125,288**

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Deferred tax assets due to:		
impairment losses on receivables	140,784	126,613
received commission fees to be accounted for using effective tax rate	25,892	20,729
property, plant and equipment leased out	44,737	42,237
provisions for material and labour costs	8,486	7,599
deferred expenses	24,144	18,431
interest received on securities previously purchased by the Bank	6,624	6,207
decrease on valuation of assets	77,414	16,288
tax loss	-	144
other temporary differences	4,741	8,055
Total	**332,822**	**246,303**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

28. Other liabilities

Item	Jun 30 2022 unaudited	Dec 31 2021
Interbank settlements	35,195	47,301
Amounts due to DM BOŚ counterparties	60,212	72,887
Accrued expenses and deferred income	66,270	47,258
Public charges	33,146	19,354
Trade liabilities	78,231	71,782
Deferred commissions	12,181	7,749
Payment card settlements	866	1,135
Provision for refund of commission fees due to early loan repayment	3,010	3,310
Other	4,189	11,368
Total	**293,300**	**282,144**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

29. Contingent assets and liabilities

Item	Jun 30 2022 unaudited	Dec 31 2021
Contingent liabilities:	**3,092,916**	**3,264,122**
Financial, including:	2,647,319	2,814,089
open credit lines, including:	2,608,841	2,793,138
revocable	2,280,160	2,337,580
irrevocable	328,681	455,558
open import letters of credit	38,478	20,951
Guarantees, including:	445,597	450,033
credit repayment sureties and guarantees	12,739	12,739
performance bonds	432,858	437,294
Contingent assets:	**2,145,862**	**2,143,824**
Financial, including:	351,045	344,955
open lines of credit	351,045	344,955
Guarantees	1,776,069	1,781,345
Other	18,748	17,524
Total contingent assets and contingent liabilities	**5,238,778**	**5,407,946**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

30. Common equity

Registered share capital

As of June 30th 2022, the share capital was PLN 929,477 thousand and did not change relative to the amount as at December 31st 2021.

Series/ issue	Type of shares	Type of preference	Number of shares	Par value of series/issue, PLN thousand	Method of payment for shares	Date of registration	Dividend right as of:
A	O	ordinary	236,700	2,367	cash	Jan 9 1991	Jan 1 1992
B	O	ordinary	1,263,300	12,633	cash	Mar 11 1992	Jan 1 1993
C	O	ordinary	477,600	4,776	cash	Dec 30 1992	Jan 1 1993
C	O	ordinary	22,400	224	in-kind contribution	Dec 30 1992	Jan 1 1993
D	O	ordinary	1,300,000	13,000	cash	Dec 30 1993	Jan 1 1994
E	O	ordinary	647,300	6,473	cash	Jun 30 1994	Jan 1 1995
E	O	ordinary	15,500	155	in-kind contribution	Jun 30 1994	Jan 1 1995
E	O	ordinary	37,200	372	in-kind contribution	Jun 30 1994	Jan 1 1995
F	O	ordinary	1,500,000	15,000	cash	Dec 30 1994	Jan 1 1995
G	O	ordinary	1,260,000	12,600	cash	Jun 30 1995	Jan 1 1996
H	O	ordinary	670,000	6,700	cash	Jun 30 1995	Jan 1 1996
I	O	ordinary	70,000	700	cash	Jun 30 1995	Jan 1 1996
J	O	ordinary	1,055,000	10,550	cash	Jun 21 1996	Jan 1 1996
K	O	ordinary	945,000	9,450	cash	Jun 21 1996	Jan 1 1996
L	O	ordinary	1,200,000	12,000	cash	Nov 29 1996	Jan 1 1996
M	O	ordinary	2,500,000	25,000	cash	May 7 1998	Jan 1 1997
N	O	ordinary	1,853,000	18,530	cash	Jun 13 2007	Jan 1 2007
O	O	ordinary	1,320,245	13,202	in-kind contribution	Jun 25 2010	Jan 1 2010
P	O	ordinary	6,500,000	65,000	cash	Jun 15 2012	Jan 1 2011
U	O	ordinary	40,000,000	400,000	cash	Jul 12 2017	Jan 1 2016
V	O	ordinary	30,074,426	300,744	cash	Jul 4 2018	Jan 1 2018
Total number of shares			**92,947,671**				
Total par value of share capital				**929,477**			
Total share capital				**929,477**			

Par value of share is PLN 10.

As at June 30th 2022, the total number of voting rights attached to all shares issued by the Bank was 92,947,671 and did not change relative to December 31st 2021.

Each share carries the right to one vote at the General Meeting.

Other shareholders hold in total 27.8% of shares in the Bank's share capital.

As at the date of these interim condensed consolidated financial statements, no changes in the ownership structure of major holdings were known.

Treasury shares

As at June 30th 2022, the Bank held 37,775 treasury shares, representing 0.04% of its share capital and 0.04% of total voting rights in the Bank.
In accordance with the Commercial Companies Code, the Bank may not exercise voting rights attached to its own shares.

Share premium

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

As at June 30th 2021 and December 31st 2020, the share premium was PLN 532,181 thousand.

31. Hedge accounting

Hedge accounting policies

In the Group, hedge accounting was applied by the Bank only.

Hedge accounting is an integral part of the financial risk management process. Financial risk is managed as part of the risk management process in place at the Group.

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

Cash flow hedge accounting

As at June 30th 2022, the Group did not apply cash flow hedge accounting.

Fair value hedge accounting

During the hedging period, the Bank hedges the volatility of fair value of fixed-rate bonds , resulting from movements of market interest rates. The hedged item is part of the Treasury bonds held in the HtCS business model. The hedging instrument is an Interest Rate Swap (IRS), under which the Bank makes a payment based on a fixed interest rate and receives a coupon based on a variable rate (6M 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 profit or loss. Only one type of risk (i.e., the risk of interest rate volatility) is hedged. The spread between quote prices of the Treasury bonds and the IRS transactions is not hedged.

The hedge is expected to be highly effective in offsetting fair value changes resulting from the hedged risk. The effectiveness of the hedge is verified by using prospective and retrospective hedge effectiveness tests. The prospective test is based on the analysis of BPV of the hedged item and the hedging instrument. The retrospective test is performed based on the direct offset method, which compares changes in the value of the hedging transaction and the hedged item resulting from changes in the hedged risk. The retrospective test is positive if the offset ratio is within the range <0.8;1.25>. The tests are performed on a quarterly basis. The Bank does not identify any significant sources of ineffectiveness the fair value hedging.

Changes in the fair value of the hedged item resulting from movements of market interest rates are recognised in the statement of profit or loss. Changes in the fair value of the bonds not attributable to changes in the hedged risk are recognised in revaluation reserve. Changes in the measurement of the hedging instrument are recognised in the statement of profit or loss.

As of June 30th 2022, the Bank had one fair value hedge relationship – a hedge established on October 20th 2015.

The hedged item within the hedging relationship established in 2015 includes PLN 240 million of State Treasury bonds DS0725, maturing in July 2025.

As at June 30th 2022, an amount of PLN 5,522 thousand resulting from changes in fair value of the bonds due to movements of interest rates and changes in the fair value of the IRS transactions was recognised in profit or loss account. The amount of PLN -6,227 thousand was recognized in the revaluation reserve. It represented the sum of the impact of the bonds on equity as at the date the hedge relationship was established (PLN -11,345 thousand) and the change in the fair value of the bonds resulting from the unhedged part of the risk (spread between the quoted prices of the bonds and the IRS transactions).

Item	Jun 30 2022 unaudited			Dec 31 2021		
	carrying amount	nominal value	fair value*\	carrying amount	nominal value	fair value*\
Hedging instruments						
Interest Rate Swap (IRS)	31,113	258,000	33,403	9,121	258,000	11,587
Hedged items						
Treasury bonds	220,478	240,000	-27,881	238,620	240,000	-6,490
Total effect on profit or loss			**5,522**			**5,097**

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

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

32. Notes 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 maturities of less than three months.

Item	Jun 30 2022 unaudited	Dec 31 2021
Cash and balances with central bank	379,245	361,581
Deposits with other banks, recognised as cash equivalents	242,035	344,762
Investment securities	5,799,031	2,899,584
Total	**6,420,311**	**3,605,927**

The balance of cash and cash equivalents includes the obligatory reserve maintained with the NBP.

On June 21st 2018, the Management Board of the National Bank of Poland passed a resolution to exempt the Bank from the obligation to maintain 55% of the required minimum reserves. The exemption was effective from July 2nd 2018 to December 31st 2021.

In accordance with Par. 12 of NBP Resolution No. 40/2015, the Bank may use the funds held in the obligatory reserve for current cash settlements.

The amount of the obligatory reserve declared to be maintained in June 2022 was PLN 562,759 thousand (June 2021: PLN 30,765 thousand). The Bank is required to maintain the average cash balance per month above the declared obligatory reserve.

for the six months ended June 30th 2022 (all amounts in PLN thousand)

Reconciliation of differences between changes in the statement of financial position and changes of the corresponding items disclosed in the statement of cash flows from operating activities

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Change in amounts due from other banks	119,994	- 31,554
Change in deposits with other banks, recognised as cash equivalents	- 102,727	80,766
Total change in deposits with other banks and amounts due from other banks	**17,267**	**49,212**
Change in investment securities	- 3,032,758	339,439
Change in investment securities recognised in cash and cash equivalents	2,899,447	420,032
Purchase of securities measured at amortised cost	325,937	70,595
Cash receipts from redemption of securities measured at amortised cost	- 126,471	-
Interest income on securities measured at amortised cost	- 26,705	- 24,008
Transfer of interest on securities measured at amortised cost to interest on investing activities	48,414	31,857
Remeasurement of financial assets measured at fair value through other comprehensive income	- 75,324	- 18,602
Total change in investment securities	**12,540**	**819,313**
Change in other assets and income tax	- 69,523	40,143
Deferred income tax expense disclosed in the statement of profit or l	5,627	- 2,976
Deferred income tax on measurement of investment securities	14,312	3,534
Non-monetary changes in intangible assets and property, plant and equipment	- 79	- 46
Other changes due to lease contracts	- 78	- 106
Total change in other assets and income tax	**- 49,741**	**40,549**
Change in other liabilities and income tax	15,467	8,267
Current income tax expense	- 32,839	- 7,917
Income tax paid	28,716	9,517
Total change in other liabilities and income tax	**11,344**	**9,867**
Change in liabilities arising from issue of bank securities and subordinated liabilities	3,858	- 53
Interest paid on bonds issued by the Bank, including:	6,652	6,035
on subordinated bonds	6,652	6,035
Interest accrued on bonds issued by the Bank, including:	- 10,510	- 5,982
on subordinated bonds	- 10,510	- 5,982
Total change in liabilities arising from issue of bank securities	**-**	**-**

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

33. 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 disclosed in the financial statements are presented below.

Item	Carrying amount Jun 30 2022	Fair value Jun 30 2022	Carrying amount Dec 31st 2021	Fair value Dec 31 2021
FINANCIAL ASSETS				
Amounts due from banks	**280,753**	**282,492**	**400,747**	**402,886**
Amounts due from clients including:	**11,713,954**	**11,599,551**	**11,855,647**	**11,814,926**
amounts due in PLN	9,169,623	9,180,744	9,353,758	9,372,279
amounts due in foreign currencies	2,544,331	2,418,807	2,501,889	2,442,647
Investment securities – measured at amortised cost	**1,803,541**	**1,551,882**	**1,582,366**	**1,544,358**
Debt securities, including:	1,803,541	1,551,882	1,582,366	1,544,358
Treasury securities	1,595,535	1,396,759	1,373,528	1,362,035
other	208,006	155,123	208,838	182,323
FINANCIAL LIABILITIES				
Amounts due to central bank and other banks	**356,296**	**356,296**	**420,389**	**420,389**
Amounts due to clients, including:	**19,979,047**	**19,932,928**	**17,007,863**	**17,015,812**
institutional clients	7,784,226	7,781,817	7,897,176	7,897,249
retail clients	11,611,565	11,567,676	8,515,701	8,523,304
other clients	83,366	83,366	84,032	84,032
international financial institutions	499,890	500,069	510,954	511,227
Subordinated liabilities	**372,965**	**357,586**	**369,107**	**356,419**

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Amounts due from banks

Amounts due from banks include interbank deposits, nostro accounts and loans and advances. Fair value of interbank deposits, due to their short-term nature (fixed-rate interbank deposits up to six months) is equal to their carrying amount. Bonds issued by banks were measured at fair value, after accounting for a change in the credit spread calculated on the basis of comparable issues by similar banks.

Amounts due from clients

Amounts due from clients are disclosed net of impairment allowances. Amounts due from clients in the balance sheet are chiefly measured at amortised cost using the effective interest rate (99% of the carrying amount of credit facilities).

The fair value of credit facilities is assumed to be their value resulting from currently estimated future principal and interest cash flows (separately for facilities denominated in foreign currencies and for facilities denominated in PLN) calculated using the effective interest rate for each facility (except for facilities with an undetermined schedule or non-performing loans, for which the fair value is assumed to be the same as carrying amount) and discounted at the average effective interest rate of the facilities granted over the last twelve months. For mortgage loans, account was taken of prepayments. In the case of facilities in foreign currencies, which the Bank ceased to grant, an average effective interest rate on the corresponding facilities denominated in PLN was applied, adjusted for the difference between the rates in specific currencies and PLN.

Investment securities measured at amortised cost

Investment securities measured at amortised cost include Treasury bonds held within the HtC business model. The fair value of the bonds is assumed to be the current valuation derived from quoted market prices plus accrued interest.

Amounts due to central bank and other banks

Amounts due to the central bank as well as liabilities arising from repo transactions are disclosed at carrying amount. Liabilities arising from repo transactions were recognised 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 the counterparty.

Interbank deposits, due to short maturities, were disclosed at carrying amounts, and the borrowings (principal and interest) were discounted using the average effective interest rate.

Amounts due to clients

Amounts due to clients disclosed in the statement of financial position are measured at amortised cost, using the effective interest rate method. The fair value of amounts due to clients is assumed to be their value resulting from discounting principal and interest for all deposits at the weighted average interest rate that was in effect for deposits accepted in June 2021. In the absence of payment schedules for current accounts, they were recognised at the carrying amount.

Amounts due to international financial institutions (principal and interest) were discounted using the average effective interest rate (for EUR) or the interest rate of the most recent transaction executed in a given currency (for PLN).

Liabilities arising from issue of bank securities

Liabilities arising from issue of securities are measured at fair value taking into account change in credit spread for PLN-denominated bonds, determined based on the latest issue carried out by the Bank.

Subordinated liabilities

Subordinated liabilities were measured at fair value, with the change in the credit spread determined on the basis of the latest issue made by the Bank.

34. Allocation of financial instruments measured at fair value based on the fair value measurement method

Under IFRS 13, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When estimating fair value, the Group takes into account the adjustment for counterparty credit risk.

As at June 30th 2022 and December 31st 2021, the Group allocated financial assets and liabilities measured at fair value into three categories (levels) based on the measurement method:

1. Level 1: mark-to-market valuation directly from available quotations of instruments on the market. This applies to quoted equity and debt securities and NBP bills (quotations based on the reference rate),
2. Level 2: mark-to-model valuation approach, with model parameterisation based on active market quotations for the type of instruments concerned or prices obtained in transactions concluded close to the reporting date on normal market terms. Fair value is also determined by reference to other, similar instruments, by analysing discounted cash flow and with other valuation methods commonly used by market participants, and in the case of financial instruments to which no valuation method can be applied – at cost. This applies to unlisted bank securities, equity securities and derivatives (including forward transactions for securities), except where they meet the criteria for allocation to Level 3. Additionally, in the portfolio of assets available for sale DM BOŚ holds shares of an entity 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 and using comparable values for businesses listed on the Warsaw Stock Exchange,
3. Level 3: mark-to-model valuation approach, with model parameterisation based on active market quotes for a given type of instruments and the model parameters based on estimated risk factors. This applies to municipal securities (measured using the discounted cash flows method, with credit spreads used in the valuation determined on the basis of internal ratings), securities of other banks (prices are determined based on the margins of securities quoted in the market at the time of price determination, issued by selected issuers), unlisted equity securities and illiquid equity securities (measured using the discounted cash flows method). In the case of DM BOŚ are financial instruments acquired with the intention to introduce them to regulated trading. Fair value is determined based on an analysis of the company's financial position, taking into account impairment losses.

Financial instruments by fair-value hierarchy level:

Jun 30 2022 unaudited	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**28,668**	**270,293**	**-**	**298,961**
debt securities	15,068	-	-	15,068
equity securities	13,576	763	-	14,339
derivative financial instruments	24	269,530	-	269,554
Derivative hedging instruments	**-**	**31,113**	**-**	**31,113**
Measured at fair value through other comprehensive income	**7,539,784**	**102,541**	**695,823**	**8,338,148**
debt securities	7,521,241	102,541	628,879	8,252,661
equity securities	18,543	-	66,944	85,487
Amounts due from banks	**-**	**-**	**282,492**	**282,492**
Amounts due from clients	**-**	**-**	**11,599,551**	**11,599,551**
Investment securities measured at amortised cost	**1,551,882**	**-**	**-**	**1,551,882**
Total	**9,120,334**	**403,947**	**12,577,866**	**22,102,147**

Jun 30 2022 unaudited	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	**9**	**174,481**	**-**	**174,490**
derivative financial instruments	9	174,481	-	174,490
Amounts due to other banks	**-**	**-**	**356,296**	**356,296**
Amounts due to clients	**-**	**-**	**19,932,928**	**19,932,928**
Subordinated liabilities	**-**	**-**	**357,586**	**357,586**
Total	**9**	**174,481**	**20,646,810**	**20,821,300**

Changes in securities measured at fair value through other comprehensive income	Level 3
At beginning of period Jan 1 2022	**1,017,347**
Purchase	180,000
Sale and redemption	- 460,072
Total gains and losses	- 41,452
in profit or loss	- 10,456
in other comprehensive income	- 30,996
At end of period Jun 30 2022	**695,823**

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Dec 31 2021	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**18,692**	**137,013**	**-**	**155,705**
debt securities	5,321	-	-	5,321
equity securities	13,261	47	-	13,308
derivative financial instruments	110	136,966	-	137,076
Derivative hedging instruments	**-**	**9,121**	**-**	**9,121**
Investment securities measured at fair value through other comprehensive income and profit or loss	**4,379,989**	**129,229**	**1,017,347**	**5,526,565**
debt securities	4,361,446	129,229	950,407	5,441,082
equity securities	18,543	-	66,940	85,483
Amounts due from banks	**-**	**-**	**402,886**	**402,886**
Amounts due from clients	**-**	**-**	**11,814,926**	**11,814,926**
Investment securities measured at amortised cost	**1,544,358**	**-**	**-**	**1,544,358**
Total	**5,943,039**	**275,363**	**13,235,159**	**19,453,561**

Dec 31 2021	Level 1	Level 2	Level 3	Total
Financial liabilities held for trading	**131**	**99,528**	**-**	**99,659**
derivative financial instruments	131	99,528	-	99,659
Amounts due to other banks	**-**	**-**	**420,389**	**420,389**
Amounts due to clients	**-**	**-**	**17,015,812**	**17,015,812**
Subordinated liabilities	**-**	**-**	**356,419**	**356,419**
Total	**131**	**99,528**	**17,792,620**	**17,892,279**

Changes in securities measured at fair value through other comprehensive income	Level 3
At beginning of period Jan 1 2021	**1,297,304**
Purchase	1,154,823
Sale and redemption	-1,365,770
Total gains and losses	-69,010
in profit or loss	-14,931
in other comprehensive income	-54,079
At end of period December 31st 2021	**1,017,347**

Financial instruments may be reallocated between Level 1 and Level 2 based on the availability of quotations from an active market at the reporting date.

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An instrument is reallocated from Level 2 to Level 3 when valuation changes from an observable factor to an unobservable factor or when a new unobservable risk factor is applied to the valuation that simultaneously results in a significant effect on the valuation of the instrument.
An instrument is reallocated Level 3 to Level 2 when valuation changes from an unobservable factor to an observable factor or when the effect of the unobservable factor on the valuation of the instrument ceases to be significant. Reallocations between the measurement methods take place on the date and as at the end of the reporting period.

In the period from January 1st to June 30th 2022, there were no reallocations of instruments between the levels. Measurement of Level 3 instruments does not affect the statement of profit or loss. The fair value measurement of Level 3 instruments is disclosed in other comprehensive income. Net profit (loss) includes accrued interest, interest paid, discount or premium, foreign exchange differences and reversed provisions (in the case of equity securities).

As at June 30th 2022, the sensitivity of the valuation of municipal instruments allocated to Level 3 to a +/- 1 bp change in the credit spread (unobservable model parameter) was PLN 19 thousand (December 31st 2021: PLN 24 thousand).

35. Segment reporting

In accordance with IFRS 8, operating segments are determined on the basis of internal reports on components of an enterprise that are subject to periodic reviews by the management responsible for taking operational decisions. IFRS 8 defines an operating segment is a component of an entity:

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

The following is the policy for segment reporting applied in the periods ended June 30th 2022 and June 30th 2021, by the following lines of business:

1. institutional clients,
2. retail clients,
3. treasury and investments,
4. brokerage business,
5. other (not allocated to the segments).

The Institutional Client business line covers transactions made through Business Centres, branches and the Bank's Head Office with corporate clients, small and medium-sized enterprises and strategic clients. The Retail Client business comprises natural persons, micro-enterprises, housing communities and non-governmental organisations without credit.

The Treasury and Investments business line includes transactions on the interbank market as well as transaction in debt securities, derivatives, and equity investments. Treasury and investment activities include management of the Bank's liquidity, foreign exchange and interest rate risks and fund transfer pricing settlements with other business divisions (segments).

The brokerage business includes services for retail and institutional clients.

Other activities (not allocated to segments) include items of the statement of profit or loss that are not allocated to any of the business areas listed in items 1-4, in particular income and expenses related to unclassified clients.

The financial data of BOŚ Leasing–EKO Profit S.A. and MS Wind Sp. z o.o. are classified into the institutional client segment.

The treasury and investment products include financial instruments, current and term deposits, interbank deposits and deposits from ALM clients, loans from other banks and loans granted to banks, debt and equity securities, and derivatives.

Brokerage activities mainly involve purchase and sale of securities for the banking book and for the trading book, maintaining securities accounts, fee-based management of third parties' securities portfolios, and offering securities the primary market or through initial public offerings.

Assets and liabilities of the areas specified in items 1-2 above have been separated on the basis of the Bank's lending and deposit base.

Net interest income includes transfer settlements between the Institutional client segment, the retail client segment, and the treasury and investment business. Transfer measurement of funds is based on reference rates and additional funding rates, taking into account currency, stability of funds and maturities, which are referenced to the yield curve. All relevant assets and interest-bearing liabilities, as well as off-balance sheet items that generate demand for liquidity are subject to transfer rates measurement. Measurement is performed on a monthly basis and is based on the (daily) average of individual interest-rate transactions allocated to a given division separately for each currency.

The operating result of the institutional client segment and the retail client segment is the result on banking activity of these divisions less administrative costs directly attributable to the segments' transactions or units and less costs and loss allowances allocated to the segments, including intersegment settlements arising from services provided to institutional clients by the Bank's branches (whose primary focus is the provision of services to retail clients).

Segment's net finance income (costs) comprises:

1. Net interest income, i.e., the sum of the difference between interest income on credit facilities and municipal bonds from clients and cost of funds received from ALM (treasury and investment activity) and income from the transfer of funds to ALM less interest expenses paid to the Bank's clients.
2. Net fee and commission income, i.e., the difference between fee and commission income and expenses allocated to a given transaction and allocated to the business area. The net result includes income and expenses both recognised on a one-off basis and accounted for on a straight-line basis, while transaction-related income and expenses accounted for at the effective interest rate are recognised in net interest income.
3. Gain (loss) on foreign exchange transactions, i.e., income on negotiated FX transactions (forwards and spots) and income on foreign exchange according to the Bank's exchange rate table. The item includes gain (loss) on derivative transactions.
4. Net other income and expenses
5. Effect of legal risk of mortgage loans denominated in foreign currencies, relating to recognised /reversed provisions for pending and future court cases, as well as the customer settlements programme related to the judgment of the Court of Justice of the European Union (ECJ) in case C-260/18.
6. Net impairment losses and measurement of receivables at fair value through profit or loss, i.e., gain (loss) on changes in impairment losses on loans, municipal and corporate bonds, and gain (loss) on loans, municipal and corporate bonds measured at fair value allocated to a given business area. The result includes changes in the portfolio of impaired foreign currency loans due to exchange rate fluctuations.

The financial result of the treasury and investment business area is the sum of the results of the treasury and equity investment business areas of the Bank, which include:

1. Interest income – calculated as the sum of interest income on transactions with external clients and the result of transfer pricing settlements between funds and other segments. External interest income and expense relate to transactions on the interbank market (deposits and loans), as well as debt securities purchased and issued. The result on transfer pricing settlements of funds is the difference between income from financing of assets of other segments and transfer costs for deposits received from other segments.
2. Gain (loss) on foreign exchange transactions includes gain (loss) on foreign exchange trading transactions, remeasurement of the provision for foreign-currency loans, and changes in the measurement of active currency forward hedges. This item includes gain (loss) of foreign exchange transactions not allocated to other segments.
3. Gain (loss) on hedge accounting includes gain (loss) on cash-flow hedging transactions and fair-value hedging transactions.
4. Gain (loss) on financial instruments measured at fair value through profit or loss, gain (loss) on transactions in the trading book and on transactions in financial instruments, including FX swaps.
5. Gain (loss) on investment securities – gain (loss) on shares and debt securities and on measurement of financial instruments.
6. Dividend income.
7. Difference in value of impairment allowances, gain (loss) on shares and exposures to financial institutions allocated to the treasury and investment business area.

In the financial statements for the period ended June 30th 2022, the retail customer segment is equivalent to the individual customer segment presented as of December 31st 2021.

Below are presented the consolidated financial results of the BOŚ Group for the periods ended June 30th 2022 and June 30th 2021 attributable to the segments.

No.	Statement of items of profit or loss for 6 months ended Jun 30 2022 unaudited	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	BROKERAGE BUSINESS	OTHER (NOT ALLOCATED TO SEGMENTS)	GROUP
I.	**Net interest income**	**121,717**	**108,016**	**78,439**	**26,578**	**- 721**	**334,029**
1.	Interest and similar income, including:	377,104	208,092	- 137,632	30,695	4	478,263
	transactions with external clients	247,875	66,279	127,471	1,468	-	443,093
	transactions with other segments	129,229	141,813	- 265,103	29,227	4	35,170
2.	Interest expense and similar charges, including:	- 255,387	- 100,076	216,071	- 4,117	- 725	- 144,234
	transactions with external clients	- 43,623	- 46,914	- 16,064	- 2,446	- 17	- 109,064
	transactions with other segments	- 211,764	- 53,162	232,135	- 1,671	- 708	- 35,170
II.	**Net fee and commission income**	**30,528**	**4,969**	**-**	**33,279**	**- 217**	**68,559**
III.	Dividend income	181	-	6,743	101	-	7,025
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	-	-	4,664	16,523	-	21,187
V.	Gain (loss) on hedge accounting	-	-	425	-	-	425
VI.	Gain (loss) on foreign exchange transactions	8,814	2,221	9,905	400	- 1	21,339
VII.	**Net banking income**	**161,240**	**115,206**	**100,176**	**76,881**	**- 939**	**452,564**
VIII.	Net other income and expenses	255	541	-	- 9,437	1,909	- 6,732
IX.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 4,983	-	-	-	- 4,983
X.	Net impairment losses	- 69,877	- 24,254	1,688	-	- 9	- 92,452
XI.	**Net finance income (costs)**	**91,618**	**86,510**	**101,864**	**67,444**	**961**	**348,397**
1.	Direct costs	- 19,723	- 11,706	- 1,252	- 40,775	- 611	- 74,067
	Profit (loss) after direct costs	**71,895**	**74,804**	**100,612**	**26,669**	**350**	**274,330**

(all amounts in PLN thousand)

2.	Indirect costs and mutual services	- 43,015	- 42,530	- 8,292	-	-	- 93,837
	Profit (loss) after direct and indirect costs	**28,880**	**32,274**	**92,320**	**26,669**	**350**	**180,493**
3.	Amortisation/depreciation	- 11,740	- 12,118	- 1,112	- 4,675	- 853	- 30,498
5.	Other costs (taxes, BFG, PFSA)	- 20,188	- 15,517	- 342	- 2,679	- 180	- 38,906
XII.	**Profit (loss) before tax**	**- 3,048**	**4,639**	**90,866**	**19,315**	**- 683**	**111,089**
XIII.	Allocated profit (loss) of ALM	29,341	59,205	- 88,546	-	-	-
XIV.	**Profit (loss) before tax after ALM allocation**	**26,293**	**63,844**	**2,320**	**19,315**	**- 683**	**111,089**
XV.	Income tax expense						- 27,212
XVI.	**Net profit (loss)**						**83,877**
	Segment assets	**8,645,372**	**3,130,650**	**11,230,461**	**345,540**	**257,540**	**23,609,563**
	including amounts due from banks and clients	8,547,423	3,130,650	306,383	6,664	3,587	11,994,707
	Segment liabilities	**7,156,795**	**10,647,094**	**3,254,020**	**1,743,652**	**808,002**	**23,609,563**
	of which amounts due to banks and clients	7,145,267	10,647,094	895,737	1,560,508	86,737	20,335,343
	Expenditure on property, plant and equipment	**12,465**	**11,160**	**1,499**	**5,533**	**-**	**30,657**

(all amounts in PLN thousand)

No.	Statement of items of profit or loss for 6 months ended Jun 30 2021 unaudited	INSTITUTIONAL CLIENTS	RETAIL CLIENTS	TREASURY AND INVESTMENTS	BROKERAGE BUSINESS	OTHER (NOT ALLOCATED TO SEGMENTS)	GROUP
I.	**Net interest income**	**80,979**	**24,883**	**72,605**	**- 548**	**- 399**	**177,520**
1.	Interest and similar income, including:	134,219	67,063	11,302	29	2	212,615
	transactions with external clients	125,979	45,182	34,801	29	-	205,991
	transactions with other segments	8,240	21,881	- 23,499	-	2	6,624
2.	Interest expense and similar charges, including:	- 53,240	- 42,180	61,303	- 577	- 401	- 35,095
	transactions with external clients	- 758	- 15,833	- 11,758	- 122	-	- 28,471
	transactions with other segments	- 52,482	- 26,347	73,061	- 455	- 401	- 6,624
II.	**Net fee and commission income**	**30,824**	**3,551**	**-**	**35,667**	**- 248**	**69,794**
III.	Dividend income	-	-	6,286	38	-	6,324
IV.	Gain (loss) on financial instruments measured at fair value through profit or loss	18	1	11,013	19,920	-	30,952
V.	Gain (loss) on hedge accounting	-	-	228	-	-	228
VI.	Gain (loss) on foreign exchange transactions	8,470	12,463	- 7,364	- 171	- 4	13,394
VII.	**Net banking income**	**120,291**	**40,898**	**82,768**	**54,906**	**- 651**	**298,212**
VIII.	Net other income and expenses	- 5,723	- 4,995	-	- 3,710	3,232	- 11,196
IX.	Effect of legal risk of mortgage loans denominated in foreign currencies	-	- 9,050	-		-	- 9,050
X.	Net impairment losses	- 48,055	- 16,357	1,263	-	-	- 63,149
XI.	**Net finance income (costs)**	**66,513**	**10,496**	**84,031**	**51,196**	**2,581**	**214,817**
1.	Direct costs	- 15,599	- 12,977	- 1,350	- 33,671	- 702	- 64,299
	Profit (loss) after direct costs	**50,914**	**- 2,481**	**82,681**	**17,525**	**1,879**	**150,518**

(all amounts in PLN thousand)

2.	Indirect costs and mutual services	- 35,176	- 37,340	- 6,825	-	-	- 79,341
	Profit (loss) after direct and indirect costs	**15,738**	**- 39,821**	**75,856**	**17,525**	**1,879**	**71,177**
3.	Amortisation/depreciation	- 9,945	- 11,621	- 1,026	- 4,004	- 852	- 27,448
5.	Other costs (taxes, BFG, PFSA)	- 13,837	- 10,185	- 219	- 1,587	- 144	- 25,972
XII.	**Profit (loss) before tax**	**- 8,044**	**- 61,627**	**74,611**	**11,934**	**883**	**17,757**
XIII.	Allocated profit (loss) of ALM	42,130	23,619	- 65,749	-	-	-
XIV.	**Profit (loss) before tax after ALM allocation**	**34,086**	**- 38,008**	**8,862**	**11,934**	**883**	**17,757**
XV.	Income tax expense						- 10,893
XVI.	**Net profit (loss)**						**6,864**
	Segment assets	**8,188,972**	**3,332,710**	**7,589,363**	**347,266**	**216,692**	**19,675,003**
	including amounts due from banks and clients	8,045,488	3,332,710	197,394	19,687	3,122	11,598,401
	Segment liabilities	**5,974,105**	**7,815,354**	**3,446,007**	**1,688,680**	**750,857**	**19,675,003**
	of which amounts due to banks and clients	5,952,196	7,815,354	1,167,542	1,479,390	80,926	16,495,408
	Expenditure on property, plant and equipment	**4,032**	**4,095**	**535**	**3,543**	**-**	**12,205**

(all amounts in PLN thousand)

36. Related-party transactions

As at June 30th 2022, Bank Ochrony Środowiska S.A. was the parent of Dom Maklerski BOŚ S.A., BOŚ Leasing–EKO Profit S.A., as well as MS Wind Sp. z o.o.

The National Fund for Environmental Protection and Water Management (NFOŚiGW) was the parent of the Bank.

The key management personnel are also considered to be related parties.

Transaction with the National Fund for Environmental Protection and Water Management, i.e., the main shareholder of the Bank

As at June 30th 2022, the amount of funds provided by the NFOŚiGW for preferential loans under the Prosument programme for the financing of purchase and installation of renewable energy sources was PLN 8,524 thousand (December 31st 2021: PLN 10,299 thousand).

NFOŚiGW is a party related to the State Treasury. The Bank enters into transactions with entities related to the State Treasury, mainly with entities operating in the public finance sector.

Loans to and deposits from members of the Management Board and the Supervisory Board of the Group

As part of the operating activities, transactions with members of the management body and the key management personnel comprise mainly loans and deposits. The balances of individual items of the statement of financial position as at June 30th 2022 and December 31st 2021 as well as income and expenses for the 6 months ended June 30th 2022 and December 31st 2021 are presented below:

Key management personnel

Item	Jun 30 2022 unaudited	Dec 31 2021
Loans	278	297
Deposits	825	739
Total	**1,103**	**1,036**

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Interest expense on deposits	1	-
Interest income on loans	1	1

The credit and deposit products were provided to the key management personnel on the same terms as those offered by the Bank to the general public.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Remuneration of the key management personnel of the Bank

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Management Board		
short-term employee benefits*\	1,451	1,340
post-employment benefits	-	14
Total	**1,451**	**1,354**
Supervisory Board		
short-term employee benefits**\	780	641
Total	**780**	**641**

*\ Short-term employee benefits include: remuneration under a contract of mandate, reimbursement of overpaid Social Security contributions, income from PPK contributions, remuneration for a Supervisory Board Member temporarily delegated to perform the duties of a Management Board Member.
**\ Short-term employee benefits include remuneration for appointment to the Supervisory Board, reimbursement of overpaid contributions and reimbursement of travel expenses for Supervisory Board meetings, income from training provided, income from PPK contributions.

Executive Compensation Policy at the Bank

In order to meet the requirements set out in the Regulation of the Minister Finance, Development Funds and Regional Policy of June 8th 2021 on banks' risk management and internal control systems, and on remuneration policy, and in accordance with Directive 2013/36/EU of the European Parliament and of the Council of June 26th 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, the Bank has implemented a Remuneration Policy, approved by the Supervisory Board of BOŚ S.A..

The Remuneration and Appointments Committee of the Supervisory Board gives its opinion on the Remuneration Policy, gives its opinion an and drafts rules of compensation of members of the Management Board, gives its opinion on the amount of variable remuneration for managers, gives its opinion on and monitors the amount of variable remuneration for managers at the Bank responsible for second-level risk management, management of the compliance function and management of the internal audit function.

The maximum amount of variable remuneration for each managing person may not exceed 100% of the person's fixed remuneration. The General Meeting of Bank Ochrony Środowiska S.A. may give its consent to increasing the maximum level of variable remuneration up to 200% of the fixed remuneration, in accordance with the procedure provided for in Par. 25.3.4.b) and Par. 25.3.4.c) of the Regulation of the Minister of Finance, Development Funds and Regional Policy. The increase in the maximum amount of variable remuneration referred to in the preceding sentence does not apply to members of the Management Board.
During the reporting period:

1. upon the lapse of the retention period, the phantom shares awarded to members of the Management Board as the first portion of deferred variable remuneration for 2019 and the second portion of deferred variable remuneration for 2018 in the total gross amount of PLN 90.02 thousand (11,814 phantom shares at the value per phantom share equalling the arithmetic mean of the closing prices at the first five sessions following the lapse of the retention period, i.e. PLN 7.6200) were converted into cash and paid out;
2. variable remuneration for 2021 for managing persons holding positions with a material impact on the Bank's risk profile (excluding members of the Management Board) was determined and paid out. The total gross amount of variable remuneration payable to the Bank's managing personnel for 2021 was PLN 1,620.07 thousand, plus social security contributions and similar charges. Given its amount, the variable remuneration for 2021 was fully payable in cash without the need for its partial settlement in Bank shares and deferral.

Variable remuneration payable to members of the Management Board for 2021 has not yet been determined and awarded.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

37. Type and amounts of items affecting the assets, equity and liabilities, net profit/loss or cash flows, which are material due to their type, size or effect

In the six months ended June 30th 2022, there were no non-recurring events that would have a significant impact on the assets, liabilities, equity, net financial result or cash flows of the BOŚ Group.

38. Type and amount of changes to estimates reported in previous interim periods of the current financial year or in previous financial years, where they have a material effect on the current interim period

In the six months ended June 30th 2022, there were no changes in the assumptions underlying calculation of the estimated amounts reported in previous interim periods of the current and previous financial years.

39. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

No dividend was paid or declared in the six months ended June 30th 2022. In 2021, the Bank generated net profit.

On June 30th 2022, the Annual General Meeting of Bank Ochrony Środowiska S.A. passed a resolution to allocate the Bank's entire net profit for the period January 1st–December 31st 2021 of PLN 48,714 thousand to statutory reserve funds.

40. Events after the reporting date

Loan payment holidays and additional contribution to the Borrowers' Support Fund

July 29th 2022 was the date of entry into force of the Business Crowdfunding and Support for Borrowers Act of July 7th 2022, introducing, among other things:

- a possibility for borrowers to suspend repayment of mortgage loans granted in the Polish currency for up to eight months in 2022–2023 ("loan payment holidays"); and
- an obligation for the banking sector to make additional contributions to the Borrowers' Support Fund totalling PLN 1.4 billion.

The Bank estimates that if eligible borrowers take advantage of the loan payment holidays it will suffer a one-off reduction in pre-tax profit of PLN 55 million in the third quarter of 2022. This estimate has been made on the assumption that the loan payment holidays will be used by 80% of eligible borrowers. The relevant calculations have been made using an interest rate on the loans as at the date of the estimate that is based on the market interest rate growth path and the rules for recalculating base rates under the loan agreements. Given the increase in market interest rates, the total cost of the loan payment holidays following recalculation of base rates under the loan agreements may increase to PLN 83 million by year-end 2023.

The amount of an additional contribution to the Borrowers' Support Fund will be determined by a decision of the Borrowers' Support Fund Board. As at the date of this report, the Bank did not receive the relevant decision of the Borrowers' Support Fund Board concerning the amount of such additional contribution, if any, attributable to the Bank.

Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
August 9th 2022	Wojciech Hann	President of the Management Board	Signed with qualified e-signature
August 9th 2022	Arkadiusz Garbarczyk	Vice President of the Management Board – First Deputy President of the Management Board	Signed with qualified e-signature
August 9th 2022	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
August 9th 2022	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature

Signature of the person in charge of bookkeeping:

August 9th 2022	Andrzej Kowalczyk	Director of the Accounting Department	Signed with qualified e-signature

II. Interim condensed financial statements of the Bank

Interim statement of profit or loss of the Bank

Continuing operations	Note	for 3 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2022 unaudited	for 3 months ended Jun 30 2021 unaudited	for 6 months ended Jun 30 2021 unaudited
Interest and similar income, including:		271,628	440,365	100,541	202,350
financial assets measured at amortised cost		205,754	343,430	89,994	180,899
assets measured at fair value through other comprehensive income		63,189	92,708	9,545	19,445
financial assets measured at fair value through profit or loss		2,685	4,227	1,002	2,006
Interest expense and similar charges including:		- 96,261	- 135,896	- 13,357	- 28,346
financial liabilities measured at amortised cost		- 96,267	- 135,896	- 11,693	- 25,043
financial liabilities measured at fair value through profit or loss		6	-	- 1,664	- 3,303
Net interest income	6	**175,367**	**304,469**	**87,184**	**174,004**
Fee and commission income		20,691	41,635	21,357	41,279
Fee and commission expense		- 2,744	- 5,358	- 2,886	- 5,403
Net fee and commission income	7	**17,947**	**36,277**	**18,471**	**35,876**
Dividend income	8	6,924	6,924	6,286	6,286
Gain (loss) on financial instruments measured at fair value through profit or loss (including amounts due from clients)		3,384	3,665	- 4,580	10,725
Gain (loss) on hedge accounting		753	425	- 112	228
Gain (loss) on foreign exchange transactions		12,971	20,802	13,145	13,791
Other income		2,177	4,327	1,951	5,758
Other expenses		- 3,927	- 10,530	- 13,706	- 18,176
Effect of legal risk of mortgage loans denominated in foreign currencies		- 3,942	- 4,983	- 9,050	- 9,050
Net impairment losses	9	- 67,459	- 91,513	- 22,460	- 59,188
Administrative expenses		- 84,342	- 183,350	- 70,821	- 152,445
Share of profit (loss) of equity-accounted entities		12,410	20,202	2,268	6,821
Profit before tax		**72,263**	**106,715**	**8,576**	**14,630**
Income tax expense		- 11,917	- 22,270	- 4,372	- 8,204
Net profit		**60,346**	**84,445**	**4,204**	**6,426**
Earnings per share attributable to owners of parent during period (PLN)	10				
basic			**0.91**		**0.07**
diluted			**0.91**		**0.07**

No operations were discontinued in the six months ended June 30th 2022 or in 2021.

The notes presented on pages 121 to 142 are an integral part of these financial statements.

Interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022 (all amounts in PLN thousand)

Interim statement of comprehensive income of the Bank

Continuing operations	for 3 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2022 unaudited	for 3 months ended Jun 30 2021 unaudited	for 6 months ended Jun 30 2021 unaudited
Net profit	**60,346**	**84,445**	**4,204**	**6,426**
Items that may be reclassified to profit or loss:	**- 20,161**	**- 61,011**	**- 14,915**	**- 15,068**
Fair value of financial assets measured at fair value through other comprehensive income, gross	- 24,890	- 75,322	-18,414	- 18,603
Deferred tax	4,729	14,311	3,499	3,535
Items that will not be reclassified to profit or loss:	**-**	**- 1**	**-**	**-**
Fair value of equity instruments measured at fair value through other comprehensive income, gross	-	- 1	-	-
Total comprehensive income	**40,185**	**23,433**	**- 10,711**	**- 8,642**

The notes presented on pages 121 to 142 are an integral part of these financial statements.

for the six months ended June 30th 2022** (all amounts in PLN thousand)

Interim statement of financial position of the Bank

Assets	Note	Jun 30 2022 unaudited	Dec 31 2021
Cash and balances with central bank		379,228	361,564
Amounts due from banks		274,833	390,452
Financial assets held for trading, including:		248,632	119,310
debt securities		14,352	4,200
derivative instruments		234,280	115,110
Derivative hedging instruments		31,113	9,121
Investment securities:		10,141,689	7,108,931
equity securities measured at fair value through other comprehensive income		85,487	85,483
debt securities measured at fair value through other comprehensive income		8,150,119	5,311,853
debt securities measured at amortised cost		1,803,541	1,582,366
debt securities measured at fair value through profit or loss		102,542	129,229
Amounts due from clients, including:	11	11,763,938	11,872,238
measured at amortised cost		11,755,404	11,858,127
measured at fair value through profit or loss		8,534	14,111
Investments in subsidiaries		209,572	199,371
Intangible assets		103,045	99,793
Property, plant and equipment		43,926	39,322
Right of use – leases		65,026	72,671
Tax assets:		164,045	144,947
deferred		164,045	144,947
Other assets		59,964	32,248
Total assets		**23,485,011**	**20,449,968**

for the six months ended June 30th 2022 (all amounts in PLN thousand)

Liabilities	Note	Jun 30 2022 unaudited	Dec 31 2021
Amounts due to central bank and other banks		356,296	420,389
Derivative financial instruments held for trading		166,239	93,879
Amounts due to clients		19,986,107	17,012,146
Subordinated liabilities		372,965	369,107
Provisions	12	452,470	444,594
Tax liabilities:		12,266	7,433
current		12,266	7,433
Lease liabilities		67,872	75,314
Other liabilities	13	183,074	162,817
Total liabilities		**21,597,289**	**18,585,679**

Equity	Note	Jun 30 2022 unaudited	Dec 31 2021
EQUITY ATTRIBUTABLE TO OWNERS OF PARENT			
Common equity:		1,460,364	1,460,364
Share capital		929,477	929,477
Treasury shares		- 1,294	- 1,294
Share premium		532,181	532,181
Revaluation reserve		- 87,974	- 26,962
Retained earnings		515,332	430,887
Total equity		**1,887,722**	**1,864,289**
Total equity and liabilities		**23,485,011**	**20,449,968**

The notes presented on pages 121 to 142 are an integral part of these financial statements.

for the six months ended June 30th 2022** (all amounts in PLN thousand)

Interim statement of changes in equity of the Bank

	Common equity			Revaluation reserve	Retained earnings			Total equity
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	General risk fund	Undistributed profit (loss)	
As at Jan 1 2022	**929,477**	**- 1,294**	**532,181**	**- 26,962**	**333,871**	**48,302**	**48,714**	**1,864,289**
Net profit	-	-	-	-	-	-	84,445	84,445
Other comprehensive income	-	-	-	- 61,012	-	-	-	- 61,012
Total comprehensive income	**-**	**-**	**-**	**- 61,012**	**-**	**-**	**84,445**	**23,433**
Profit distribution, including:	**-**	**-**	**-**	**-**	**48,714**	**-**	**- 48,714**	**-**
Transfer of net profit to reserves	-	-	-	-	48,714	-	- 48,714	-
As at Jun 30 2022	**929,477**	**- 1,294**	**532,181**	**- 87,974**	**382,585**	**48,302**	**84,445**	**1,887,722**

(all amounts in PLN thousand)

	Common equity			Revaluation reserve	Retained earnings			Total equity
	Share capital	Treasury shares	Share premium		Other statutory reserve funds	General risk fund	Undistributed profit (loss)	
As at Jan 1 2021	929,477	- 1,294	532,181	67,869	726,193	48,302	- 392,322	1,910,406
Net profit	-	-	-	-	-	-	48,714	48,714
Other comprehensive income	-	-	-	- 94,831	-	-	-	- 94,831
Total comprehensive income	-	-	-	- 94,831	-	-	48,714	- 46,117
Profit distribution, including:	-	-	-	-	- 392,322	-	392,322	-
Offset of prior year losses	-	-	-	-	- 389,286	-	389,286	-
Offset of 2018 issue costs against statutory reserve funds	-	-	-	-	- 3,036	-	3,036	-
As at Dec 31 2021	929,477	- 1,294	532,181	- 26,962	333,871	48,302	48,714	1,864,289
As at Jan 1 2021	929,477	- 1,294	532,181	67,869	726,193	48,302	- 392,322	1,910,406
Net profit	-	-	-	-	-	-	6,426	6,426
Other comprehensive income	-	-	-	- 15,068	-	-	-	- 15,068
Total comprehensive income	-	-	-	- 15,068	-	-	6,426	- 8,642
Profit distribution, including:	-	-	-	-	- 392,322	-	392,322	-
Offset of prior year losses	-	-	-	-	- 389,286		389,286	-
Offset of 2018 issue costs against statutory reserve funds	-	-	-	-	- 3,036		3,036	-
As at Jun 30 2021	929,477	- 1,294	532,181	52,801	333,871	48,302	6,426	1,901,764

There were no non-controlling interests in the six months ended June 30th 2022 or in 2021.

The notes presented on pages 121 to 142 are an integral part of these financial statements.

for the six months ended June 30th 2022** (all amounts in PLN thousand)

Interim statement of cash flows of the Bank

Indirect method	for 6 months ended Jun 30 2022	for 6 months ended Jun 30 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**106,715**	**14,630**
Total adjustments:	**2,913,402**	**513,751**
Share in (profit) loss of equity-accounted subordinated entities	-20,202	-6,821
Amortisation/depreciation	24,515	22,355
Interest income on investing activities	-48,414	-31,857
Gain (loss) on investing activities	-	2
Interest income on financing activities	12,424	7,882
Dividends received:	-6,924	-6,286
on investment securities	6,924	6,286
Change in:		
amounts due from banks	14,640	52,620
securities held for trading	-10,152	-
assets and liabilities from measurement of derivative and hedging financial instruments	-68,802	-42,368
investment securities	13,110	819,313
amounts due from clients	108,300	465,717
other assets and income tax	-27,795	-11,914
amounts due to central bank and other banks	-64,093	-287,533
amounts due to clients	2,973,961	-515,665
provisions	7,876	1,885
other liabilities and income tax	20,258	47,483
Income tax paid	-22,224	-7,348
Net cash flows from (used in) operating activities	**3,020,117**	**528,381**
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows	**163,176**	**24,008**
Interest income on securities measured at amortised cost	26,705	24,008
Cash receipts from redemption of securities measured at amortised cost	126,471	-
Dividends received	10,000	-
Outflows	**-350,795**	**-79,253**
Payments for acquisition of securities measured at amortised cost	-325,937	-70,595
Payments for acquisition of intangible assets	-15,863	-6,797
Payments for acquisition of property, plant and equipment	-8,995	-1,861
Net cash flows from (used in) investing activities	**-187,619**	**-55,245**

(all amounts in PLN thousand)

CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows	**-**	**-**
Outflows	**-15,796**	**-14,784**
Interest paid on bonds issued by the Bank, including:	-6,652	-6,035
subordinated bonds	-6,652	-6,035
Lease payments	-9,144	-8,749
Net cash flows from (used in) financing activities	**-15,796**	**-14,784**
TOTAL NET CASH FLOWS	**2,816,702**	**458,352**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**3,599,583**	**2,475,299**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**6,416,285**	**2,933,651**
Restricted cash and cash equivalents	562,759	30,765

The notes presented on pages 121 to 142 are an integral part of these financial statements.

for the six months ended June 30th 2022 (all amounts in PLN thousand)

Notes to the interim condensed financial statements of the Bank

1. General information on Bank Ochrony Środowiska S.A.

For information on Bank Ochrony Środowiska S.A., including changes in the composition of the Bank's Management Board, see Note 1 to the interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022.

2. Basis of preparation and statement of compliance

These interim condensed financial statements of BOŚ S.A. for the six months ended June 30th 2022 were authorised by the Bank's Management Board on August 9th 2022 for issue on August 10th 2022.

These interim condensed financial statements of BOŚ S.A. are issued jointly with the interim condensed consolidated financial statements of the BOŚ Group for the six months ended June 30th 2022. For information on the accounting policies applied in the preparation of the financial statements, see Note 3 to the interim condensed consolidated financial statements of the BOŚ Group.

The interim condensed financial statements of Bank Ochrony Środowiska S.A. (the Bank, BOŚ S.A.) include:

- the interim statement of profit or loss for the six months ended June 30th 2022 and comparative data for the six months ended June 30th 2021, as well as data for the three months ended June 30th 2022 and comparative data for the three months ended June 30th 2021,
- the interim statement of comprehensive income for the six months ended June 30th 2022, comparative data for the six months ended June 30th 2021, data for the three months ended June 30th 2022 and comparative data for the three months ended June 30th 2021,
- the interim statement of financial position as at June 30th 2022 and comparative data as at December 31st 2021,
- the interim statement of changes in equity for the six months ended June 30th 2022 and comparative data for the six months ended June 30th 2021 and for the 12 months ended December 31st 2021,
- the interim statement of cash flows for the six months ended June 30th 2022 and comparative data for the six months ended June 30th 2021,
- notes to the financial statements.

3. Going concern

As a result of accounting losses incurred in 2015, the Bank implemented a Recovery Programme pursuant to Article 142(1) of the Banking Law in the wording effective until October 8th 2016, in accordance with Article 381(4) of the Act of June 10th 2016 on the Bank Guarantee Fund, deposit guarantee scheme and forced restructuring. In 2021, the Bank continued the Recovery Programme.

On July 17th 2020, the Bank received a decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020, whereby the Bank was ordered to prepare a group recovery plan for Bank Ochrony Środowiska S.A., pursuant to Article 141n.1 of the Banking Law Act of August 29th 1997. On July 20th 2020, the Bank received the second decision of the Polish Financial Supervision Authority in connection with the administrative proceedings initiated *ex officio* by the PFSA on May 12th 2020 to limit the scope of the group recovery plan to entities of the BOŚ Group (i.e., Bank Ochrony Środowiska S.A., Dom Maklerski S.A., BOŚ Leasing EKO-Profit S.A. and MS Wind sp. z o.o.).

The Bank prepared the Group Recovery Plan and submitted it to the PFSA in October 2020. In a letter dated January 21st 2021, in connection with the administrative proceedings to approve the Group Recovery Plan, the Polish Financial Supervision Authority instructed the Bank to supplement and amend the Group Recovery Plan, with the audited financial data as at December 31st 2020 to be used as the point of reference. In accordance with the PFSA's request, BOŚ corrected the Group Recovery Plan and submitted it to the authority. On December 17th 2021, the PFSA approved the Group Recovery Plan.

The approval of the plan by the PFSA marks the discharge of the reorganisation obligations under the Recovery Programme.

In 2021, the Bank prepared a Framework Strategy for BOŚ S.A. for 2021–2023 (the "Strategy"), whose assumptions, directions and objectives are consistent with those of the Group Recovery Plan.

On June 22nd 2022, the Supervisory Board passed a resolution approving an update of the Strategy. The reason for updating the Strategy were changes in the Bank's external environment, including market and macroeconomic conditions, which will result in the Bank setting itself higher financial goals. The Bank's existing business model and strategic development directions remain unchanged.

The Bank's objectives defined in the Strategy, to be achieved by the end of 2023, are as follows:

- Net banking income above PLN 734 million,
- ROE of 6.3%,
- C/I ratio of approximately 54%,
- 50% share of green loans in the total loan volume,
- 58% employee engagement.

The Strategy contains future-related assumptions which are based on the expectations of the Bank's Management Board, but which are dependent on various factors beyond the control of the Bank's Management Board. As a result, actual data may significantly differ from those presented in the forward-looking statements.

On December 31st 2021, the Bank decided to launch the Group Recovery Plan approved by the PFSA. The corrective actions taken under the Group Recovery Plan are designed to achieve sustainable profitability of the Bank. After six months of plan implementation efforts, all leading and complementary indicators covered by the Group Recovery Plan, both on standalone and consolidated basis, reached safe levels.

In June 2022, in accordance with the provisions of Article 141 m (4) of the Banking Law of August 29th 1997, the Bank submitted an updated Group Recovery Plan to the PFSA.

The COVID-19 pandemic period and the armed conflict in Ukraine did not have a significant impact on the liquidity position and capital adequacy of the Bank. The Bank maintained its full operational capacity.

The Bank maintains its capital adequacy ratios above the levels recommended by the Polish Financial Supervision Authority (see Note 5 for details). The Bank's financial liquidity is adequate and exceeds the regulatory requirements (for details, see Note 8.2.1).

Taking into consideration the factors described above, as at the date of authorisation of these financial statements for issue, there are no circumstances that would indicate a threat to the Bank's ability to continue as a going concern for at least 12 months after the reporting date as a result of deliberate or compulsory discontinuation or limitation of its current operations.

4. Corrections of prior period errors

In these condensed consolidated financial statements, the Group has not corrected any errors in the financial statements of prior periods.

5. Capital management

For capital adequacy purposes, the Bank applies transitional arrangements to mitigate the impact of the first-time application of IFRS 9 on own funds, pursuant to Article 1(9) of Regulation (EU) 2017/2395 of the European Parliament and the Council dated December 12th 2017 (Regulation) amending Regulation (EU) No 575/2013. The Bank also made a decision not to apply the provisions of Art.1.4 of Regulation (EU) 2017/2395.

Taking into account the impact of IFRS 9 both with and without the transitional arrangements, the Bank met the applicable capital standards as at June 30th 2022.

Following the decision to apply the transitional provisions, as of February 1st 2018 the Bank discloses its own funds, capital ratios and leverage ratio, both with and without applying the transitional arrangements under Article 473a of Regulation (EU) No 575/2013.

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

Item	Jun 30 2022 unaudited	Dec 31 2021
AVAILABLE CAPITAL		
Common equity Tier 1 capital	1,616,517	1,710,685
Common equity Tier 1 capital – without IFRS 9 transitional provisions	1,581,231	1,640,114
Tier 1 capital	1,616,517	1,710,685
Tier 1 capital – without IFRS 9 transitional provisions	1,581,231	1,640,114
Own funds	1,762,865	1,893,245
Own funds – without IFRS 9 transitional provisions	1,727,579	1,822,673
RISK-WEIGHTED ASSETS		
Total amount of risk-weighted assets	12,449,947	12,785,759
Credit risk and counterparty credit risk	11,537,440	11,851,982
Operational risk	840,708	840,708
Market risk	28,659	70,653
CVA risk	43,140	22,416
Total amount of risk-weighted assets – without IFRS 9 transitional provisions	12,424,459	12,733,548
CAPITAL RATIOS		
Common equity Tier 1 capital ratio	12.98	13.38
Common equity Tier 1 capital ratio – without IFRS 9 transitional provisions	12.73	12.88
Tier 1 capital ratio	12.98	13.38
Tier 1 capital ratio – without IFRS 9 transitional provisions	12.73	12.88
Total capital ratio	14.16	14.81
Total capital ratio – net of the effect of transitional provisions IFRS 9	13.90	14.31
LEVERAGE RATIO		
Exposure value	25,167,000	22,416,448
Leverage ratio	6.4	7.6
Leverage Ratio – without IFRS 9 transitional provisions	6.3	7.3
INTERNAL CAPITAL		
Internal capital	1,421,620	1,458,499

The amount of own funds and capital requirements were determined in accordance with Regulation (EU) No 575/2013 of June 26th 2013 on prudential requirements for credit institutions and investment firms, hereinafter referred to as CRR.

In order to mitigate the risk of a decrease in capital ratios, the Bank monitors the scale and structure of the Bank's business and factors that may adversely affect the level of the Bank's equity.

On a quarterly basis, the Bank estimates internal capital to cover:

Interim condensed financial statements of Bank Ochrony Środowiska S.A. for the six months ended June 30th 2022 (all amounts in PLN thousand)

1. Pillar 1 risks:
   - for credit risk and counterparty credit risk – on the basis of the regulatory requirement taking into account an additional mark up for non-performing exposures (NPE) / non-performing loans (NPL),
   - for specific types of risk within the market risk, including CVA risk and operational risk – based on the regulatory requirements,
2. Pillar 2 risks:
   - for other permanently significant risks and risks for which assessment of significance is performed periodically, internal capital is determined using methodologies specified in the internal regulations of the Bank. These regulations were the basis for monitoring, assessment of significance and determination of internal capital for particular risks incurred by the Bank.

In accordance with Article 92 of the CRR, the Bank is required to maintain the total capital ratio at a minimum of 8%. The Tier 1 capital ratio and common equity Tier 1 capital ratio should amount at least to 6% and 4.5%, respectively.

According to the CRR Resolution, and the Act of August 5th 2015 on macro-prudential oversight of the financial system and crisis management in the financial system, financial institutions are required to maintain additional capital buffers for capital ratios. As of January 1st 2019, the capital conservation buffer is 2.5 bps, and the countercyclical buffer is 0 bps. The Bank is not required to maintain the buffer defined for other systemically important institution. The systemic risk buffer was released by decision of the Minister of Finance dated March 18th 2020.

On November 17th 2021, the Polish Financial Supervision Authority recommended that the Bank maintains own funds to cover additional capital requirements to hedge against the risk arising from foreign currency mortgage credits and household loans at the level of 0.66 p.p. above the TCR ratio referred to in Article 92 (1) letter c) of the CRR Regulation, which should be composed of, at least, 75% of the Tier I capital (which corresponds to the capital requirement at the level of 0.50 p.p. above the value of Tier I capital which is referred to in Article 92 (1) letter b) of the CRR Regulation) and of at least 56% of the common equity Tier I capital (which corresponds to the capital requirement at the level of 0.37 p.p. above the common equity Tier I capital ratio referred to in Article 92 (1) letter a) of the CRR Regulation).

On February 10th 2022, the Polish Financial Supervision Authority recommended that own funds should be maintained, both on a separate and consolidated basis, to cover the additional capital add-on to absorb potential losses resulting from the occurrence of stress conditions, at the level of 0.38 percentage point above the total capital ratio referred to in Article 92(1)(c) of the CRR Regulation, increased by the additional own funds requirement referred to in Art. 138.2.2 of the Banking Law and by the combined buffer requirement referred to in Art. 55.4 of the Macroprudential Supervision Act. The additional add-on should consist entirely of Common Equity Tier 1 capital.

As a result, as at June 30th 2022 the minimum capital ratios recommended by the Polish Financial Supervision Authority for the Bank were 9.38% for Tier 1 capital ratio and 11.54% for the TCR ratio.

The capital adequacy ratio of the Bank as at June 30th 2022 was above the levels recommended by the Polish Financial Supervision Authority, both with and without the application of IFRS 9 transitional arrangements.

6. Net interest income

Item	for 6 months ended Jun 30 2022 unaudited				for 6 months ended Jun 30 2021 unaudited			
	Interest income		Income similar to interest income	Total	Interest income		Income similar to interest income	Total
	Financial assets measured at amortised cost	Assets measured at fair value through other comprehensi ve income	Financial assets mandatorily measured at fair value through profit or loss		Financial assets measured at amortised cost	Assets measured at fair value through other comprehensive income	Financial assets mandatorily measured at fair value through profit or loss	
Amounts due from banks and the central bank	20,411	-	-	20,411	2,127	-	-	2,127
Amounts due from institutional clients	234,743	-	312	235,055	121,351	-	391	121,742
Amounts due from retail clients	65,840	-	8	65,848	44,859	-	1	44,860
Non-trading investment debt securities	22,436	92,708	-	115,144	12,562	19,445	-	32,007
Financial instruments held for trading	-	-	1,800	1,800	-	-	1,614	1,614
Hedging transactions	-	-	2,107	2,107	-	-	-	-
Total	**343,430**	**92,708**	**4,227**	**440,365**	**180,899**	**19,445**	**2,006**	**202,350**

(all amounts in PLN thousand)

Item	for 6 months ended Jun 30 2022 unaudited			for 6 months ended Jun 30 2021 unaudited		
Interest expense and similar charges on:	**Financial liabilities measured at amortised cost**	**Financial liabilities measured at fair value through profit or loss**	**Total**	**Financial liabilities measured at amortised cost**	**Financial liabilities measured at fair value through profit or loss**	**Total**
Bank accounts and deposits from banks	1,053	-	1,053	461	-	461
Bank accounts and deposits from institutional clients	75,040	-	75,040	756	-	756
Bank accounts and deposits from retail clients	46,842	-	46,842	15,828	-	15,828
Borrowings from clients	114	-	114	83	-	83
Lending support funds (JESSICA)	420	-	420	28	-	28
Financial instruments – own debt securities	10,514	-	10,514	5,987	-	5,987
Hedging transactions	-	-	-	-	3,303	3,303
Lease liabilities	1,913	-	1,913	1,900	-	1,900
Total	**135,896**	**-**	**135,896**	**25,043**	**3,303**	**28,346**

for the six months ended June 30th 2022 (all amounts in PLN thousand)

7. Net fee and commission income

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Fee and commission income		
Fees for maintaining client accounts, other domestic and international settlement transactions	19,094	19,680
Commission fees on loans	18,461	18,454
Commission fees on guarantees and letters of credit	4,076	3,144
Other fees	4	1
Total	**41,635**	**41,279**
Fee and commission expense		
Payment card fees	3,872	3,688
Current account fees	675	794
ATM service charges	466	613
Fees on amounts due from clients	74	52
Other fees	271	256
Total	**5,358**	**5,403**

for the six months ended June 30th 2022** (all amounts in PLN thousand)

8. Dividend income

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Securities measured at fair value through other comprehensive income	6,924	6,286
Total	**6,924**	**6,286**

9. Net impairment losses

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Securities measured at fair value through other comprehensive income	1,906	1,300
Securities measured at amortized cost	- 23	- 56
Amounts due from banks	89	80
Amounts due from clients and off-balance-sheet liabilities, including:	- 93,485	- 60,512
on-balance-sheet receivables	- 90,982	- 55,301
from retail clients	- 24,412	- 16,233
from institutional clients	- 66,570	- 39,068
off-balance-sheet liabilities	- 2,503	- 5,211
from retail clients	152	- 120
from institutional clients	- 2,655	- 5,091
Total	**- 91,513**	**- 59,188**

Net impairment losses on amounts due from clients:

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Individual assessment	- 63,895	- 37,021
Group assessment	- 27,087	- 18,280
Total	**- 90,982**	**- 55,301**

for the six months ended June 30th 2022** (all amounts in PLN thousand)

10. Earnings per share

Basic earnings per share are calculated as the quotient of profit attributable to shareholders of the Bank and the weighted average number of ordinary shares during the year.

Item	for 6 months ended Jun 30 2022 unaudited	for 6 months ended Jun 30 2021 unaudited
Net profit	84,445	6,426
Weighted average number of ordinary shares (thousand)	92,910	92,910
Basic earnings per share (PLN)	**0.91**	**0.07**

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

11. Amounts due from clients

Item	Jun 30 2022 unaudited			Dec 31 2021		
	Gross amounts due from clients	Impairment losses	Net amounts due from clients	Gross amounts due from clients	Impairment losses	Net amounts due from clients
Measured at amortised cost	**12,960,277**	**1,240,010**	**11,720,267**	**12,931,238**	**1,108,517**	**11,822,721**
Amounts due from retail clients	**3,487,301**	**357,076**	**3,130,225**	**3,590,741**	**316,099**	**3,274,642**
overdraft facilities	4,071	2,746	1,325	1,605	1,381	224
cash loans	353,722	85,059	268,663	382,496	81,570	300,926
housing loans	2,834,662	236,789	2,597,873	2,935,010	206,917	2,728,093
other credit facilities	294,846	32,482	262,364	271,630	26,231	245,399
Amounts due from institutional clients	**9,472,976**	**882,934**	**8,590,042**	**9,340,497**	**792,418**	**8,548,079**
working capital facilities	980,885	87,653	893,232	727,367	78,626	648,741
term facilities	7,520,739	773,529	6,747,210	7,628,741	701,430	6,927,311
factoring receivables	574,453	7,516	566,937	606,900	6,934	599,966
purchased receivables	104,519	884	103,635	129,665	2,354	127,311
commercial paper	292,380	13,352	279,028	247,824	3,074	244,750
Measurement at fair value through profit or loss	**-**	**-**	**8,534**	**-**	**-**	**14,111**
Amounts due from retail clients	**-**	**-**	**425**	**-**	**-**	**651**
overdraft facilities	**-**	**-**	25	**-**	**-**	**-**
housing loans	-	-	150	-	-	257
other credit facilities	-	-	250	-	-	394
Amounts due from institutional clients	**-**	**-**	**8,109**	**-**	**-**	**13,460**
term facilities	-	-	-	**-**	**-**	19
term facilities	-	-	8,109	-		13,441
Total	**-**	**-**	**11,728,801**	**-**	**-**	**11,836,832**

Interim condensed financial statements of Bank Ochrony Środowiska S.A. for the six months ended June 30th 2022 (all amounts in PLN thousand)

Security deposits	31,591	41	31,550	32,811	43	32,768
Other amounts due from clients	3,587	-	3,587	2,638	-	2,638
Total amounts due from clients			**11,763,938**	**-**	**-**	**11,872,238**

Amounts due from clients included preferential loans with subsidised interest from NFOŚiFW and WFOŚiGW; in the reporting period, the amounts were as follows (nominal values):

Item	Jun 30 2022 unaudited	Dec 31 2021
Preferential loans with subsidies, including:	**74,861**	**61,503**
measured at amortised cost	56,188	48,120
measured at fair value through profit or loss	18,673	13,383

for the six months ended June 30th 2022 (all amounts in PLN thousand)

Change in impairment losses on amounts due from clients:

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period Jan 1 2022	**18,403**	**15,674**	**281,990**	**32**	**316,099**	**70,058**	**65,405**	**655,956**	**999**	**792,418**
Increase due to origination and purchase of financial assets	1,042	1	-	236	1,279	9,902	261	-	-	10,163
Changes due to change in credit risk	- 4,122	- 1,640	50,180	58	44,476	- 1,958	18,077	83,279	1,913	101,311
Decrease due to derecognition of financial assets, including:	- 880	- 392	- 9,387	2	- 10,657	- 2,905	- 3,007	- 9,167	-	- 15,079
change in impairment losses on financial instruments written-off from the statement of financial position	-	-	- 47	-	- 47	-	-	- 10	-	- 10
Change in impairment losses due to reallocations of financial assets between	3,083	- 4,557	1,474	-	-	- 1,424	- 1,321	2,745	-	-
Reallocation to Bucket 1	4,420	- 3,435	- 985	-	-	5,921	- 5,921	-	-	-
Reallocation to Bucket 2	- 900	3,367	- 2,467	-	-	- 5,816	5,816	-	-	-
Reallocation to Bucket 3	- 437	- 4,489	4,926	-	-	- 1,529	- 1,216	2,745	-	-
Other changes	200	585	5,094	-	5,879	- 212	- 579	- 5,088	-	- 5,879
At end of period Jun 30 2022	**17,726**	**9,671**	**329,351**	**328**	**357,076**	**73,461**	**78,836**	**727,725**	**2,912**	**882,934**

(all amounts in PLN thousand)

Item	Allowances for amounts due from retail clients					Allowances for amounts due from institutional clients				
	Bucket 1	Bucket 2	Bucket 3	POCI	Total	Bucket 1	Bucket 2	Bucket 3	POCI	Total
At beginning of period Jan 1 2021	**15,511**	**21,689**	**299,369**	**-**	**336,569**	**69,502**	**106,965**	**683,063**	**25**	**859,555**
Increase due to origination and purchase of financial assets	1,581	28	-	-	1,609	10,345	1,376	-	-	11,721
Changes due to change in credit risk	- 5,769	4,756	22,221	-	21,208	- 16,093	22,566	49,248	1	55,722
Decrease due to derecognition of financial assets, including:	- 443	- 312	- 92,170	-	- 92,925	- 3,675	- 9,239	- 85,209	-	- 98,123
change in impairment losses on financial instruments written-off from the statement of financial position	-	-	- 88,976	-	- 88,976	-	-	- 79,495	-	- 79,495
Change in impairment losses due to reallocations of financial assets between Buckets	3,307	- 6,620	3,313	-	-	3,973	2,610	- 6,583	-	-
Reallocation to Bucket 1	4,709	- 4,562	- 147	-	-	15,296	- 14,940	- 356	-	-
Reallocation to Bucket 2	- 733	3,620	- 2,887	-	-	- 11,024	20,730	- 9,706	-	-
Reallocation to Bucket 3	- 669	- 5,678	6,347	-	-	- 299	- 3,180	3,479	-	-
Other changes	- 3	1	2	-	-	112	- 112	-	-	-
At end of period Jun 30 2021	**14,184**	**19,542**	**232,735**	**-**	**266,461**	**64,164**	**124,166**	**640,519**	**26**	**828,875**

(all amounts in PLN thousand)

12. Provisions

Item	Jun 30 2022 unaudited	Dec 31 2021
Provisions for contingent liabilities, including:	32,547	30,046
open lines of credit	19,026	16,613
guarantees	13,521	13,433
Provision for employee benefits – retirement and disability benefits	2,966	3,086
Provision for legal risk related to foreign currency mortgage loans	413,163	408,146
Provision for refund of commission fees due to early loan repayment	507	952
Provision for other liabilities and claims	3,287	2,364
Total	**452,470**	**444,594**

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

As of June 30th 2022, there were a total of 817 cases pending before the courts against the Bank, relating to loans denominated mainly in CHF, with the total value of disputed claims of PLN 265.31 million. The claims raised in the lawsuits generally involve declaring the credit/loan agreement invalid and awarding repayment of loan instalments paid or, alternatively, declaring the denomination clauses abusive and awarding payment.

As at June 30th 2022, the amount of provisions for the legal risk related to mortgage loans denominated in foreign currencies was PLN 413,163 thousand.

13. Other liabilities

Item	Jun 30 2022 unaudited	Dec 31 2021
Interbank settlements	35,195	47,301
Accrued expenses and deferred income	53,522	27,101
Public charges	9,544	5,462
Trade liabilities	74,160	70,285
Deferred commissions	5,546	7,379
Payment card settlements	866	1,135
Provision for refund of commission fees due to early loan repayment	3,010	3,310
Other	1,231	844
Total	**183,074**	**162,817**

for the six months ended June 30th 2022 (all amounts in PLN thousand)

14. Contingent assets and liabilities

Item	Jun 30 2022 unaudited	Dec 31 2021
Contingent liabilities:	**3,166,931**	**3,370,486**
Financial, including:	2,721,334	2,920,453
open credit lines, including:	2,682,856	2,899,502
revocable	2,354,175	2,443,944
irrevocable	328,681	455,558
open import letters of credit	38,478	20,951
guarantees, including:	445,597	450,033
credit repayment sureties and guarantees	12,739	12,739
performance bonds	432,858	437,294
Contingent assets:	**2,127,114**	**2,126,300**
Financial, including:	351,045	344,955
open lines of credit	351,045	344,955
Guarantees	1,776,069	1,781,345
Total contingent assets and contingent liabilities	**5,294,045**	**5,496,786**

for the six months ended June 30th 2022** (all amounts in PLN thousand)

15. Related-party transactions

As at June 30th 2022, Bank Ochrony Środowiska S.A. was the parent of Dom Maklerski BOŚ S.A., BOŚ Leasing–EKO Profit S.A., as well as MS Wind Sp. z o.o.

The National Fund for Environmental Protection and Water Management (NFOŚiGW) was the parent of the Bank.

The key management personnel are also considered to be related parties.

Transaction with the National Fund for Environmental Protection and Water Management, i.e., the main shareholder of the Bank

As at June 30th 2022, the amount of funds provided by the NFOŚiGW for preferential loans under the Prosument programme for the financing of purchase and installation of renewable energy sources was PLN 8,524 thousand (December 31st 2021: PLN 10,299 thousand).

NFOŚiGW is a party related to the State Treasury. The Bank enters into transactions with entities related to the State Treasury, mainly with entities operating in the public finance sector.

Data on transactions with the subsidiaries are presented in the tables below.

As at Jun 30 2022:

Item	Financial assets held for trading	Amounts due from clients	Investments in subsidiaries	Other assets	Financial liabilities held for trading	Amounts due to clients	Provisions	Other liabilities	Contingent liabilities
Subsidiaries									
Dom Maklerski BOŚ S.A.	-	69,916	142,997	10,005	-	1,547,901	61	147	10,189
BOŚ Eko Profit S.A.	-	145,421	66,575	-	477	14,036	380	-	63,826
Indirect subsidiaries									
MS Wind sp. z o.o.	-	19,219	-	-	457	5,631	-	-	-
Total	**-**	**234,556**	**209,572**	**10,005**	**934**	**1,567,568**	**441**	**147**	**74,015**

As at Dec 31 2021:

Item	Financial assets held for trading	Amounts due from clients	Investments in subsidiaries	Other assets	Financial liabilities held for trading	Amounts due to clients	Provisions	Other liabilities	Contingent liabilities
Subsidiaries									
Dom Maklerski BOŚ S.A.	-	36,584	138,461	-	-	2,202,743	275	227	43,078
BOŚ Eko Profit S.A.	-	115,475	62,654	-	93	14,482	424	-	63,286
Indirect subsidiaries									
MS Wind sp. z o.o.	274	18,968	-	-	-	5,207	-	-	-
Total	**274**	**171,027**	**201,115**	**-**	**93**	**2,222,432**	**699**	**227**	**106,364**

(all amounts in PLN thousand)

Income and expenses in the six months ended June 30th 2022:

Item	Interest and similar income	Interest expense and similar charges	Fee and commission income	Gain (loss) on financial instruments measured at fair value through profit or loss	Other income	Net impairment losses	Administrative expenses	Share of profit (loss) of equity-accounted entities
Subsidiaries								
Dom Maklerski BOŚ S.A.	1,671	- 29,227	907	-	1	- 117	- 7	14,536
BOŚ Leasing - EKO Profit S.A.	3,464	- 96	21	- 395	220	629	-	5,666
Indirect subsidiaries								
MS Wind sp. z o.o.	552	- 4	19	- 604	-	-	-	-
Total	**5,687**	**- 29,327**	**947**	**- 999**	**221**	**512**	**- 7**	**20,202**

(all amounts in PLN thousand)

Income and expenses in the six months ended June 30th 2021:

Item	Interest and similar income	Interest expense and similar charges	Fee and commission income	Gain (loss) on financial instruments measured at fair value through profit or loss	Other income	Net impairment losses	Administrative expenses	Share of profit (loss) of equity-accounted entities
Subsidiaries								
Dom Maklerski BOŚ S.A.	455	-	1,688	-	1	- 134	- 7	7,962
BOŚ Leasing - EKO Profit S.A.	814	-	16	- 124	180	999	- 40	- 1,141
Indirect subsidiaries								
MS Wind sp. z o.o.	245	- 2	21	- 183	-	302	-	-
Total	**1,514**	**- 2**	**1,725**	**- 307**	**181**	**1,167**	**- 47**	**6,821**

(all amounts in PLN thousand)

16. Seasonal or cyclical nature of the business in the reporting period

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

17. Type and amounts of items affecting the assets, equity and liabilities, net profit/loss or cash flows, which are material due to their type, size or effect

In the six months ended June 30th 2022, there were no non-recurring events that would have a significant impact on the assets, liabilities, equity, net financial result or cash flows of the Bank.

18. Type and amount of changes to estimates reported in previous interim periods of the current financial year or in previous financial years, where they have a material effect on the current interim period

In the six months ended June 30th 2022, there were no changes in the assumptions underlying calculation of the estimated amounts reported in previous interim periods of the current and previous financial years.

19. Dividends paid (aggregate or per share) separately for ordinary shares and other shares

No dividend was paid or declared in the six months ended June 30th 2022. In 2021, the Bank generated net profit.

On June 30th 2022, the Annual General Meeting of Bank Ochrony Środowiska S.A. passed a resolution to allocate the Bank's entire net profit for the period January 1st–December 31st 2021 of PLN 48,714 thousand to statutory reserve funds.

20. Events after the reporting date

Loan payment holidays and additional contribution to the Borrowers' Support Fund

July 29th 2022 was the date of entry into force of the Business Crowdfunding and Support for Borrowers Act of July 7th 2022, introducing, among other things:

- a possibility for borrowers to suspend repayment of mortgage loans granted in the Polish currency for up to eight months in 2022–2023 ("loan payment holidays"); and
- an obligation for the banking sector to make additional contributions to the Borrowers' Support Fund totalling PLN 1.4 billion.

The Bank estimates that if eligible borrowers take advantage of the loan payment holidays it will suffer a one-off reduction in pre-tax profit of PLN 55 million in the third quarter of 2022. This estimate has been made on the assumption that the loan payment holidays will be used by 80% of eligible borrowers. The relevant calculations have been made using an interest rate on the loans as at the date of the estimate that is based on the market interest rate growth path and the rules for recalculating base rates under the loan agreements. Given the increase in market interest rates, the total cost of the loan payment holidays following recalculation of base rates under the loan agreements may increase to PLN 83 million by year-end 2023.

The amount of an additional contribution to the Borrowers' Support Fund will be determined by a decision of the Borrowers' Support Fund Board. As at the date of this report, the Bank did not receive the relevant decision of the Borrowers' Support Fund Board concerning the amount of such additional contribution, if any, attributable to the Bank.

Signatures of Members of the Management Board

Date	Name and surname	Position held	Signature
August 9th 2022	Wojciech Hann	President of the Management Board	Signed with qualified e-signature
August 9th 2022	Arkadiusz Garbarczyk	Vice President of the Management Board – First Deputy President of the Management Board	Signed with qualified e-signature
August 9th 2022	Robert Kasprzak	Vice President of the Management Board	Signed with qualified e-signature
August 9th 2022	Jerzy Zań	Vice President of the Management Board	Signed with qualified e-signature

Signature of the person in charge of bookkeeping:

August 9th 2022	Andrzej Kowalczyk	Director of the Accounting Department	Signed with qualified e-signature