



SELECTED FINANCIAL DATA RELATING TO THE FINANCIAL STATEMENTS



SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	period from 01.01.2020 to 30.06.2020	period from 01.01.2019 to 30.06.2019	period from 01.01.2020 to 30.06.2020	period from 01.01.2019 to 30.06.2019
Net interest income	173,238	150,318	39,006	35,056
Net fee and commission income	(1,283)	(2,416)	(289)	(563)
Operating profit	59,955	52,179	13,499	12,167
Profit before tax	59,955	52,179	13,499	12,167
Net profit	35,474	30,629	7,987	7,143
Net earnings per share - basic (in PLN/EUR)	0.02	0.02	0.01	0.01
Net earnings per share - diluted (in PLN/EUR)	0.02	0.02	0.01	0.01
Total net comprehensive income	62,603	118,773	14,096	27,699
Net cash used in operating activities	(1,600,655)	(3,357,285)	(360,402)	(782,943)
Net cash used in investing activities	11,087	(307,953)	2,496	(71,817)
Net cash used in financing activities	1,589,560	3,665,287	357,904	854,771
Total net cash flows	(8)	49	(2)	11

SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	as at 30.06.2020	as at 31.12.2019	as at 30.06.2020	as at 31.12.2019
Total assets	27,494,682	27,253,301	6,156,445	6,399,742
Total equity	2,062,626	2,000,023	461,851	469,654
Share capital	1,611,300	1,611,300	360,793	378,373
Number of shares (in thousands)	1,611,300	1,611,300	1,611,300	1,611,300
Book value per share (in PLN/EUR)	1.28	1.24	0.29	0.29
Diluted number of shares (in thousands)	1,611,300	1,611,300	1,611,300	1,611,300
Diluted book value per share (in PLN/EUR)	1.28	1.24	0.29	0.29
Total capital ratio (TCR)	17.5%	16.6%	17.5%	16.6%
Common equity Tier 1 (CET 1)	1,879,524	1,820,780	420,852	427,564
Own funds	1,879,524	1,820,780	420,852	427,564

Selected financial statement items have been translated to EUR at the following foreign exchange rates		
items of the income statement, statement of comprehensive income and statement of cash flows – the average of the NBP exchange rates prevailing as at the last day of each month of the reporting period	01.01.2020 - 30.06.2020	01.01.2019 - 30.06.2019
	4.4413	4.2880
items of the statement of financial position – the average NBP exchange rate as at the last day of the reporting period	30.06.2020	31.12.2019
	4.4660	4.2585



Condensed interim financial statements
of PKO Bank Hipoteczny SA
for the six-month period ended
30 June 2020



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INCOME STATEMENT

INCOME STATEMENT	Note	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Interest income and income similar to interest income, including:	4	198,269	429,664	211,715	404,237
Interest income recognized under the effective interest rate method		197,583	428,563	211,321	403,457
Income similar to interest income on instruments measured at fair value through profit or loss		686	1,101	394	780
Interest expense	4	(109,448)	(256,426)	(133,274)	(253,919)
Net interest income		88,821	173,238	78,441	150,318
Fee and commission income	5	1,852	4,693	4,302	7,836
Fee and commission expense	5	(2,923)	(5,976)	(5,667)	(10,252)
Net fee and commission income		(1,071)	(1,283)	(1,365)	(2,416)
Net gain/(loss) on financial instruments measured at fair value through profit or loss		15	29	17	33
Net foreign exchange gains/(losses)	6	(39)	5,594	(1,264)	(1,895)
Net income/(expense) on modification		(1,364)	(1,524)	269	370
Net allowances for expected credit losses	7	(5,262)	(19,575)	(5,860)	(5,680)
Other operating income		117	208	200	324
Other operating expenses		(149)	(333)	(195)	(306)
Net other operating income and expense		(32)	(125)	5	18
Administrative expenses	8	(12,216)	(25,967)	(12,869)	(25,037)
Regulatory charges	9	(312)	(25,248)	(87)	(24,483)
Tax on certain financial institutions		(22,587)	(45,184)	(20,498)	(39,049)
Operating profit		45,953	59,955	36,789	52,179
Profit before tax		45,953	59,955	36,789	52,179
Income tax expense	10	(19,481)	(24,481)	(10,900)	(21,550)
Net profit		26,472	35,474	25,889	30,629
Earnings per share - basic (PLN)		0.02	0.02	0.02	0.02
Earnings per share - diluted (PLN)		0.02	0.02	0.02	0.02
Weighted average number of ordinary shares during the period (in thousands)		1,611,300	1,611,300	1,460,027	1,400,243
Weighted average diluted number of ordinary shares during the period (in thousands)		1,611,300	1,611,300	1,460,027	1,400,243



STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Net profit		26,472	35,474	25,889	30,629
Other comprehensive income		66,369	27,129	90,300	88,144
Items which may be reclassified to profit or loss		66,369	27,129	90,300	88,144
Cash flow hedges (gross)		71,442	33,897	108,487	110,925
Deferred tax		(13,574)	(6,440)	(20,613)	(21,076)
Cash flow hedges (net)	11	57,868	27,457	87,874	89,849
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)		10,494	(405)	2,995	(2,105)
Deferred tax		(1,993)	77	(569)	400
Remeasurement of financial assets measured at fair value through other comprehensive income (net)		8,501	(328)	2,426	(1,705)
Total net comprehensive income		92,841	62,603	116,189	118,773



STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Note	30.06.2020	31.12.2019
ASSETS			
Cash and balances with the Central Bank		15	20
Amounts due from banks		28	31
measured at amortized cost		28	31
Derivative hedging instruments	11	758,132	173,275
Securities	12	1,240,478	1,240,161
measured at fair value through other comprehensive income		1,240,478	1,240,161
Loans and advances to customers	13	25,481,009	25,821,070
measured at amortized cost		25,481,009	25,821,070
Intangible assets		1,634	2,395
Property, plant and equipment		4,729	5,271
Other assets		8,657	11,078
TOTAL ASSETS		27,494,682	27,253,301
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks	15	5,936,983	4,811,259
measured at amortized cost		5,936,983	4,811,259
Derivative hedging instruments	11	813	46,084
Amounts due to customers		4,765	4,885
measured at amortized cost		4,765	4,885
Liabilities in respect of mortgage covered bonds issued	16	16,817,117	16,239,975
measured at amortized cost		16,817,117	16,239,975
Liabilities in respect of bonds issued	17	2,557,648	4,060,026
measured at amortized cost		2,557,648	4,060,026
Other liabilities	18	55,879	35,960
Current income tax liabilities	10	2,107	11,373
Deferred income tax provision		56,500	43,422
Provisions	19	244	294
TOTAL LIABILITIES		25,432,056	25,253,278
Equity			
Share capital	20	1,611,300	1,611,300
Supplementary capital		250,733	161,563
Accumulated other comprehensive income		165,119	137,990
Net profit for the period		35,474	89,170
TOTAL EQUITY		2,062,626	2,000,023
TOTAL LIABILITIES AND EQUITY		27,494,682	27,253,301
Total capital ratio (TCR)	36	17.5%	16.6%
Book value (in PLN '000)		2,062,626	2,000,023
Number of shares (in thousands)	20	1,611,300	1,611,300
Book value per share (in PLN)		1.28	1.24
Diluted number of shares (in thousands)		1,611,300	1,611,300
Diluted book value per share (in PLN)		1.28	1.24



STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 June 2020	Note	Share capital	Supplementary capital	Accumulated other comprehensive income			Net profit for the period	Total equity
				Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Retained earnings		
1 January 2020		1,611,300	161,563	134,421	3,569	-	89,170	2,000,023
Transfer from retained earnings		-	-	-	-	89,170	(89,170)	-
Transfer from profit to equity		-	89,170	-	-	(89,170)	-	-
Total comprehensive income, including:		-	-	27,457	(328)	-	35,474	62,603
Net profit		-	-	-	-	-	35,474	35,474
Other comprehensive income		-	-	27,457	(328)	-	-	27,129
30 June 2020	20	1,611,300	250,733	161,878	3,241	-	35,474	2,062,626

FOR THE PERIOD ENDED 30 JUNE 2019	Note	Share capital	Supplementary capital	Accumulated other comprehensive income			Net profit for the period	Total equity
				Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Retained earnings		
1 January 2019		1,295,000	54,932	59,462	4,427	(11,787)	85,849	1,487,883
Issue of I series shares	20	100,000	-	-	-	-	-	100,000
Issue of J series shares	20	131,500	17,741	-	-	-	-	149,241
Transfer from retained earnings		-	-	-	-	85,849	(85,849)	-
Transfer from profit to equity		-	74,062	-	-	(74,062)	-	-
Total comprehensive income, including:		-	-	89,849	(1,705)	-	30,629	118,773
Net profit		-	-	-	-	-	30,629	30,629
Other comprehensive income		-	-	89,849	(1,705)	-	-	88,144
30 June 2019		1,526,500	146,735	149,311	2,722	-	30,629	1,855,897



STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	Note	01.01.2020 - 30.06.2020	01.01.2019 - 30.06.2019
Cash flows from operating activities			
Profit before tax		59,955	52,179
Total adjustments:		(1,660,610)	(3,409,464)
Amortization and depreciation		1,482	1,637
Interest on mortgage-covered bonds issued, bonds and loans obtained		133,641	94,587
Change in derivative financial instruments (asset)		(584,856)	(5,195)
Change in loans and advances to customers (gross)		320,628	(3,534,161)
Change in other assets and right-of-use assets		2,267	1,076
Change in amounts due to banks		(2,126,027)	(26,931)
Change in derivative financial instruments (liability)		(45,271)	33,285
Change in amounts due to customers		(120)	(981)
Change in liabilities in respect of mortgage covered bonds issued		577,143	(130,571)
Change in liabilities in respect of bonds issued		25,496	35,374
Change in allowances for expected credit losses and provisions		19,384	5,579
Change in other liabilities, excluding liabilities in respect of unregistered issues of own shares		20,594	24,920
Income tax paid		(27,032)	(9,645)
Other adjustments (including changes in the measurement of securities and derivative instruments recognized in other comprehensive income)		22,061	101,562
Net cash used in operating activities		(1,600,655)	(3,357,285)
Cash flows from investing activities			
Inflows from investing activities		360,978	584,752
Disposal of and interest on securities measured at fair value through other comprehensive income		360,978	584,752
Outflows on investing activities		(349,891)	(892,705)
Acquisition of securities measured at fair value through other comprehensive income		(349,865)	(892,670)
Acquisition of intangible assets and property, plant and equipment		(26)	(35)
Net cash used in investing activities		11,087	(307,953)
Cash flows from financing activities			
Proceeds from issue of own shares and payments towards issue of own shares		-	149,241
Proceeds from issue of mortgage covered bonds		-	3,254,656
Proceeds from issue of bonds		2,483,627	4,034,729
Redemption of bonds issued		(4,011,500)	(3,550,500)
Proceeds from loans obtained		10,745,077	3,061,074
Proceeds from loans repaid		(7,493,327)	(3,188,793)
Repayment of interest on mortgage covered bonds issued, bonds and loans obtained		(133,641)	(94,587)
Payments of lease liabilities (IFRS 16)		(676)	(533)
Net cash used in financing activities		1,589,560	3,665,287
Total net cash flows		(8)	49
Cash and cash equivalents at the beginning of the period		51	28
Cash and cash equivalents at the end of the period	24	43	77



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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

BANKING ACTIVITIES

PKO Bank Hipoteczny Spółka Akcyjna ("PKO Bank Hipoteczny SA", "Bank") with its registered office in Gdynia, ul. Jerzego Waszyngtona 17, 81-342 Gdynia, was entered in the Register of Businesses maintained by the District Court Gdańsk-Północ in Gdańsk, 8th Business Department of the National Court Register, with the number KRS 0000528469, on 24 October 2014. The Bank was assigned the statistical number REGON 222181030. Its share capital as at 30 June 2020 was PLN 1,611,300,000 and it was fully paid up.

PKO Bank Hipoteczny SA is a specialized bank that operates on the basis of the Polish Mortgage Covered Bonds and Mortgage Banks Act dated 29 August 1997, the Banking Law of 29 August 1997, the Commercial Companies Code and other generally applicable provisions of the law, the principles of good banking practice and the Bank's Articles of Association.

The Bank specializes in granting residential mortgage loans for individuals. The Bank also acquires receivables in respect of such loans from PKO Bank Polski SA. The Bank acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA.

The Bank's principal objective, in terms of financing, is to issue mortgage covered bonds, which are to serve as the primary source of long-term financing for residential mortgage loans.

INDICATION AS TO WHETHER THE BANK IS A PARENT OR SIGNIFICANT INVESTOR AND WHETHER IT PREPARES CONSOLIDATED FINANCIAL STATEMENTS

PKO Bank Hipoteczny SA is not a parent or a significant investor in associates and jointly-controlled entities. Therefore, PKO Bank Hipoteczny SA does not prepare consolidated financial statements.

The Parent of PKO Bank Hipoteczny SA is PKO Bank Polski SA, which prepares consolidated financial statements for the PKO Bank Polski SA Group.

INFORMATION ON THE COMPOSITION OF THE BANK'S SUPERVISORY AND MANAGEMENT BOARDS

The following table presents the composition of the Supervisory Board of PKO Bank Hipoteczny SA during the period covered by the condensed interim financial statements:

No.	Name and surname	Position	Date of appointment	Date of dismissal /resignation /end of term
1	Jakub Papierski	Chairman of the Supervisory Board	06.10.2014	-
2	Paweł Metrycki	Member of the Supervisory Board (from 30.03.2019 to 07.10.2019) / Deputy Chairman of the Supervisory Board (from 07.10.2019)	30/03/2019	-
3	Justyna Borkiewicz	Member of the Supervisory Board	28.10.2016	-
4	Lucyna Kopińska	Member of the Supervisory Board	01.09.2019	-
5	Piotr Kwiecień	Member of the Supervisory Board (independent)	18.10.2017	-
6	Jadwiga Lesisz	Member of the Supervisory Board (independent)	01.09.2019	-
7	Dariusz Odzioba	Member of the Supervisory Board	01.09.2019	-
8	Ilona Wołyniec	Member of the Supervisory Board	30.03.2019	-

The following table presents the composition of the Management Board of PKO Bank Hipoteczny SA during the period covered by the condensed interim financial statements:

No.	Name and surname	Position	Date of appointment	Date of dismissal /resignation
1	Paulina Strugała	President of the Management Board	16.04.2018	-
2	Piotr Kochanek	Vice-President of the Management Board	01.01.2019	-
3	Agnieszka Krawczyk	Vice-President of the Management Board	01.01.2018	-



2. BASIS FOR PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS.

The condensed interim financial statements of PKO Bank Hipoteczny SA cover the six-month period ended 30 June 2020 and contain the comparative data for the six-month period ended 30 June 2019 (comprising the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity) as well as comparative data as at 31 December 2019 (comprising the statement of financial position). The financial data is presented in thousands of Polish zlotys (PLN), rounded to a thousand, unless otherwise indicated. Therefore, there may be differences resulting from rounding the amounts to full thousands.

2.1 STATEMENT OF COMPLIANCE

The condensed interim financial statements have been prepared in accordance with the going concern principle and the requirements of the International Accounting Standard 34, "Interim Financial Reporting", as endorsed by the European Union.

Except for the specific principles of taxation relating to interim periods referred to in Note 3.4 *Income tax in the interim financial statements*, the accounting policies and calculation methods used in the preparation of these condensed interim financial statements are consistent with the policies applied in the financial year ended 31 December 2019 and they are described in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019.

The condensed interim financial statements for the six months of 2020 do not contain all the information and disclosures that are required in the annual financial statements and they should be read together with the annual financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019 prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

2.2 REPRESENTATIONS OF THE MANAGEMENT BOARD

The Management Board hereby represents that according to its best knowledge the condensed interim financial statements of PKO Bank Hipoteczny SA and the comparative data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear view of the Bank's financial position and results of operations.

2.3 APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

These condensed interim financial statements were reviewed by the Audit and Finance Committee of the Supervisory Board and by the Supervisory Board on 31 July 2020 and approved for publication by the Bank's Management Board on 31 July 2020.

3. CHANGES TO ACCOUNTING POLICIES AND ESTIMATES

3.1 NEW STANDARDS AND AMENDMENTS TO THE PUBLISHED STANDARDS AND INTERPRETATIONS WHICH BECAME BINDING AS OF 1 JANUARY 2020

The implementation of new standards and interpretations and amendments thereto, which became binding on 1 January 2020, concerning:

- definition of the term "material" in IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- a reform of reference interest rates to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments*, IFRS 7 *Financial Instruments: Disclosures*;
- definition of a business in IFRS 3 *Business Combinations*;
- and modifications to the IFRS Conceptual Framework;

did not have a material impact on these financial statements.

3.2 NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO, WHICH HAVE BEEN PUBLISHED AND HAVE BEEN ENDORSED BY THE EUROPEAN UNION, BUT ARE NOT YET BINDING AND HAVE NOT BEEN APPLIED BY THE BANK

The Bank does not identify any new standards or amendments to standards or interpretations, which have been published and endorsed by the European Union, but are not binding for annual periods beginning on 1 January 2020



and have not been applied to the condensed interim financial statements, but which will have a material impact on the financial statements.

3.3 NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO, WHICH HAVE BEEN PUBLISHED BUT HAVE NOT BEEN ENDORSED BY THE EUROPEAN UNION

Amendments to: IAS 1 *Presentation of Financial Statements*, with respect to the classification of liabilities as current and non-current; IFRS 16 *Leases*, reflecting the impact of the COVID-19 pandemic; and the implementation of IFRS 17 *Insurance Contracts* will not have a material impact on the Bank's financial statements.

3.4 INCOME TAX IN THE INTERIM FINANCIAL STATEMENTS

Income tax in the interim financial statements is determined in accordance with IAS 34. The income tax expense for the interim period is calculated using the tax rate that would be applicable to the expected profit before tax for the whole year, i.e. using the estimated average annual effective income tax rate applicable to income before tax in the interim period.

In order to calculate the average annual effective income tax rate, the forecast income before tax for the whole financial year and the permanent differences between the carrying amounts of assets and liabilities and their tax bases should be used.

3.5 CHANGES IN ESTIMATES

In the preparation of these condensed interim financial statements, the Bank used estimates in a manner consistent with the estimates used and described in the financial statements of PKO Bank Hipoteczny SA as at and for the year ended 31 December 2019, except for the estimates relating to allowances for expected credit losses whose changes are described in Note 29.4 *Loans and advances to customers*.



NOTES TO THE INCOME STATEMENT

4. INTEREST INCOME, INCOME SIMILAR TO INTEREST INCOME AND INTEREST EXPENSE

INTEREST INCOME AND INCOME SIMILAR TO INTEREST INCOME	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Interest income recognized under the effective interest rate method, including:	197,583	428,563	211,321	403,457
on financial instruments measured at amortized cost, including:				
loans and advances to customers	191,846	416,727	206,187	394,093
amounts due from banks and on mandatory reserve	17	48	31	49
instruments measured at fair value through other comprehensive income, including:				
debt securities	5,737	11,836	5,134	9,364
Income similar to interest income on instruments measured at fair value through profit or loss, including:	686	1,101	394	780
hedging IRS transactions (net)	686	1,101	394	780
Total	198,269	429,664	211,715	404,237
including: interest income on impaired financial instruments	230	469	127	233
INTEREST EXPENSE				
Interest expense on financial instruments measured at amortized cost, including:	(71,755)	(165,543)	(77,840)	(150,589)
loans received and overdraft facility used	(20,678)	(45,607)	(8,751)	(18,645)
deferred payment for the purchase of receivables	(1,933)	(5,629)	(9,337)	(14,949)
mortgage-covered bonds issued	(36,552)	(80,695)	(39,616)	(77,934)
bonds issued	(12,560)	(33,545)	(20,095)	(38,980)
lease liabilities	(32)	(67)	(41)	(81)
Expenses similar to interest expense on instruments measured at fair value through profit or loss, including:	(37,693)	(90,883)	(55,434)	(103,330)
hedging CIRS transactions (net)	(37,693)	(90,883)	(55,434)	(103,330)
Total	(109,448)	(256,426)	(133,274)	(253,919)



5. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Fees for property valuation	127	544	1,495	2,758
Fees for property inspection	351	925	745	1,340
Commission for full or partial prepayment of loans	1,028	2,370	1,650	2,872
Other	346	854	412	866
Total	1,852	4,693	4,302	7,836

FEE AND COMMISSION EXPENSE	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Preparation by property valuers of appraisal reports on Property Value for Mortgage Lending Purposes (BHWN)	(185)	(390)	(2,225)	(4,179)
Expenses related to bond issue programmes	(529)	(1,217)	(1,394)	(2,008)
Expenses related to credit lines	(997)	(1,793)	(800)	(1,528)
Expenses related to mortgage covered bond issue programmes	(306)	(582)	(299)	(607)
Loan insurance costs	(835)	(1,846)	(894)	(1,794)
Commissions for other operating services	(53)	(130)	(37)	(97)
Costs of debt collection and intermediation in selling collateral	(18)	(18)	(18)	(39)
Total	(2,923)	(5,976)	(5,667)	(10,252)

6. NET FOREIGN EXCHANGE GAINS/(LOSSES)

NET FOREIGN EXCHANGE GAINS/(LOSSES)	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Result on revaluation	(34)	517	9	13
Gain/(loss) on derivative instruments (CIRS, FX-Forward) before designation to hedge accounting	(5)	(4)	1	(389)
Gain/(loss) on derivative instruments (CIRS, FX-Forward) related to hedge ineffectiveness	-	5,081	(1,274)	(1,519)
Total	(39)	5,594	(1,264)	(1,895)

The Bank concludes and maintains CIRS and FX Forward derivative instruments solely for hedging purposes.

7. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	Note	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Net allowances for loans and advances to customers	14	(5,339)	(19,640)	(5,823)	(5,545)
Net provisions for loan commitments	19	77	65	(37)	(135)
Total		(5,262)	(19,575)	(5,860)	(5,680)

The impact of the COVID-19 pandemic on the amount of allowances for expected credit losses is described in Note 29.4.



8. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Employee benefits	(3,343)	(7,348)	(4,265)	(8,705)
Overheads	(8,181)	(17,137)	(7,789)	(14,695)
Amortization and depreciation, including:	(692)	(1,482)	(815)	(1,637)
property, plant and equipment	(36)	(88)	(60)	(120)
right-of-use assets, including:	(320)	(632)	(307)	(586)
real estate	(266)	(524)	(255)	(506)
cars	(54)	(108)	(52)	(80)
intangible assets	(336)	(762)	(448)	(931)
Total	(12,216)	(25,967)	(12,869)	(25,037)

EMPLOYEE BENEFITS	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Wages and salaries, including:	(2,826)	(6,147)	(3,563)	(7,331)
provision for disability and retirement benefits	(15)	(15)	(10)	(10)
Salary surcharges	(425)	(1,017)	(499)	(1,071)
Other employee benefits	(92)	(184)	(203)	(303)
Total	(3,343)	(7,348)	(4,265)	(8,705)

OVERHEADS	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Services relating to supporting operations under Outsourcing Agreement	(1,036)	(1,969)	(824)	(1,647)
Servicing of loans granted and receivables purchased under Outsourcing Agreement	(5,761)	(12,121)	(4,971)	(9,536)
External services under other contracts	(513)	(1,103)	(939)	(1,411)
IT costs	(481)	(943)	(461)	(888)
Non-life insurance costs	(97)	(194)	(100)	(182)
Costs related to short-term lease contracts	-	-	(75)	(85)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(117)	(353)	(189)	(411)
Other	(176)	(454)	(230)	(535)
Total	(8,181)	(17,137)	(7,789)	(14,695)



9. REGULATORY CHARGES

REGULATORY CHARGES	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Contribution and payments to the Bank Guarantee Fund (BGF), including:	-	(22,507)	-	(22,058)
resolution fund	-	(22,507)	-	(22,058)
Payments to Polish Financial Supervision Authority (PFSA)	-	(2,129)	-	(2,235)
Payments to Borrowers Support Fund (potential)	(122)	(243)	-	-
Other taxes and charges	(190)	(369)	(87)	(190)
Total	(312)	(25,248)	(87)	(24,483)

10. CORPORATE INCOME TAX

INCOME TAX EXPENSE	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Current income tax expense	(9,221)	(17,766)	(9,947)	(16,433)
Deferred income tax due to temporary differences	(10,260)	(6,715)	(953)	(5,117)
Income tax reported in the income statement	(19,481)	(24,481)	(10,900)	(21,550)
Income tax reported in other comprehensive income due to temporary differences	(15,567)	(6,363)	(21,182)	(20,676)
Total	(35,048)	(30,844)	(32,082)	(42,226)

RECONCILIATION OF THE EFFECTIVE TAX RATE	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Profit / (loss) before income tax	45,953	59,955	36,789	52,179
Corporate income tax calculated at the statutory tax rate in force in Poland (19%)	(8,731)	(11,391)	(6,990)	(9,914)
Effect of permanent differences between profit before income tax and taxable income, including:	(4,324)	(12,786)	(3,910)	(11,636)
tax on certain financial institutions	(4,292)	(8,585)	(3,894)	(7,419)
fees to BGF	-	(4,276)	-	(4,191)
costs exceeding the limit set in Article 15e of the CIT Act	-	-	-	-
Transfer tax on share capital increase	-	-	-	-
PFRON (State Disabled Persons Fund) costs	(4)	(7)	(5)	(9)
impact of tax costs under Article 15cb of the CIT Act (internal financing)	-	143	-	-
impact of other permanent differences	(28)	(61)	(11)	(17)
Impact of applying the annual effective tax rate in the interim financial statements	(6,426)	(304)		
Effect of other differences between profit before income tax and taxable income, including adjustments to previous periods	-	-	-	-
Income tax reported in the income statement	(19,481)	(24,481)	(10,900)	(21,550)
Effective tax rate	42.39%	40.83%	29.63%	41.30%



The Bank calculates income tax expense using the tax rate that would be applicable to the expected profit before tax for the whole year, i.e. using the estimated average annual effective income tax rate applicable to income before tax in the interim period.

In order to calculate the average annual effective income tax rate, the forecast income before tax for the whole financial year and the permanent differences between the carrying amounts of assets and liabilities and their tax bases must be used.

The forecast annual effective tax rate used to calculate the income tax expense in the first quarter of 2020 was 35.71%. Due to the COVID-19 pandemic and its expected adverse effect on the execution of the financial plan for 2020, the Bank verified its financial projection in the second quarter of 2020. The changes are mainly related to the following: a decrease in interest rates, an expected increase in the allowances for credit losses, cost reduction and change in the financing structure. In accordance with this projection, the effective tax rate used to calculate the income tax expense in the first half of 2020 was 40.83%.



NOTES TO THE STATEMENT OF FINANCIAL POSITION

11. DERIVATIVE HEDGING INSTRUMENTS

The Bank did not introduce any changes to its hedging strategies in the first half of 2020.

FINANCIAL INFORMATION

CARRYING AMOUNT/FAIR VALUE OF DERIVATIVES USED AS CASH FLOW HEDGES	30.06.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
IRS	23,343	-	9,217	-
CIRS	734,630	-	163,676	45,237
FX-Forward	159	813	382	847
Total	758,132	813	173,275	46,084

The Bank concludes and maintains derivative instruments exclusively for hedging purposes.

CHANGE IN OTHER COMPREHENSIVE INCOME ON CASH FLOW HEDGES AND INEFFECTIVE PORTION OF CASH FLOW HDGES	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2nd quarter 01.04.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Accumulated other comprehensive income on cash flow hedges at the beginning of the period, gross	128,408	165,953	75,849	73,411
Gains /(Losses) recognized in other comprehensive income during the period	(205,200)	520,507	(83,479)	(123,442)
Amounts transferred from other comprehensive income to the income statement during the period	276,642	(486,610)	191,966	234,367
- interest income	(686)	(1,101)	(394)	(780)
- interest expenses	37,693	90,883	55,434	103,330
- net foreign exchange gains/(losses)	239,635	(576,392)	136,926	131,817
Accumulated other comprehensive income on cash flow hedges at the end of the period, gross	199,850	199,850	184,336	184,336
Tax effect	(37,972)	(37,972)	(35,025)	(35,025)
Accumulated other comprehensive income on cash flow hedges at the end of the period, net	161,878	161,878	149,311	149,311
Ineffective portion of cash flow hedges recognized in the income statement	15	5,110	(1,257)	(1,486)
Impact on other comprehensive income during the period, gross	71,442	33,897	108,487	110,925
Deferred tax on cash flow hedges	(13,574)	(6,440)	(20,613)	(21,076)
Impact on other comprehensive income during the period, net	57,868	27,457	87,874	89,849

12. SECURITIES

SECURITIES	30.06.2020	31.12.2019
Measured at fair value through other comprehensive income, including:	1,240,478	1,240,161
issued by the State Treasury, PLN Treasury bonds	1,240,478	1,240,161
Total	1,240,478	1,240,161



13. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.06.2020	31.12.2019
Measured at amortized cost		
residential loans, gross, including:		
loans granted	25,543,169	25,863,796
receivables acquired	12,307,729	12,090,010
	13,235,440	13,773,786
Allowances for expected credit losses	(62,160)	(42,726)
Loans and advances to customers, net	25,481,009	25,821,070

In the first half of 2020 the Bank purchased, based on the Framework Agreement for the Sale of Receivables signed with PKO Bank Polski SA on 17 November 2015, residential mortgage loan portfolios amounting to PLN 154,001 thousand, and in the first half of 2019 – amounting to PLN 2,519,297 thousand. The purchase price was determined on an arm's length basis, based on the valuation made by an independent expert. The receivables purchased were recognized on the transfer dates set in the Receivables Sale Agreements, on which the Bank acquired the rights to the cash flows from individual portfolios, and assumed all related liability for costs and economic risks in the constituent receivables. The purchase of the receivable portfolios was financed with the liability the nature of which is described in Note 15 "Amounts due to banks".

Loans granted and receivables purchased that have been entered in the Bank's cover pool represent collateral for mortgage covered bonds issued, as described in Note 16 "Liabilities in respect of mortgage covered bonds issued".

Information about the quality of the loan portfolio is presented in Note 29 "Credit risk management".

Information about exposure to credit risk for loans and advances to customers measured at amortized cost is described in Note 14 "Expected credit losses".

14. EXPECTED CREDIT LOSSES

GROSS FINANCIAL ASSETS AND ALLOWANCES FOR EXPECTED CREDIT LOSSES AND NOMINAL AMOUNT OF LOAN COMMITMENTS AND PROVISIONS

FINANCIAL ASSETS AND ALLOWANCES FOR EXPECTED CREDIT LOSSES AS AT 31 JUNE 2020	Assets with no significant increase in credit risk since initial recognition, gross (Stage 1)	Allowances for expected credit losses (Stage 1)	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (Stage 2)	Allowances for expected credit losses (Stage 2)	Credit-impaired assets, gross (Stage 3)	Allowances for expected credit losses (Stage 3)	Total gross amount	Total allowances for expected credit losses
Measured at fair value through other comprehensive income								
securities	1,240,478	-	-	-	-	-	1,240,478	-
issued by the State Treasury, PLN Treasury bonds	1,240,478	-	-	-	-	-	1,240,478	-
Total	1,240,478	-	-	-	-	-	1,240,478	-
Measured at amortized cost								
amounts due from banks	28	-	-	-	-	-	28	-
loans and advances to customers	24,942,829	(11,481)	577,142	(39,933)	23,198	(10,746)	25,543,169	(62,160)
residential loans	24,942,829	(11,481)	577,142	(39,933)	23,198	(10,746)	25,543,169	(62,160)
loans granted	11,903,696	(6,819)	394,616	(26,116)	9,417	(4,320)	12,307,729	(37,255)
receivables acquired	13,039,133	(4,662)	182,526	(13,817)	13,781	(6,426)	13,235,440	(24,905)
other financial assets	62	-	-	-	-	-	62	-
Total	24,942,919	(11,481)	577,142	(39,933)	23,198	(10,746)	25,543,259	(62,160)

The impact of the COVID-19 pandemic on the amount of allowances for expected credit losses is described in Note 29.4.

LOAN COMMITMENTS AND PROVISIONS AS AT 30 JUNE 2020	Nominal amount of loan commitments with no significant increase in credit risk since initial recognition (Stage 1)	Provisions for loan commitments (Stage 1)	Nominal amount of loan commitments with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Provisions for loan commitments (Stage 2)	Nominal amount of credit-impaired loan commitments (Stage 3)	Provisions for loan commitments (Stage 3)	Total nominal amount	Total provisions for loan commitments
Loan commitments	192,084	(62)	882	(13)	-	-	192,966	(75)

CONDENSED INTERIM FINANCIAL STATEMENTS OF PKO BANK HIPOTECZNY SA
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(IN PLN THOUSANDS)



FINANCIAL ASSETS AND ALLOWANCES FOR EXPECTED CREDIT LOSSES AS AT 31 DECEMBER 2019	Assets with no significant increase in credit risk since initial recognition, gross (Stage 1)	Allowances for expected credit losses (Stage 1)	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (Stage 2)	Allowances for expected credit losses (Stage 2)	Credit-impaired assets, gross (Stage 3)	Allowances for expected credit losses (Stage 3)	Total gross amount	Total allowances for expected credit losses
Measured at fair value through other comprehensive income								
securities	1,240,161	-	-	-	-	-	1,240,161	-
issued by the State Treasury, PLN Treasury bonds	1,240,161	-	-	-	-	-	1,240,161	-
Total	1,240,161	-	-	-	-	-	1,240,161	-
Measured at amortized cost								
amounts due from banks	31	-	-	-	-	-	31	-
loans and advances to customers	25,504,795	(9,333)	341,078	(25,895)	17,923	(7,498)	25,863,796	(42,726)
residential loans	25,504,795	(9,333)	341,078	(25,895)	17,923	(7,498)	25,863,796	(42,726)
loans granted	11,881,240	(5,283)	202,712	(16,334)	6,058	(2,951)	12,090,010	(24,568)
receivables acquired	13,623,555	(4,050)	138,366	(9,561)	11,865	(4,547)	13,773,786	(18,158)
other financial assets	217	-	-	-	-	-	217	-
Total	25,505,043	(9,333)	341,078	(25,895)	17,923	(7,498)	25,864,044	(42,726)
LOAN COMMITMENTS AND PROVISIONS AS AT 31 DECEMBER 2019								
	Nominal amount of loan commitments with no significant increase in credit risk since initial recognition (Stage 1)	Provisions for loan commitments (Stage 1)	Nominal amount of loan commitments with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Provisions for loan commitments (Stage 2)	Nominal amount of credit-impaired loan commitments (Stage 3)	Provisions for loan commitments (Stage 3)	Total nominal amount	Total provisions for loan commitments
Loan commitments	482,236	(111)	450	(29)	-	-	482,686	(140)

CONDENSED INTERIM FINANCIAL STATEMENTS OF PKO BANK HIPOTECZNY SA
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020
(IN PLN THOUSANDS)



CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 JUNE 2020	As at 01.01.2020	Increase due to granting and purchase of loans	Changes due to changes in credit risk (net), including total repayment	Changes due to immaterial modification (net)	Decrease due to derecognition	Decrease due to partial write-off	Other changes	As at 30.06.2020
Measured at fair value through OCI								
securities	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
Measured at amortized cost								
amounts due from banks	-	-	-	-	-	-	-	-
loans and advances to customers	42,726	2,759	16,993	59	(171)	(206)	-	62,160
residential loans	42,726	2,759	16,993	59	(171)	(206)	-	62,160
other financial assets	-	-	-	-	-	-	-	-
Total	42,726	2,759	16,993	59	(171)	(206)	-	62,160

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 JUNE 2019	As at 01.01.2019	Increase due to granting and purchase of loans	Changes due to changes in credit risk (net), including total repayment	Changes due to immaterial modification (net)	Decrease due to derecognition	Decrease due to partial write-off	Other changes	As at 30.06.2019
Measured at fair value through OCI								
securities	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-
Measured at amortized cost								
amounts due from banks	-	-	-	-	-	-	-	-
loans and advances to customers	28,273	1,227	4,188	145	(15)	(111)	-	33,707
residential loans	28,273	1,227	4,188	145	(15)	(111)	-	33,707
other financial assets	-	-	-	-	-	-	-	-
Total	28,273	1,227	4,188	145	(15)	(111)	-	33,707



CALCULATION OF ESTIMATES

The Bank performed a simulation of a change in the allowances for expected credit losses resulting from a deterioration or improvement in the risk parameters.

ESTIMATED CHANGE IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DUE TO A DETERIORATION OR IMPROVEMENT IN RISK PARAMETERS, INCLUDING: ¹	30.06.2020		31.12.2019	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
changes in probability of default	7,997	(10,390)	3,173	(3,540)
changes in rates of recovery	(14,322)	14,325	(9,206)	9,214

¹ in plus – an increase in allowances; in minus – a decrease in allowances

PURCHASED OR ORIGINATED CREDIT-IMPAIRED FINANCIAL ASSETS – POCI

As at 30 June 2020 and 31 December 2019, the Bank had no purchased or originated credit-impaired financial assets (POCI).

15. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.06.2020	31.12.2019
Measured at amortized cost		
overdraft within the limit available	8,947	10,081
liability related to overdraft facilities	5,672,994	2,422,408
liability related to term loans	100,003	100,007
liability in respect of the purchase of receivables	155,039	2,278,763
Total	5,936,983	4,811,259

LIABILITIES IN RESPECT OF LOANS

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 30 June 2020	Amount of loan drawn as at 30 June 2020	Liability as at 30 June 2020
PKO Bank Polski SA	29.10.2015	29.10.2022	2,000,000	2,000,000	2
PKO Bank Polski SA	02.02.2017	03.02.2023	2,000,000	2,000,000	1,532,427
PKO Bank Polski SA ¹⁾	10.07.2019	01.07.2022	4,000,000	4,000,000	3,990,562
Other bank 1	10.06.2019	13.06.2021	150,000	150,000	150,003
Other bank 2	27.12.2018	28.12.2020	100,000	100,000	100,003
Total			8,250,000	8,250,000	5,772,997

¹⁾ In accordance with an annex to the agreement of 10 July 2019 signed on 18 March 2020, the limit was increased by PLN 1,500,000 thousand to PLN 4,000,000 thousand. The amount of the increase may be used to redeem the Bank's own bonds redeemable in the first half of 2020 in the event of problems with refinancing the individual series of own bonds resulting from the situation on the financial market.

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 31 December 2019	Amount of loan drawn as at 31 December 2019	Liability as at 31 December 2019
PKO Bank Polski SA	29.10.2015	29.10.2022	2,000,000	2,000,000	1,579,996
PKO Bank Polski SA	02.02.2017	03.02.2023	1,500,000	1,500,000	692,404
PKO Bank Polski SA	10.07.2019	08.07.2022	1,000,000	1,000,000	-
Other bank 1	10.06.2019	12.06.2020	150,000	150,000	150,008
Other bank 2	27.12.2018	28.12.2020	100,000	100,000	100,007
Total			4,750,000	4,750,000	2,522,415



LIABILITY IN RESPECT OF THE PURCHASE OF RECEIVABLES

The line “Liability in respect of the purchase of receivables” represents the liability arising from the transactions of purchase of residential mortgage loan portfolios from PKO Bank Polski SA, as described in Note 13 “Loans and advances to customers”. The repayment date of the liability resulting from the purchase of receivables is agreed by the parties each time in the Receivables Sale Agreement. The parties agreed that the payment would be due no later than 18 months from the date of transfer. If the liability is not settled within 1 month from the date of transfer, the principal amount will be increased by interest. The liability resulting from the purchase of receivables as at 30 June 2020 concerns portfolios purchased in 2020, whereas as at 31 December 2019 the liability concerned portfolios purchased in 2019.

16. LIABILITIES IN RESPECT OF MORTGAGE COVERED BONDS ISSUED

LIABILITIES IN RESPECT OF MORTGAGE COVERED BONDS ISSUED	30.06.2020	31.12.2019
Measured at amortized cost		
mortgage covered bonds, including issued under:		
International Mortgage Covered Bonds Issue Programme	16,817,117	16,239,975
National Mortgage Covered Bonds Issue Programme	12,423,769	11,847,023
	4,393,348	4,392,952
Total	16,817,117	16,239,975

The Bank did not issue any mortgage covered bonds in the first half of 2020. In the first half of 2019, the Bank carried out one issue of green mortgage covered bonds denominated in PLN with a value of PLN 250,000 thousand and 3 issues of mortgage covered bonds denominated in EUR with a total value of EUR 700,000 thousand. The Bank did not redeem any mortgage covered bonds in the first half of 2020 and in 2019.

Domestic issues of mortgage covered bonds are listed on the parallel market of the Warsaw Stock Exchange and on BondSpot, and issues of foreign mortgage covered bonds are listed on the Luxembourg Stock Exchange and the Warsaw Stock Exchange (the WSE parallel market).

As at 30 June 2020 and 31 December 2019 the PLN- and EUR-denominated mortgage covered bonds issued by the Bank were rated by Moody’s Investors Service at Aa3, i.e. the highest level achievable by Polish securities. The limit for the ratings is the Polish country ceiling for debt instruments (i.e. the highest level which can be obtained in Poland), which currently is at the level of Aa3.

The total nominal value of the mortgage covered bonds issued as at 30 June 2020 amounted to PLN 16,796,014 thousand, and PLN 16,219,372 thousand as at 31 December 2019.

SECURING THE MORTGAGE COVERED BONDS

The mortgage covered bonds are secured with loans secured by the highest priority mortgage. Additionally, the mortgage covered bonds may also be issued based on the Bank’s own funds:

- invested in securities issued or guaranteed by the National Bank of Poland, the European Central Bank, governments and central banks of members of the European Union and/or the Organisation for Economic Cooperation and Development, excluding countries that are restructuring or have restructured their foreign debt in the past 5 years;
- deposited with the National Bank of Poland;
- held in cash.

The nominal value of loans entered in the Bank’s cover pool representing collateral for the mortgage covered bonds issued totalled PLN 22,665,649 thousand as at 30 June 2020, whereas the nominal value of additional collateral in the form of PLN-denominated securities issued by the State Treasury amounted to PLN 250 000 thousand. As at 31 December 2019, these amounts were PLN 21,662,027 thousand and PLN 250,000 thousand respectively. The Bank’s mortgage covered bonds cover pool also included CIRS and FX-Forward transactions hedging the currency and interest rate risk of mortgage covered bonds denominated in EUR and IRS transactions hedging the interest rate risk of fixed rate mortgage covered bonds issued in PLN.

In the first half of 2020 and in the previous years the Bank’s mortgage covered bonds cover pool did not include asset-backed securities (ABS), which do not meet the requirements specified in paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast).



17. LIABILITIES IN RESPECT OF BONDS ISSUED

LIABILITIES IN RESPECT OF BONDS ISSUED	30.06.2020	31.12.2019
Measured at amortized cost		
bonds, including bonds issued under:		
Non-Public Bond Issue Programme	2,557,648	4,060,026
Public Bond Issue Programme	2,042,326	3,380,932
an individual agreement	164,971	328,148
	350,351	350,946
Total	2,557,648	4,060,026

NON-PUBLIC BOND ISSUE PROGRAMME

In the first half of 2020, as part of the Non-Public Bond Issue Programme, the Bank issued bonds with a total nominal value of PLN 2,148,000 thousand (i.e. 4,296 bonds with PLN 500,000 nominal value each) and repurchased bonds with a total nominal value of PLN 3,500,000 thousand (i.e. 1,020 bonds with PLN 100,000 nominal value each, and 6,796 bonds with PLN 500,000 nominal value each). The figures for the first half of 2019 were the following: PLN 4,072,100 thousand (i.e. 40,721 bonds at PLN 100,000 nominal value each) and PLN 3,550,500 thousand (i.e. 35,505 bonds at PLN 100,000 nominal value each), respectively.

The above-mentioned issues of bonds are governed by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. In accordance with the Agreement, the maximum nominal value of bonds issued and not yet redeemed is PLN 4,000,000 thousand. At the same time, under the Underwriting Agreement, PKO Bank Polski SA as the Underwriter shall be obliged to take up the issuer's bonds up to the amount of PLN 2,000,000 thousand.

As at 30 June 2020, the Bank's liability in respect of bonds issued as part of the Non-Public Bond Issue Programme had a nominal value of PLN 2,048,000 thousand, and as at 31 December 2019 its nominal value was PLN 3,400,000 thousand. As at 30 June 2020 and 31 December 2019 PKO Bank Polski SA did not hold any bonds under the underwriting agreement.

PUBLIC BOND ISSUE PROGRAMME

On 11 April 2019 the Bank established a Public Bond Issue Programme, and as at 31 May 2019, the PFSA approved the Base Prospectus for the Issue of Bonds by PKO Bank Hipoteczny SA. In the first half of 2020, the Bank did not issue any bonds under this programme; however, it redeemed bonds with a total nominal value of PLN 161,500 thousand (i.e. 1,615 bonds of PLN 100,000 nominal value each). The Bank did not issue any bonds under this programme in the first half of 2019.

The bonds issued under the Public Bond Issue Programme are admitted to trading on the parallel market of the Warsaw Stock Exchange.

The total nominal value of the bonds issued as at 30 June 2020 was PLN 165,000 thousand, and as at 31 December 2019 it was PLN 326,500 thousand.

OTHER ISSUES OF UNSECURED BONDS

In the first half of 2020, PKO Bank Hipoteczny SA signed an agreement with a European financial institution for an issue of unsecured bonds based on a variable interest rate with a total nominal value of PLN 350,000 thousand (i.e. 350 bonds with a nominal value of PLN 1,000,000 each) and redemption date on 24 February 2021 and redeemed unsecured bonds with a total nominal value of PLN 350,000 thousand (i.e. 350 bonds with a nominal value of PLN 1,000,000 each).

The company's liability as at 30 June 2020 in respect of the bonds referred to above in nominal terms amounted to PLN 350,000 thousand.



18. OTHER LIABILITIES

OTHER LIABILITIES	30.06.2020	31.12.2019
Expenses to be paid	9,939	9,767
Liabilities in respect of contribution to the Bank Guarantee Fund, including:	30,335	7,984
in respect of contribution accrued by BGF / payable to BGF to the resolution fund	22,507	-
maintained in the form of payment commitments to the resolution fund	7,828	7,984
Other liabilities, including:	11,011	13,158
sundry creditors	3,153	5,295
settlements with the state budget, including:	7,858	7,863
liabilities in respect of tax on certain financial institutions	7,468	7,404
Lease liabilities	4,594	5,051
Total	55,879	35,960
including financial liabilities	17,686	20,113

As at 30 June 2020 and 31 December 2019, the Bank had no overdue contractual liabilities.

19. PROVISIONS

PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 JUNE 2020	Provision for disability and retirement benefits	Provision for loan commitments	Total
As at 1 January 2020, including:	154	140	294
Short-term provision	-	140	140
Long-term provision	154	-	154
Set-up/reassessment of provisions	15	49	64
Release/utilization	-	(114)	(114)
As at 30 June 2020, including:	169	75	244
Short-term provision	-	75	75
Long-term provision	169	-	169
PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 JUNE 2019	Provision for disability and retirement benefits	Provision for loan commitments	Total
As at 1 January 2019, including:	124	144	268
Short-term provision	-	144	144
Long-term provision	124	-	124
Set-up/reassessment of provisions	10	205	215
Release	-	(70)	(70)
As at 30 June 2019, including:	134	279	413
Short-term provision	-	279	279
Long-term provision	134	-	134



20. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.06.2020	31.12.2019
Share capital	1,611,300	1,611,300
Supplementary capital	250,733	161,563
Accumulated other comprehensive income, including:	165,119	137,990
cash flow hedges	161,878	134,421
measurement of financial assets measured at fair value through other comprehensive income	3,241	3,569
Net profit for the period	35,474	89,170
Total equity	2,062,626	2,000,023

SHAREHOLDING STRUCTURE

Series	Type of shares	Number of shares	Nominal value of 1 share (in PLN)	Series value at nominal value (in PLN)	Date of passing the resolution by GSM	Issue date	Date of registration in the National Court Register
A	ordinary registered	300,000,000	1	300,000,000	06.10.2014	06.10.2014	24.10.2014
B	ordinary registered	200,000,000	1	200,000,000	14.03.2016	07.04.2016	22.04.2016
C	ordinary registered	200,000,000	1	200,000,000	01.07.2016	15.07.2016	28.07.2016
D	ordinary registered	100,000,000	1	100,000,000	28.10.2016	18.11.2016	01.12.2016
E	ordinary registered	150,000,000	1	150,000,000	21.03.2017	04.04.2017	12.04.2017
F	ordinary registered	150,000,000	1	150,000,000	28.06.2017	04.07.2017	11.09.2017
G	ordinary registered	100,000,000	1	100,000,000	18.10.2017	20.10.2017	16.11.2017.
H	ordinary registered	95,000,000	1	95,000,000	13.08.2018	17.08.2018	08.10.2018
I	ordinary registered	100,000,000	1	100,000,000	19.12.2018	21.12.2018	21.02.2019
J	ordinary registered	131,500,000	1	131,500,000	07.03.2019	19.03.2019	16.05.2019
K	ordinary registered	84,800,000	1	84,800,000	27.06.2019	01.07.2019	20.08.2019
Total		1,611,300,000		1,611,300,000			

PKO Bank Polski SA was the Bank's sole shareholder as at 30 June 2020 and 31 December 2019.

As at 30 June 2020, the Bank's share capital amounted to PLN 1,611,300,000 and consisted of 1,611,300,000 ordinary registered shares with a nominal value of PLN 1 each. The PKO Bank Hipoteczny SA shares are non-preference shares and have been paid up in full.

The Bank did not pay dividend in the first half of 2020 and in 2019.



OTHER NOTES

21. CONTINGENT LIABILITIES GRANTED AND RECEIVED

21.1 CONTRACTUAL COMMITMENTS

As at 30 June 2020 and 31 December 2019 the Bank had no contractual commitments relating to the purchase of intangible assets and property, plant and equipment.

21.2 FINANCIAL LIABILITIES GRANTED

LOAN COMMITMENTS (CONTINGENT)	30.06.2020	31.12.2019
Undrawn residential loans (nominal value)		
residential loans to individuals	192,966	482,686
provisions for loan commitments	(75)	(140)
Total, net	192,891	482,546
including irrevocable loan commitments	-	-

Information on provisions on financial liabilities granted is provided in Note 19 "Provisions".

21.3 GUARANTEE COMMITMENTS GRANTED

PKO Bank Hipoteczny SA does not grant guarantee commitments.

21.4 CONTINGENT LIABILITIES RECEIVED

CONTINGENT COMMITMENTS RECEIVED AT THE NOMINAL VALUE	30.06.2020	31.12.2019
Contingent assets/commitments received		
financial	2,478,816	2,230,566
guarantees	2,000,000	2,000,000
Total	4,478,816	4,230,566

The contingent liabilities received of a financial nature represent initiated and available revolving current account overdraft facilities, while guarantee commitments received represent the available guarantees to underwrite bond issues.

RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK

As at 30 June 2020 and 31 December 2019 no collateral was established for the Bank, which the Bank would be entitled to sell or re-pledge, in the event of fulfilling all obligations by the owner of the collateral.

22. LEGAL CLAIMS

As at 30 June 2020 and 31 December 2019 there were no legal claims.



23. INFORMATION ABOUT LEASES

LEASES – LESSEE

LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT - LESSEE	2nd quarter 01.04.2020 - 30.06.2020	2 quarters cumulatively 01.01.2020 - 30.06.2020	2 quarters cumulatively 01.01.2019 - 30.06.2019	2 quarters cumulatively 01.01.2019 - 30.06.2019
Amortization of the right-of-use assets	(320)	(632)	(307)	(586)
real estate	(266)	(524)	(255)	(506)
cars	(54)	(108)	(52)	(80)
Interest expenses	(32)	(67)	(41)	(81)
Costs related to short-term lease contracts	-	-	(75)	(85)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(117)	(353)	(189)	(411)
Total	(469)	(1,052)	(612)	(1,163)

LEASES – LESSOR

The Bank does not conclude contracts in which it has the role of lessor.

24. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents	30.06.2020	31.12.2019
Cash and balances with the Central Bank	15	20
Amounts due from banks - current accounts	28	31
Total	43	51

As at 30 June 2020 and 31 December 2019 there were no cash and cash equivalents with restricted availability for use.

25. RELATED PARTY TRANSACTIONS

25.1 RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

PKO Bank Polski SA and PKO Bank Polski SA Group entities are the Bank's related parties.

Details of transactions with related parties with capital links were presented in note 37.1 of the PKO Bank Hipoteczny SA financial statements for the year ended 31 December 2019.

Furthermore, in the first half of 2020:

- In accordance with an annex to the Bond Issue Programme Agreement of 30 September 2015 signed on 11 February 2020, the maximum value of bonds issued and outstanding under the programme was increased by PLN 500,000 thousand to PLN 4,000,000 thousand;
- In accordance with an annex to the agreement of 10 July 2019 signed on 18 March 2020, the limit was increased by PLN 1,500,000 thousand to PLN 4,000,000 thousand. The amount of the increase may be used to redeem the Bank's own bonds redeemable in the first half of 2020 in the event of problems with refinancing the individual series of own bonds resulting from the situation on the financial market.



FINANCIAL INFORMATION

As AT 30 JUNE 2020

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	758,216	758,132
Total	758,216	758,132

ENTITY	LIABILITIES				
	Current account credit limits and overdrafts	Acquisition of receivables	Mortgage covered bonds and bonds	Other liabilities	including derivatives
PKO Bank Polski SA	5,531,938	155,039	53,097	8,867	813
PKO BP Finat Sp. z o.o.	-	-	-	17	-
PKO Leasing SA	-	-	-	458	-
PKO Towarzystwo Ubezpieczeń SA	-	-	97,187	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	64,839	-	-
PKO VC -fizan	-	-	33,904	-	-
Total	5,531,938	155,039	249,027	9,342	813

ENTITY	Loan commitments	Contingent commitments received
	PKO Bank Polski SA	-
Total	-	4,478,816

FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 JUNE 2020

ENTITY	Total revenues	including interest and commissions	Total costs	including interest and commissions	Net income/(expense) from financial instruments measured at fair value	Net foreign exchange gains/(losses)
PKO Bank Polski SA	1,230	1,116	160,696	145,549	29	581,555
PKO BP Finat Sp. z o.o.	-	-	101	-	-	-
PKO Leasing SA	-	-	168	6	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	2,450	2,450	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	577	577	-	-
PKO VC -fizan	-	-	323	323	-	-
Total	1,230	1,116	164,315	148,905	29	581,555



AS AT 31 DECEMBER 2019

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	173,515	173,275
Total	173,515	173,275

ENTITY	LIABILITIES				
	Current account credit limits and overdrafts	Acquisition of receivables	Mortgage covered bonds and bonds	Other liabilities	including derivatives
PKO Bank Polski SA	2,282,481	2,278,763	62,416	57,897	46,084
PKO BP Finat Sp. z o.o.	-	-	-	19	-
PKO Leasing SA	-	-	-	577	-
PKO Towarzystwo Ubezpieczeń SA	-	-	-	31	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	64,423	-	-
PKO VC -fizan	-	-	33,698	-	-
Total	2,282,481	2,278,763	160,537	58,524	46,084

ENTITY	Loan commitments	Contingent commitments received
PKO Bank Polski SA	-	4,230,566
Total	-	4,230,566

FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 JUNE 2019

ENTITY	Total revenues	including interest and commissions	Total costs	including interest and commissions	Net income/(expense) from financial instruments measured at fair value	Net foreign exchange gains/(losses)
PKO Bank Polski SA	1,041	816	156,320	144,555	33	(133,638)
PKO BP Finat Sp. z o.o.	-	-	101	-	-	-
PKO Leasing SA	-	-	163	6	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	1,478	1,478	-	-
PKO VC -fizan	-	-	364	364	-	-
Total	1,041	816	158,426	146,403	33	(133,638)

During the reporting period the Bank did not conclude any transactions with related parties other than on an arm's length basis.

25.2 RELATED-PARTY TRANSACTIONS – PERSONAL LINKS

As at 30 June 2020, 9 entities were related to the Bank through key management personnel of PKO Bank Hipoteczny SA or close relatives of key management personnel, of which only one had an active agreement with the Bank and received payments from the Bank for goods purchased. As at 31 December 2019, the Bank had 10 related entities. In 2019 the Bank had an active agreement with only one of these entities and made payments for the purchases of goods.



25.3 BENEFITS FOR PKO BANK HIPOTECZNY SA KEY MANAGEMENT PERSONNEL

FINANCIAL INFORMATION

COST OF REMUNERATION OF THE BANK'S MANAGEMENT BOARD AND SUPERVISORY BOARD	01.01.2020 - 30.06.2020	01.01.2019 - 30.06.2019
The Bank's Management Board¹⁾		
Short-term employee benefits ²⁾	873	1,155
Post-employment benefits	-	-
Long-term benefits ³⁾	182	224
Share-based payments settled in cash ⁴⁾	182	224
Total	1,237	1,603
The Bank's Supervisory Board (independent Supervisory Board members)		
Short-term employee benefits ²⁾	69	69
Total	69	69

¹⁾ Including the Management Board members who no longer perform their functions.

²⁾ Short-term employee benefits comprise: remuneration, social insurance contributions, Employee Social Plans, other benefits and the provision for non-deferred variable remuneration components, which are settled within 12 months of the end of a reporting period;

³⁾ Long-term benefits include provisions for deferred variable remuneration components granted in cash, which shall be payable more than 12 months after the end of the reporting period;

⁴⁾ Share-based payments settled in cash comprise cost of accruals for deferred variable remuneration components granted in the form of financial instruments, i.e. phantom shares. Phantom shares are converted into cash after the retention period.

LOANS AND ADVANCES GRANTED BY THE BANK TO ITS MANAGEMENT

The Bank did not grant any loans or advances to its management in the first half of 2020 and in 2019.

Under the Framework Agreement Concerning the Sale of Receivables entered into with PKO Bank Polski SA on 17 November 2015, the Bank purchased portfolios of residential mortgage loans comprising two loans granted to one of the members of the Bank's Supervisory Board. As at 30 June 2020, their carrying amount was PLN 603 thousand, and as at 31 December 2019 it was PLN 621 thousand. The interest rate and repayment terms are consistent with the arm's length principle.

26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

26.1 CATEGORIES OF FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

The classification of financial instruments and the methods for determining their fair value are described in the annual financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 30 JUNE 2020	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Derivative hedging instruments	11	758,132	-	758,132	-
CIRS		734,630	-	734,630	-
FX-Forward		159	-	159	-
IRS		23,343	-	23,343	-
Securities	12	1,240,478	1,240,478	-	-
measured at fair value through other comprehensive income		1,240,478	1,240,478	-	-
Total financial assets measured at fair value		1,998,610	1,240,478	758,132	-
Derivative hedging instruments	11	813	-	813	-
CIRS		-	-	-	-
FX-Forward		813	-	813	-
IRS		-	-	-	-
Total financial liabilities measured at fair value		813	-	813	-



ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31 DECEMBER 2019	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Derivative hedging instruments	11	173,275	-	173,275	-
CIRS		163,676	-	163,676	-
FX forward		382	-	382	-
IRS		9,217	-	9,217	-
Securities	12	1,240,161	1,240,161	-	-
measured at fair value through other comprehensive income		1,240,161	1,240,161	-	-
Total financial assets measured at fair value		1,413,436	1,240,161	173,275	-
Derivative hedging instruments	11	46,084	-	46,084	-
CIRS		45,237	-	45,237	-
FX forward		847	-	847	-
IRS		-	-	-	-
Total financial liabilities measured at fair value		46,084	-	46,084	-

In the first half of 2020, there were no changes to the measurement techniques or input data for the respective fair value hierarchy levels.

In the first half of 2020 and in the first half of 2019 there were no transfers between the different levels of fair value hierarchy.

26.2 Financial assets and financial liabilities not presented at fair value in the statement of financial position

The techniques of fair value measurement of financial assets and liabilities, which are not presented in the statement of financial position at the fair value, are described in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019.

FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 30 JUNE 2020	fair value hierarchy level	measurement method	30.06.2020	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	amount of consideration due	15	15
Amounts due from banks	2	discounted cash flows	28	28
Loans and advances to customers, including:			25,481,009	24,655,470
residential loans	3	discounted cash flows	25,481,009	24,655,470
Other financial assets	3	amount of consideration due taking into account impairment	62	62
Amounts due to banks	2	discounted cash flows	5,936,983	5,936,983
Amounts due to customers	2	discounted cash flows	4,765	4,765
Liabilities in respect of mortgage covered bonds issued	1.2	discounted cash flows, quotation on a regulated market	16,817,117	17,033,260
Liabilities in respect of bonds issued	2	discounted cash flows	2,557,648	2,557,648
Other financial liabilities	3	amount of consideration due	17,686	17,686



FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 31 DECEMBER 2019	fair value hierarchy level	measurement method	31.12.2019	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	amount of consideration due	20	20
Amounts due from banks	2	discounted cash flows	31	31
Loans and advances to customers, including:			25,821,070	25,138,514
residential loans	3	discounted cash flows	25,821,070	25,138,514
Other financial assets	3	amount of consideration due taking into account impairment	217	217
Amounts due to banks	2	discounted cash flows	4,811,259	4,811,259
Amounts due to customers	2	discounted cash flows	4,885	4,885
Liabilities in respect of mortgage covered bonds issued	1.2	discounted cash flows, quotation on a regulated market	16,239,975	16,452,033
Liabilities in respect of bonds issued	2	discounted cash flows	4,060,026	4,060,026
Other financial liabilities	3	amount of consideration due	20,113	20,113

27. OPERATING SEGMENTS

In the first half of 2020 and in 2019 the Bank did not analyse its operations by segments due to the specific nature of its operations.

OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

28. RISK MANAGEMENT AT PKO BANK HIPOTECZNY SA

Risk management at PKO Bank Hipoteczny SA is aimed at ensuring the financial stability of the Bank, safeguarding the value and security of the mortgage covered bonds issued and guaranteeing the safety of funds resulting from the issue of bonds and the other sources of financing of the Bank's operations. The assumed level of risk plays an important role in the planning process.

The risk management at PKO Bank Hipoteczny SA is described in detail in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019. The objectives and principles of risk management did not change significantly in the first half of 2020.

29. CREDIT RISK MANAGEMENT

29.1 MAXIMUM EXPOSURE TO CREDIT RISK

The following table presents the maximum exposure to credit risk with respect to financial instruments covered by the provisions of IFRS 7 to which the requirements of IFRS 9 relating to impairment do not apply.

MAXIMUM EXPOSURE TO CREDIT RISK	30.06.2020	31.12.2019
Derivative hedging instruments	758,132	173,275
Balance sheet exposure - total	758,132	173,275

29.2 AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.06.2020	31.12.2019
Amounts not overdue, not impaired (counterparty rating A2)	28	31
Total, gross	28	31
Allowances for expected credit losses	-	-
Total, net	28	31

29.3 SECURITIES

SECURITIES	30.06.2020	31.12.2019
Issued by the State Treasury, PLN Treasury bonds (rating A)	1,240,478	1,240,161
Total, gross	1,240,478	1,240,161
Allowances for expected credit losses	-	-
Total, net	1,240,478	1,240,161

29.4 LOANS AND ADVANCES TO CUSTOMERS

The loan portfolio is characterized by a low level of impaired exposures. At 30 June 2020, 105 impaired loans were recognized, and their share in the total loan portfolio amount was 0.09%, whereas as at 31 December 2019, 88 impaired loans were recognized, and their share in the total loan portfolio amount was 0.07%.

Due to the COVID-19 pandemic and its adverse impact on the financial situation of customers, the Bank expects the quality of its loan portfolio to deteriorate in the following reporting periods. Even though the Bank's knowledge about the impact of the pandemic on the macroeconomic situation is still incomplete, an additional write-down for a forecast deterioration in the quality of the loan portfolio of PLN 10,800 thousand was recognized in the first six months of 2020. The Bank considered the negative macroeconomic scenarios, whose base version assumes recession and increased unemployment. The COVID-19 pandemic does not affect the going concern principle.

In accordance with the methodology which is described in detail in Note 41.3 to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019, in the expected loss calculation the Bank takes into account the impact of macroeconomic scenarios on the values of the individual parameters. Three macroeconomic scenarios developed on the basis of forecasts prepared by the PKO Bank Polski SA Group are used for the purpose of calculating the expected loss (as in the case of the identification of an indication of a material increase in credit risk). The forecast ratios include: GDP growth rates, the unemployment rate and real estate price index. The additional write-down due to COVID-19 is a result of a significant deterioration in the macroeconomic projections in all three scenarios and a modification of the weights assigned to the individual scenarios – the base scenario was adopted with 75% probability, the optimistic scenario with a weight of 5%, and the pessimistic scenario with a weight of 20% (as at 31 December 2019: 80%/10%/10%, respectively).

LOANS AND ADVANCES TO CUSTOMERS	30.06.2020	31.12.2019
Loans not overdue, not impaired	25,418,786	25,728,434
Loans overdue, not impaired	101,185	117,439
Loans impaired	23,198	17,923
Total, gross	25,543,169	25,863,796
Allowances for loans not overdue, not impaired	(44,711)	(27,212)
Allowances for loans overdue, not impaired	(6,703)	(8,016)
Allowances for loans impaired	(10,746)	(7,498)
Total, net	25,481,009	25,821,070

Due to the COVID-19 pandemic, in the first half of 2020 the Bank allowed the customers to suspend up to 6 capital or capital-and-interest instalments on the terms and conditions adopted by the banking sector in cooperation with the Polish Bank Association. Taking advantage of the above-mentioned moratorium does not automatically change the classification of exposures to exposures under restructuring, unless they have been classified as such previously. Throughout the period of the moratorium and afterwards, the Bank shall assess the probability of default by debtors covered by the moratorium in accordance with the standard procedures, taking into account in particular the repayment delays occurring after the suspension period. As at 30 June 2020, the Bank identified 5.1% of the loan portfolio (the share in the number of loans) as covered by the moratorium defined above. The portfolio value is presented in the following table:

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO A MORATORIUM	30.06.2020
Loans not impaired, of which:	1,694,670
Loans and advances whose credit risk has increased materially since initial recognition (Stage 2)	136,076
Loans impaired	2,368
Total, gross	1,697,038
Allowances for not impaired loans, of which:	(14,143)
for loans whose credit risk has increased materially since initial recognition (Stage 2)	(12,411)
Allowances for impaired loans	(494)
Total, net	1,682,401

According to the criteria applied by the Bank in the first half of 2020 for assessing the changes in the estimated contractual cash flows, i.e. the modifications consistent with those described in Note 3.4.3 to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2019, the instalment suspensions described above were not significant modifications. Therefore, they did not result in derecognition of an existing financial asset and a subsequent recognition of a new modified financial asset.

Since the repayment of loan instalments may be suspended, the Bank does not identify an increase in overdue loans associated with the COVID-19 pandemic. The present structure of overdue loans is presented below:



LOANS AND ADVANCES TO CUSTOMERS, NOT IMPAIRED	30.06.2020	31.12.2019
not overdue	25,418,786	25,728,434
up to 30 days overdue	96,546	107,093
from 31 to 60 days overdue	3,035	8,406
from 61 to 90 days overdue	1,604	1,940
Total, gross	25,519,971	25,845,873

Moreover, on 24 June 2020 the Bank gave customers the possibility to suspend the performance of a loan agreement based on the Act on subsidization of interest on bank loans granted to entities affected by COVID-19 and a simplified arrangement approval procedure due to COVID-19 of 19 June 2020 ("the Shield 4.0"). There were no such suspensions as at 30 June 2020.

LOAN PORTFOLIO AND FINANCIAL LIABILITIES GRANTED BY PD RANGE

The PD parameter presented in the following tables defines the probability of default over a 12-month horizon. In the first half of 2020, a part of the loan portfolio shifted towards higher PD ranges and the Stage 2 portfolio increased, reflecting a deterioration in the macroeconomic forecasts due to COVID-19, which directly affected PD.

LOANS AND ADVANCES TO CUSTOMERS		30.06.2020			
PD RANGE	Stage 1	Stage 2	Stage 3	Total, gross	
<0.01%	221,365	86	-	221,451	
0.01% - 0.02%	1,838,337	2,171	-	1,840,508	
0.02% - 0.05%	6,485,879	5,423	-	6,491,302	
0.05% - 0.1%	5,648,217	6,546	-	5,654,763	
0.1% - 0.3%	7,956,987	5,974	-	7,962,961	
0.3% - 1.0%	2,477,351	191,911	-	2,669,262	
1.0% - 10%	314,693	251,818	-	566,511	
10% - 100%	-	113,213	23,198	136,411	
Total gross amount	24,942,829	577,142	23,198	25,543,169	

LOANS AND ADVANCES TO CUSTOMERS		31.12.2019			
PD RANGE	Stage 1	Stage 2	Stage 3	Total, gross	
<0.01%	764,248	609	-	764,857	
0.01% - 0.02%	3,329,464	2,525	-	3,331,989	
0.02% - 0.05%	7,219,473	3,198	-	7,222,671	
0.05% - 0.1%	6,027,817	2,188	-	6,030,005	
0.1% - 0.3%	6,447,869	3,233	-	6,451,102	
0.3% - 1.0%	1,517,342	85,740	-	1,603,082	
1.0% - 10%	187,143	200,619	-	387,762	
10% - 100%	11,439	42,966	17,923	72,328	
Total gross amount	25,504,795	341,078	17,923	25,863,796	

LOAN COMMITMENTS		30.06.2020			
PD RANGE	Stage 1	Stage 2	Stage 3	Total	
<0.01%	2,550	-	-	2,550	
0.01% - 0.02%	18,123	-	-	18,123	
0.02% - 0.05%	61,629	-	-	61,629	
0.05% - 0.1%	38,132	-	-	38,132	
0.1% - 0.3%	58,427	-	-	58,427	
0.3% - 1.0%	12,255	882	-	13,137	
1.0% - 10%	968	-	-	968	
10% - 100%	-	-	-	-	
Total nominal amount	192,084	882	-	192,966	



LOAN COMMITMENTS		31.12.2019		
PD RANGE	Stage 1	Stage 2	Stage 3	Total
<0.01%	25,661	-	-	25,661
0.01% - 0.02%	70,390	29	-	70,419
0.02% - 0.05%	100,533	-	-	100,533
0.05% - 0.1%	206,437	-	-	206,437
0.1% - 0.3%	59,841	-	-	59,841
0.3% - 1.0%	19,324	49	-	19,373
1.0% - 10%	50	372	-	422
10% - 100%	-	-	-	-
Total nominal amount	482,236	450	-	482,686

29.5 FORBEARANCE PRACTICES

EXPOSURES SUBJECT TO FORBEARANCE IN THE LOAN PORTFOLIO	30.06.2020	31.12.2019
Gross loans and advances to customers, including: subject to forbearance	25,543,169 5,589	25,863,796 4,469
Allowances for expected credit losses, of which: on loans and advances subject to forbearance	(62,160) (1,018)	(42,726) (953)
Net loans and advances to customers, including: subject to forbearance	25,481,009 4,571	25,821,070 3,516

30. CONCENTRATION RISK MANAGEMENT

The following table presents the loans and advances exposure concentrations measured with the share of the largest exposures in the Bank's total loan portfolio.

GROSS LOANS AND ADVANCES TO CUSTOMERS - CONCENTRATION RATIO	30.06.2020	31.12.2019
10 largest exposures	0.05%	0.05%
20 largest exposures	0.09%	0.09%
50 largest exposures	0.21%	0.21%
100 largest exposures	0.40%	0.39%

31. RESIDUAL RISK MANAGEMENT

The following table presents the concentration ratio for the portfolio of loans and advances measured in terms of LTV based on market valuation.

GROSS LOANS BY LTV BASED ON MARKET VALUATION	30.06.2020	31.12.2019
below 50%	40%	34%
51% - 60%	23%	21%
61% - 70%	21%	22%
71% - 80%	12%	16%
81% - 90%	4%	7%
Total	100%	100%
Average LTV based on market valuation	53%	56%



The following table presents the concentration ratio for the portfolio of loans and advances by geographical region in which the real estate put up as collateral for the loan is located.

GROSS LOANS AND ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL REGION	30.06.2020	31.12.2019
mazowiecki	24.0%	23.7%
śląsko-opolski	11.7%	11.7%
dolnośląski	10.7%	10.7%
wielkopolski	9.2%	9.2%
pomorski	8.3%	8.2%
małopolsko-świętokrzyski	8.1%	8.1%
lubelsko-podkarpacki	6.4%	6.5%
zachodnio-pomorski i lubuski	6.2%	6.3%
łódzki	4.9%	4.9%
kujawsko-pomorski	4.7%	4.8%
warmińsko-mazurski	3.3%	3.4%
podlaski	2.5%	2.5%
Total	100.0%	100.0%

32. LIQUIDITY RISK MANAGEMENT

32.1 LIQUIDITY RISK MEASUREMENT AND ASSESSMENT

The Bank applies the following liquidity risk measures:

- contractual, adjusted and stress-test liquidity gap;
- liquidity surplus and survival horizon;
- regulatory liquidity measures:
 - M3 – Non-liquid assets to own funds;
 - M4 – Non-liquid assets and assets with limited liquidity to own funds and stable external funds ratio;
- short-term liquidity measure:
 - Liquidity coverage ratio (LCR) – the coverage ratio of net outflows up to 1 month;
- the concentration of funding sources;
- coverage ratio of long-term assets with long-term funding;
- liquidity stress tests.

The adjusted liquidity gaps as at 30 June 2020 and as at 31 December 2019 are presented below.

LIQUIDITY GAP AS AT 30.06.2020	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24-60 months	over 60 months
Adjusted periodic gap	2,469,421	796,873	118,738	101,214	(926,973)	(7,236,371)	(13,141,407)	17,818,505
Adjusted cumulative periodic gap	2,469,421	3,266,294	3,385,032	3,486,246	2,559,273	(4,677,098)	(17,818,505)	-

As at 30 June 2020, in the ranges of up to 12 months, the cumulative adjusted liquidity gap was positive, which means a surplus of maturing assets increased by estimated inflows from available overdraft limit over mature liabilities in the short and medium term.

LIQUIDITY GAP AS AT 31.12.2019	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24-60 months	over 60 months
Adjusted periodic gap	1,230,618	839,626	41,062	(1,899,479)	(1,775,357)	(5,072,776)	(11,849,070)	18,485,376
Adjusted cumulative periodic gap	1,230,618	2,070,244	2,111,306	211,827	(1,563,530)	(6,636,306)	(18,485,376)	-

The liquidity surplus is determined taking account of outflows of funds under stress conditions. The survival horizon means the time during which the Bank has a surplus of inflows over outflows under stress conditions.



The liquidity surplus consists of liquid assets (comprising the main part aimed at providing protection against the most acute crises and the supplementary part providing protection against less acute, but longer lasting crises) adjusted for net stress test outflows (outflows less inflows) over a 30-day horizon:

SENSITIVITY MEASURE	30.06.2020	31.12.2019
Excess liquidity in the horizon of up to 1 month	2,902,582	1,605,939

The Bank monitors all liquidity standards specified in the PFSA Resolution 386/2008 dated 17 December 2008. The values of liquidity standards binding as at the end of the reporting periods ended 30 June 2020 and 31 December 2019 and the average, minimum and maximum values during these reporting periods are shown in the following table:

30.06.2020	as at the end of the period	average during the period	minimum for the period	maximum for the period	regulatory minimum
M3	391.50	354.24	308.74	391.50	>1.0
M4	1.06	1.05	1.03	1.07	>1.0

31.12.2019	as at the end of the period	average during the period	minimum for the period	maximum for the period	regulatory minimum
M3	331.27	306.32	145.75	1,807.65	>1.0
M4	1.03	1.03	1.03	1.05	>1.0

The liquidity coverage ratio (LCR) of net outflows up to 1 month is shown in the following table:

SENSITIVITY MEASURE	30.06.2020	31.12.2019
Liquidity coverage ratio up to 1 month (LCR)	2305%	163%
LCR regulatory limit	100%	100%

32.2 LIQUIDITY RISK CONTROL

The liquidity risk control consists of determining strategic tolerance limits appropriate for the scale and complexity of the Bank, and internal limits for short-, medium-, and long-term liquidity risk, which are monitored, and if overrun, the Bank initiates management actions.

32.3 LIQUIDITY RISK FORECASTING AND MONITORING

The liquidity risk exposure of PKO Bank Hipoteczny SA as at 30 June 2020 and 31 December 2019 was within the strategic and internal limits set. In the first half of 2020 and in 2019 the Bank did not exceed any of the liquidity standards nor any strategic or internal limits.

The Bank regularly reviews the business assumptions which may have a material impact on the projections of liquidity risk measures. Forecasts of the basic liquidity risk measures are prepared periodically and on an on-going basis and these are juxtaposed with the internal limits.

32.4 LIQUIDITY GAP IN THE PRESENTATION OF CONTRACTUAL CASH FLOWS

Liquidity gap in the presentation of contractual cash flows is a mismatch between the inflows and outflows classified in a given range. In the calculation of liquidity gap relating to cash flows the Bank takes into account all instruments concluded as at the balance sheet date. An increase in the amount of loans granted or rolling over of financing for a consecutive period is not taken into account. It is assumed that the funds available under the existing credit lines will be utilized.

30.06.2020	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24-60 months	over 60 months	Total
Inflows	2,469,421	159,321	278,716	427,165	1,035,407	1,729,659	5,786,967	25,376,690	37,263,346
securities	-	8,368	-	1,045	174,840	3,355	701,925	381,876	1,271,409
loans and advances to customers	-	141,515	278,716	426,120	860,567	1,726,304	5,085,042	24,994,814	33,513,078
credit lines	2,469,378	9,438	-	-	-	-	-	-	2,478,816
other	43	-	-	-	-	-	-	-	43
Outflows	9,717	714,525	218,665	1,382,888	1,706,363	6,679,538	17,167,216	570,413	28,449,325
amounts due to banks	9,717	9,104	8,265	103,977	170,824	186,264	8,014,562	-	8,502,713
liabilities in respect of mortgage-covered bonds issued	-	6,414	31,219	46,749	1,053,132	6,320,078	9,152,614	570,413	17,180,619
liabilities in respect of bonds issued	-	634,348	122,427	1,192,236	453,636	165,541	-	-	2,568,188
disbursement of loan commitments	-	59,819	56,754	39,926	28,771	7,655	40	-	192,965
other	-	4,840	-	-	-	-	-	-	4,840
Inflows from derivative hedging instruments	-	68	26,567	8,888	39,823	5,429,601	7,160,721	8,370	12,674,038
Outflows on derivative hedging instruments	-	15,054	23,231	92,390	190,348	5,525,354	7,107,057	8,012	12,961,446
Periodic gap	2,459,704	(570,190)	63,387	(1,039,225)	(821,481)	(5,045,632)	(11,326,585)	24,806,635	8,526,613
Cumulative gap	2,459,704	1,889,514	1,952,901	913,676	92,195	(4,953,437)	(16,280,022)	8,526,613	
31.12.2019	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24-60 months	over 60 months	Total
Inflows	1,230,617	324,459	805,992	466,029	951,151	2,090,996	6,188,933	28,931,264	40,989,441
securities	-	168,267	-	1,280	9,806	190,568	566,007	388,754	1,324,682
loans and advances to customers	-	156,192	305,992	464,749	941,345	1,900,428	5,622,926	28,542,510	37,934,142
credit lines	1,230,566	-	500,000	-	-	-	-	-	1,730,566
other	51	-	-	-	-	-	-	-	51
Outflows	5,167	1,003,723	798,562	2,750,597	2,387,780	4,439,653	15,912,104	810,655	28,108,241
amounts due to banks	5,167	10,370	9,780	162,269	2,186,462	276,384	4,046,808	-	6,697,240
liabilities in respect of mortgage-covered bonds issued	-	40,967	12,601	27,360	112,319	3,967,011	11,864,800	810,655	16,835,713
liabilities in respect of bonds issued	-	797,728	654,564	2,464,978	2,028	168,279	-	-	4,087,577
disbursement of loan commitments	-	149,633	121,617	95,990	86,971	27,979	496	-	482,686
other	-	5,025	-	-	-	-	-	-	5,025
Inflows from derivative hedging instruments	-	30,274	873	6,883	34,275	2,626,435	9,417,809	8,370	12,124,919
Outflows on derivative hedging instruments	-	26,415	46,277	87,886	181,515	2,963,035	9,858,376	9,166	13,172,670
Periodic gap	1,225,450	(675,405)	(37,974)	(2,365,571)	(1,583,869)	(2,685,257)	(10,163,738)	28,119,813	11,833,449
Cumulative gap	1,225,450	550,045	512,071	(1,853,500)	(3,437,369)	(6,122,626)	(16,286,364)	11,833,449	



32.5 CONCENTRATION OF FUNDING SOURCES

The Bank recognizes the risk of concentration of funding sources, as an element of liquidity risk, determined by circumstances under which the funding structure becomes susceptible to the occurrence of individual events or single factors, such as sudden significant withdrawal of funds or insufficient access to new funding.

The table below presents the structure of the Bank's funding sources:

STRUCTURE OF THE BANK'S FUNDING	30.06.2020	31.12.2019
Mortgage covered bonds issued	61.2%	59.6%
Funds from the parent entity	20.7%	16.7%
Bonds issued	9.3%	14.9%
Equity	7.5%	7.3%
Other	1.3%	1.5%
Total	100.0%	100.0%

The share of funding raised from the parent entity amounted to 20.7% as at 30 June 2020 (16.7% as at 31 December 2019). The increase is due to declining share of own bonds issued, which were replaced with funding provided by the parent entity due to the temporary problems with rolling over a part of the issues maturing in the first half of 2020 due to the COVID-19 pandemic. The Bank plans to rebuild the share of bonds issued in subsequent quarters. The funding concentration risk is assessed as acceptable.

Seeking to reduce the concentration risk of funding sources, the Bank has implemented a system of internal limits, both short- and long-terms, taking into account the dates of mortgage covered bond issues carried out by the Bank. None of these limits were exceeded in the first half of 2020 and in 2019.

33. INTEREST RATE RISK MANAGEMENT

33.1 INTEREST RATE RISK MEASUREMENT AND ASSESSMENT

The repricing gap report presented below includes assets, liabilities and financial liabilities granted which are sensitive to changes in interest rates. They do not include contingent liabilities which are insensitive to interest rate risk, the Bank's own funds, amounts due from banks in the form of current account balances and current account overdrafts.

30.06.2020	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:	8,727,861	15,772,654	2,011,771	3,446	5,998	108,140	-	26,629,870
securities	935,000	-	303,000	-	-	-	-	1,238,000
loans and advances to customers	7,792,861	15,772,654	1,708,771	3,446	5,998	108,140	-	25,391,870
Liabilities	(6,894,564)	(4,360,622)	(1,191,000)	(102,000)	(5,624,200)	(7,051,814)	(60,000)	(25,284,200)
amounts due to banks	(4,140,564)	(1,784,622)	-	-	-	-	-	(5,925,186)
liabilities in respect of mortgage covered bonds issued	(2,030,000)	(2,030,000)	-	-	(5,624,200)	(7,051,814)	(60,000)	(16,796,014)
liabilities in respect of bonds issued	(724,000)	(546,000)	(1,191,000)	(102,000)	-	-	-	(2,563,000)
Active positions on derivative hedging instruments	-	302	768	2,479	5,622,871	7,051,984	60,000	12,738,404
Passive positions on derivative hedging instruments	(4,232,131)	(7,956,847)	(770)	(2,375)	(9,723)	(5,692)	-	(12,207,538)
Periodic gap	(2,398,834)	3,455,487	820,769	(98,450)	(5,054)	102,618	-	1,876,536
Cumulative gap	(2,398,834)	1,056,653	1,877,422	1,778,972	1,773,918	1,876,536	1,876,536	

31.12.2019	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:	8,997,175	16,188,124	1,722,523	3,928	6,544	25,274	-	26,943,568
securities	1,093,480	-	143,000	-	-	-	-	1,236,480
loans and advances to customers	7,903,695	16,188,124	1,579,523	3,928	6,544	25,274	-	25,707,088
Liabilities	(5,710,816)	(4,726,662)	(2,464,000)	-	(2,820,100)	(9,279,272)	(60,000)	(25,060,850)
amounts due to banks	(2,795,316)	(1,969,662)	-	-	-	-	-	(4,764,978)
liabilities in respect of mortgage-covered bonds issued	(2,030,000)	(2,030,000)	-	-	(2,820,100)	(9,279,272)	(60,000)	(16,219,372)
liabilities in respect of bonds issued	(885,500)	(727,000)	(2,464,000)	-	-	-	-	(4,076,500)
Active positions on derivative hedging instruments	507	-	1,914	1,059	2,822,610	9,278,223	60,000	12,164,313
Passive positions on derivative hedging instruments	(4,232,621)	(7,956,551)	(1,775)	(1,028)	(3,780)	(13,816)	-	(12,209,571)
Periodic gap	(945,755)	3,504,911	(741,338)	3,959	5,274	10,409	-	1,837,460
Cumulative gap	(945,755)	2,559,156	1,817,818	1,821,777	1,827,051	1,837,460	1,837,460	

34. FOREIGN EXCHANGE RISK MANAGEMENT

The following table presents the Bank's foreign currency position.

FOREIGN CURRENCY POSITION EXPRESSED IN PLN '000	30.06.2020	31.12.2019
EUR	35	86
USD	2	4

The foreign exchange risk exposure of PKO Bank Hipoteczny SA as at 30 June 2020 and 31 December 2019 was within the strategic and internal limits set.

35. OPERATIONAL RISK MANAGEMENT

In the six-month period ended 30 June 2020, 16 operational risk incidents were disclosed at the Bank, which generated financial losses totalling PLN 10 thousand. In the six-month period ended 30 June 2019, there were 6 incidents and the financial loss amounted to PLN 1 thousand.

In order to limit the losses arising from operational risk, the Bank applies ad hoc and systemic management measures. Ad hoc measures include a direct response to the identified risks, eliminating reversible irregularities and recovering losses.

36. CAPITAL ADEQUACY AND THE MANAGEMENT OF CAPITAL RISK

At 30 June 2020, the total capital ratio of the Bank amounted to 17.5% (as at 31 December 2019: 16.6%). If the temporary solutions resulting from the implementation of IFRS 9 were not taken into account, the total capital ratio of the Bank would amount to 17.3% (as at 31 December 2019: 16.5%).

On 19 March 2020, the Minister of Finance signed a regulation on revoking the systemic risk buffer which amounted to 3%, decreasing the regulatory requirement relating to the total capital ratio (TCR) to 10.5%.



36.1 OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

The Bank's own funds for capital adequacy purposes have been calculated in accordance with the Banking Law and the CRR with implementing legislation.

The Bank's own funds consist entirely of common equity Tier 1 capital (CET 1). In determining its own funds, the Bank makes use of the transitional provisions following from the implementation of IFRS 9.

BANK'S OWN FUNDS	30.06.2020	31.12.2019
Share capital	1,611,300	1,611,300
Supplementary capital	250,733	161,563
Net profit for the period	35,474	89,170
Accumulated other comprehensive income - cash flow hedges	161,878	134,421
Accumulated other comprehensive income - financial assets measured at fair value through other comprehensive income	3,241	3,569
Equity	2,062,626	2,000,023
Equity adjustments	(183,102)	(179,243)
Net profit for the period	(35,474)	(89,170)
Current profit, included by permission from the PFSA	-	30,629
Accumulated other comprehensive income - cash flow hedges	(161,878)	(134,421)
Intangible assets	(1,634)	(2,395)
Adjustment to assets measured at fair value (AVA)	(1,771)	(1,360)
Adjustment relating to the transitional period for IFRS 9 implementation	17,655	17,474
Own funds	1,879,524	1,820,780

As at 30 June 2020, the Bank's own funds, the common equity Tier 1 and Tier 1 capital would amount to PLN 1,861,869 thousand without taking into account the transitional solutions, whereas as at 31 December 2019 they would amount to PLN 1,803,306 thousand.

36.2 FINANCIAL LEVERAGE

The financial leverage ratio is monitored on a monthly basis, whereas the Bank recognizes a ratio in excess of 5% to be safe and not requiring further action.

LEVERAGE	30.06.2020	31.12.2019
Leverage ratio (LR)	7.0%	6.7%

As at 30 June 2020 and as at 31 December 2019, the Bank's financial leverage ratio was above the 3% level recommended for banks by the Basel Committee.

As at 30 June 2020, the leverage ratio without taking into account the transitional solutions following from the implementation of IFRS 9 would amount to 6.9%, and as at 31 December 2019 it would amount to 6.6%.

36.3 REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)

In accordance with the CRR, the Bank calculates requirements in respect of own funds for the following risk types:

- credit risk - according to the standardized approach;
- credit valuation adjustment (CVA) risk - according to the standardized approach;
- settlement and delivery risk - according to the standardized approach;
- operational risk- using the basic indicator approach (BIA);
- market risk (foreign exchange risk only) - according to basic methods.



As at 30 June 2020 and as at 31 December 2019, the own fund requirements in respect of the risk of credit valuation adjustment, settlement and delivery, and market risk were nil, therefore, the total requirement in respect of own funds comprised the requirements in respect of credit and operational risk.

OWN FUNDS REQUIREMENTS	30.06.2020	31.12.2019
Credit risk	824,613	854,550
Operational risk	35,171	22,695
Total own funds requirement	859,784	877,245
Common Equity Tier 1 capital ratio (CET 1)	17.5%	16.6%
Tier 1 capital ratio (T 1)	17.5%	16.6%
Total capital ratio (TCR)	17.5%	16.6%



EVENTS AFTER THE END OF THE REPORTING PERIOD

37. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 July 2020, the Polish Financial Supervision Authority granted approval to the amendment of the Articles of Association resulting from a resolution of the Extraordinary General Shareholders' Meeting of PKO Bank Hipoteczny SA dated 5 June 2020 on changing the Bank's registered office. The new registered office of the Bank will be Warsaw, and its new address will be ul. Puławska 15, 02-515 Warsaw. The Bank is currently preparing an application to the District Court Gdańsk-Północ in Gdańsk for registration of the amendment to the Articles of Association in the Register of Businesses of the National Court Register.

Signatures of all Members of the Bank's Management Board

31.07.2020	Paulina Strugała	President of the Management Board	<i>Signed on Polish original</i> (signature)
31.07.2020	Piotr Kochanek	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)
31.07.2020	Agnieszka Krawczyk	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)

Signature of the person in charge of maintaining the accounting records

31.07.2020

Tomasz Rynkowski
Director, the Bank's Chief Accountant

Signed on Polish original

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(signature)