

## SELECTED FINANCIAL DATA RELATING TO THE FINANCIAL STATEMENTS



SELECTED FINANCIAL DATA	in PLN'000		in EUR'000	
	period from 01.01.2019 to 30.09.2019	period from 01.01.2018 to 30.09.2018	period from 01.01.2019 to 30.09.2019	period from 01.01.2018 to 30.09.2018
Net interest income	233,363	182,614	54,162	42,933
Net fee and commission income	(3,901)	(3,561)	(905)	(837)
Operating profit	99,944	86,314	23,196	20,292
<b>Profit before income tax</b>	<b>99,944</b>	<b>86,314</b>	<b>23,196</b>	<b>20,292</b>
<b>Net profit</b>	<b>65,154</b>	<b>60,453</b>	<b>15,122</b>	<b>14,213</b>
Net earnings per share – basic (in PLN/EUR)	0.04	0.05	0.01	0.01
Net earnings per share – diluted (in PLN/EUR)	0.04	0.05	0.01	0.01
<b>Total net comprehensive income</b>	<b>187,484</b>	<b>81,318</b>	<b>43,514</b>	<b>19,118</b>
Net cash used in operating activities	(3,796,795)	(4,131,771)	(881,213)	(971,381)
Net cash used in investing activities	(328,584)	4,512	(76,262)	1,061
Net cash used in financing activities	4,125,379	4,121,404	957,475	968,944
<b>Total net cash flows</b>	<b>-</b>	<b>(5,855)</b>	<b>-</b>	<b>(1,376)</b>

SELECTED FINANCIAL DATA	in PLN'000		in EUR'000	
	as at 30.09.2019	as at 31.12.2018	as at 30.09.2019	as at 31.12.2018
Total assets	27,094,441	22,103,134	6,194,998	5,140,264
Total equity	2,024,236	1,487,883	462,831	346,019
Share capital	1,611,300	1,295,000	368,415	301,163
Number of shares (in thousands)	1,611,300	1,295,000	1,611,300	1,295,000
Book value per share (in PLN/EUR)	1.26	1.15	0.29	0.27
Diluted number of shares (in thousands)	1,611,300	1,295,000	1,611,300	1,295,000
Diluted book value per share (in PLN/EUR)	1.26	1.15	0.29	0.27
Total capital ratio (TCR)	16.4%	15.2%	16.4%	15.2%
Common equity Tier 1 (CET1)	1,819,069	1,393,847	415,920	324,150
Total own funds	1,819,069	1,393,847	415,920	324,150

Selected consolidated 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 items – the average of the NBP exchange rates prevailing as at the last day of each month of the reporting period	01.01.2019 – 30.09.2019	01.01.2018 – 30.09.2018
	4.3086	4.2535
items of the statement of financial position – the average NBP exchange rate as the last day of the reporting period	30.09.2019	31.12.2018
	4.3736	4.3000



Condensed interim  
financial statements  
of PKO Bank Hipoteczny SA  
for the nine-month period ended  
30 September 2019



## TABLE OF CONTENTS

INCOME STATEMENT.....	3
STATEMENT OF COMPREHENSIVE INCOME.....	4
STATEMENT OF FINANCIAL POSITION.....	5
STATEMENT OF CHANGES IN EQUITY .....	6
STATEMENT OF CASH FLOWS.....	7
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS.....	9



## INCOME STATEMENT

INCOME STATEMENT	Note	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Interest income, including:	4	226,989	631,226	175,517	482,399
Interest income recognized under the effective interest rate method		226,585	630,042	175,209	481,623
Income similar to interest income on instruments measured at fair value through profit or loss		404	1,184	308	776
Interest expense	4	(143,944)	(397,863)	(112,404)	(299,785)
<b>Net interest income</b>		<b>83,045</b>	<b>233,363</b>	<b>63,113</b>	<b>182,614</b>
Fee and commission income	5	4,052	11,888	3,918	10,834
Fee and commission expense	5	(5,537)	(15,789)	(5,165)	(14,395)
<b>Net fee and commission income</b>		<b>(1,485)</b>	<b>(3,901)</b>	<b>(1,247)</b>	<b>(3,561)</b>
Net gain/(loss) in financial instruments measured at fair value through profit or loss		16	49	13	37
Net foreign exchange gains / (losses)	6	5,353	3,458	(6,537)	(2,547)
Net gain / (loss) on modification		(19)	351	(79)	(336)
Net credit losses	7	(4,316)	(9,996)	(2,285)	(6,730)
Other operating income		103	427	103	405
Other operating expenses		(85)	(391)	(80)	(381)
<b>Net other operating income and expense</b>		<b>18</b>	<b>36</b>	<b>23</b>	<b>24</b>
Administrative expenses	8	(12,879)	(37,916)	(11,403)	(33,259)
Net regulatory charges	9	(95)	(24,578)	83	(6,302)
Tax on certain financial institutions		(21,873)	(60,922)	(16,199)	(43,626)
<b>Operating profit</b>		<b>47,765</b>	<b>99,944</b>	<b>25,482</b>	<b>86,314</b>
<b>Profit before income tax</b>		<b>47,765</b>	<b>99,944</b>	<b>25,482</b>	<b>86,314</b>
Income tax expense	10	(13,240)	(34,790)	(7,617)	(25,861)
<b>Net profit</b>		<b>34,525</b>	<b>65,154</b>	<b>17,865</b>	<b>60,453</b>
Earnings per share - basic (PLN)		0.02	0.04	0.01	0.05
Earnings per share - diluted (PLN)		0.02	0.04	0.01	0.05
Weighted average number of ordinary shares during the period (in thousands)		1,565,213	1,455,837	1,200,000	1,200,000
Weighted average diluted number of ordinary shares during the period (in thousands)		1,565,213	1,455,837	1,200,000	1,200,000



## STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
<b>Net profit</b>		34,525	65,154	17,865	60,453
<b>Other comprehensive income</b>		34,186	122,330	(19,441)	20,865
<b>Items which may be reclassified to profit or loss</b>		34,186	122,330	(19,441)	20,865
Cash flow hedges (gross)		42,612	153,537	(23,358)	23,693
Deferred tax		(8,095)	(29,171)	4,439	(4,501)
Cash flow hedges (net)	11	34,517	124,366	(18,919)	19,192
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)		(408)	(2,513)	(644)	2,066
Deferred tax		77	477	122	(393)
Remeasurement of financial assets measured at fair value through other comprehensive income (net)		(331)	(2,036)	(522)	1,673
<b>Total net comprehensive income</b>		<b>68,711</b>	<b>187,484</b>	<b>(1,576)</b>	<b>81,318</b>



## STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Note	30.09.2019	31.12.2018
<b>ASSETS</b>			
Cash and balances with the Central Bank		14	6
Amounts due from banks		14	22
measured at amortized cost		14	22
Derivative hedging instruments	11	503,349	168,289
Securities	12	1,184,174	842,965
measured at fair value through other comprehensive income		1,184,174	842,965
Loans and advances to customers	13, 14	25,384,489	21,070,469
measured at amortized cost		25,384,489	21,070,469
Intangible assets		2,841	4,165
Property, plant and equipment		5,592	449
Other assets		13,968	16,769
<b>TOTAL ASSETS</b>		<b>27,094,441</b>	<b>22,103,134</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to banks	15	4,738,592	4,292,286
measured at amortized cost		4,738,592	4,292,286
Derivative hedging instruments	11	481	15,254
Amounts due to customers		4,527	4,359
measured at amortized cost		4,527	4,359
Mortgage covered bonds issued	16	16,297,661	12,841,500
measured at amortized cost		16,297,661	12,841,500
Unsecured bonds issued	17	3,918,826	3,311,148
measured at amortized cost		3,918,826	3,311,148
Other liabilities	18	37,445	121,974
Current income tax liabilities		17,112	3,159
Deferred income tax provision		55,243	25,303
Provisions	19	318	268
<b>TOTAL LIABILITIES</b>		<b>25,070,205</b>	<b>20,615,251</b>
<b>Equity</b>			
Share capital	20	1,611,300	1,295,000
Supplementary capital		161,563	54,932
Accumulated other comprehensive income		186,219	63,889
Retained earnings		-	(11,787)
Net profit for the period		65,154	85,849
<b>TOTAL EQUITY</b>		<b>2,024,236</b>	<b>1,487,883</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>27,094,441</b>	<b>22,103,134</b>
Total capital ratio (TCR)	36	16.4%	15.2%
Book value (in PLN '000)		2,024,236	1,487,883
Number of shares (in thousands)	20	1,611,300	1,295,000
Book value per share (in PLN)		1.26	1.15
Diluted number of shares (in thousands)		1,611,300	1,295,000
Diluted book value per share (in PLN)		1.26	1.15

## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 SEPTEMBER 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		
As at 1 January 2019		1,295,000	54,932	59,462	4,427	(11,787)	85,849	1,487,883
Issue of series I shares	20	100,000	-	-	-	-	-	100,000
Issue of series J shares	20	131,500	17,741	-	-	-	-	149,241
Issue of series K shares	20	84,800	14,828	-	-	-	-	99,628
Transfer of profit to retained earnings		-	-	-	-	85,849	(85,849)	-
Transfer of profit to equity		-	74,062	-	-	(74,062)	-	-
Total comprehensive income, including:		-	-	124,366	(2,036)	-	65,154	187,484
Net profit		-	-	-	-	-	65,154	65,154
Other comprehensive income		-	-	124,366	(2,036)	-	-	122,330
As at 30 September 2019	20	1,611,300	161,563	183,828	2,391	-	65,154	2,024,236

FOR THE PERIOD ENDED 30 SEPTEMBER 2018	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		
As at 31 December 2017		1,200,000	-	(31,372)	2,480	(749)	51,419	1,221,778
Changes due to IFRS 9 implementation		-	-	-	-	(11,787)	-	(11,787)
As at 1 January 2018		1,200,000	-	(31,372)	2,480	(12,536)	51,419	1,209,991
Transfer of profit to retained earnings		-	-	-	-	51,419	(51,419)	-
Transfer of profit to equity		-	50,670	-	-	(50,670)	-	-
Total comprehensive income, including:		-	-	19,192	1,673	-	60,453	81,318
Net profit		-	-	-	-	-	60,453	60,453
Other comprehensive income		-	-	19,192	1,673	-	-	20,865
As at 30 September 2018	20	1,200,000	50,670	(12,180)	4,153	(11,787)	60,453	1,291,309





## STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	Note	01.01.2019 - 30.09.2019	01.01.2018 - 30.09.2018
<b>Cash flows from operating activities</b>			
Profit before tax		99,944	86,314
<b>Total adjustments:</b>		<b>(3,896,739)</b>	<b>(4,218,085)</b>
Amortization and depreciation		2,444	1,642
Interest on mortgage covered bonds issued and loans obtained		155,959	103,353
Change in derivative financial instruments (asset)		(335,060)	(37,748)
Change in loans and advances to customers (gross)		(4,323,804)	(4,273,788)
Change in other assets and right-of-use assets		2,046	(1,022)
Change in the balance of liabilities to banks		221,694	(61,528)
Change in derivative financial instruments (liability)		(14,773)	(168,325)
Change in amounts due to customers		168	1,650
Change in liabilities in respect of mortgage covered bonds issued		201,505	173,999
Change in liabilities in respect of bonds issued		53,550	43,090
Change in allowances for expected credit losses and provisions		9,834	6,689
Change in other liabilities, excluding liabilities in respect of unregistered issues of own shares		10,973	5,901
Income tax paid		(19,593)	(23,589)
Other adjustments (including changes in the measurement of securities and derivative instruments recognized in other comprehensive income)		138,318	11,591
<b>Net cash used in operating activities</b>		<b>(3,796,795)</b>	<b>(4,131,771)</b>
<b>Cash flows from investing activities</b>			
<b>Inflows from investing activities</b>		<b>640,340</b>	<b>194,053</b>
Disposal of and interest on securities measured at fair value through other comprehensive income		640,340	194,053
<b>Outflows on investing activities</b>		<b>(968,924)</b>	<b>(189,541)</b>
Acquisition of securities measured at fair value through other comprehensive income		(968,844)	(189,252)
Acquisition of intangible assets and property, plant and equipment		(80)	(289)
<b>Net cash used in investing activities</b>		<b>(328,584)</b>	<b>4,512</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of own shares and payments towards issue of own shares		248,869	99,263
Proceeds from issue of mortgage covered bonds		3,254,656	3,478,510
Proceeds from issue of bonds		5,116,428	5,483,203
Redemption of bonds issued		(4,562,300)	(4,855,900)
Proceeds from loans obtained		5,407,342	4,315,620
Proceeds from loans repaid		(5,182,730)	(4,295,939)
Repayment of interest on mortgage covered bonds issued, bonds issued and loans obtained		(155,959)	(103,353)
Payments of lease liabilities (IFRS 16)		(927)	
<b>Net cash used in financing activities</b>		<b>4,125,379</b>	<b>4,121,404</b>
<b>Total net cash flows</b>		<b>-</b>	<b>(5,855)</b>
Cash equivalents at the beginning of the period		28	5,911
Cash equivalents at the end of the period	24	28	56

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS – CONTENTS

1.	GENERAL INFORMATION .....	9
2.	BASIS OF PREPARATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS.....	10
3.	CHANGES TO ACCOUNTING POLICIES .....	10
NOTES TO THE INCOME STATEMENT .....		12
4.	INTEREST INCOME AND EXPENSES.....	12
5.	FEE AND COMMISSION INCOME AND EXPENSES.....	12
6.	NET FOREIGN EXCHANGE GAINS / (LOSSES) .....	13
7.	NET CREDIT LOSSES .....	13
8.	ADMINISTRATIVE EXPENSES .....	13
9.	NET REGULATORY CHARGES.....	14
10.	INCOME TAX.....	14
NOTES TO THE STATEMENT OF FINANCIAL POSITION .....		16
11.	DERIVATIVE HEDGING INSTRUMENTS.....	16
12.	SECURITIES .....	18
13.	LOANS AND ADVANCES TO CUSTOMERS .....	18
14.	EXPECTED CREDIT LOSSES .....	19
15.	AMOUNTS DUE TO BANKS.....	21
16.	MORTGAGE COVERED BONDS ISSUED .....	22
17.	UNSECURED BONDS ISSUED .....	23
18.	OTHER LIABILITIES.....	23
19.	PROVISIONS .....	24
20.	EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK .....	24
OTHER NOTES .....		26
21.	CONTINGENT LIABILITIES GRANTED AND RECEIVED .....	26
22.	LEGAL CLAIMS.....	26
23.	INFORMATION ABOUT LEASES .....	27
24.	NOTES TO THE STATEMENT OF CASH FLOWS .....	27
25.	RELATED-PARTY TRANSACTIONS – CAPITAL LINKS.....	27
26.	FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES.....	29
27.	OPERATING SEGMENTS .....	31
OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT .....		32
28.	RISK MANAGEMENT IN PKO BANK HIPOTECZNY SA.....	32
29.	CREDIT RISK MANAGEMENT.....	32
30.	CONCENTRATION RISK MANAGEMENT .....	34
31.	RESIDUAL RISK MANAGEMENT.....	34
32.	LIQUIDITY RISK MANAGEMENT .....	35
33.	INTEREST RATE RISK MANAGEMENT.....	38
34.	FOREIGN EXCHANGE RISK MANAGEMENT .....	39
35.	OPERATIONAL RISK MANAGEMENT .....	39
36.	CAPITAL ADEQUACY AND THE MANAGEMENT OF CAPITAL RISK .....	39
EVENTS AFTER THE END OF THE REPORTING PERIOD.....		42
37.	EVENTS AFTER THE END OF THE REPORTING PERIOD.....	42

## 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 September 2019 was PLN 1,611,300,000 and 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 and acquires receivables following from such loans from PKO Bank Polski SA. The Bank acquires loans for its portfolio based on its 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 the residential mortgage loans.

#### INDICATION AS TO WHETHER THE BANK IS A PARENT OR KEY 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 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 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	Piotr Mazur	Deputy Chairman of the Supervisory Board (to 29.03.2019)	06.10.2014	29.03.2019
3	Rafał Kozłowski	Member of the Supervisory Board (from 09.02.2018 to 17.04.2019) / Deputy Chairman of the Supervisory Board (from 17.04.2019 to 31.08.2019)	09.02.2018	31.08.2019
4	Justyna Borkiewicz	Member of the Supervisory Board	28.10.2016	-
5	Artur Kluczny	Member of the Supervisory Board (independent)	18.10.2017	31.08.2019
6	Lucyna Kopińska	Member of the Supervisory Board	01.09.2019	-
7	Mieczysław Król	Member of the Supervisory Board	28.10.2016	29.03.2019
8	Piotr Kwiecień	Member of the Supervisory Board (independent)	18.10.2017	-
9	Jadwiga Lesisz	Member of the Supervisory Board (independent)	01.09.2019	-
10	Paweł Metyrycki	Member of the Supervisory Board	30.03.2019	-
11	Dariusz Odzioba	Member of the Supervisory Board	01.09.2019	-
12	Jan Emeryk Rościszewski	Member of the Supervisory Board	18.10.2017	31.08.2019
13	Ilona Wołyniec	Member of the Supervisory Board	30.03.2019	-

Due to the end of the term of office of the Supervisory Board on 29 March 2019, on that same day the General Shareholders' Meeting appointed the members of the Supervisory Board for a further four-year term of office.

The following table presents the composition of the Supervisory Board of PKO Bank Hipoteczny SA during the period covered by the 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	-
4	Jakub Niesłuchowski	Vice-President of the Management Board	01.04.2015	28.02.2019

On 12 December 2018, the Supervisory Board of PKO Bank Hipoteczny SA appointed Piotr Kochanek Vice President of the Management Board with effect from 1 January 2019. On 26 February 2019 the Polish Financial Supervision Authority (PFSA) granted its consent to entrusting Piotr Kochanek with the function of Member of the Management Board of PKO Bank Hipoteczny SA responsible for the supervision of material risks in the Bank's operations.

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

The condensed interim financial statements of PKO Bank Hipoteczny SA cover the nine-month period ended 30 September 2019 and contain comparative data for the nine-month period ended 30 September 2018 (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 2018 (comprising the statement of financial position). The financial data is presented in thousands of Polish zlotys (PLN), rounded to a thousand, unless otherwise indicated.

### 2.1 STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with the requirements of the International Accounting Standard 34, "Interim Financial Reporting", endorsed by the European Union.

The accounting principles and calculation methods applied in the preparation of these condensed interim financial statements are consistent with the principles applicable in the financial year ended 31 December 2018, except changes resulting from the implementation of IFRS 16 "Leases" as of 1 January 2019, described accordingly in chapter 3.1. of the condensed interim financial statements of PKO Bank Hipoteczny SA for the six-month period ended 30 June 2019.

The principles that did not change are described in the annual financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2018.

The condensed interim financial statements for the nine-month period of 2019 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 2018 prepared in accordance with the International Financial Reporting Standards endorsed by the European Union and with the condensed interim financial statements of PKO Bank Hipoteczny SA for the six-month period ended 30 June 2019.

### 2.2 APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS.

These condensed interim financial statement, having been reviewed with an opinion issued by the Audit and Finance Committee of the Supervisory Board on 30 October 2019, were approved by the Bank's Management Board for publication on 30 October 2019.

## 3. CHANGES TO ACCOUNTING POLICIES

### 3.1 IFRS 16 LEASES

The standard was published by the International Accounting Standards Board on 13 January 2016 and has been endorsed by the European Union. IFRS 16 is binding for the annual periods beginning on or after 1 January 2019. The new standard will replace the currently binding IAS 17 Leases, which is effective until the end of 2018, and Interpretation of the International Financial Reporting Interpretations Committee ("IFRIC") no. 4 and Interpretations of the Standing Interpretations Committee ("SIC") nos. 15 and 27.

The new standard introduces one model for accounting for leases in the lessee's accounts, consistent with the accounting for financial leases under IAS 17. According to IFRS 16, a contract is a lease or contains a lease if it transfers the right to use an identified asset for a given period in exchange for consideration.

The key difference between the definitions of a lease in IAS 17 and IFRS 16 is the requirement of control over the use of a specific asset, identified in a contract in a direct or implied manner. A transfer of right of use takes place where we have an identified asset from which a lessee has the right to practically all economic benefits, and where the lessee has control over the use of the asset in a given period.

If the definition of a lease is met, a right-of-use asset with the corresponding lease liability determined in the amount of discounted future payments over the lease term are recognized, except for short-term lease contracts up to 12 months and lease contracts relating to assets immaterial in terms of their amounts.

Expenses relating to the use of leased assets which were previously charged to non-personnel costs are currently classified as depreciation and interest expense.

Right-of-use assets are depreciated on a straight line basis, while lease liabilities are accounted for using the effective interest rate.

Detailed disclosures in this regard, including those concerning the impact of the implementation of IFRS 16 on the financial statements, were presented in the condensed interim financial statements of PKO Bank Hipoteczny SA for the six-month period ended 30 June 2019.

### **3.2 OTHER AMENDMENTS TO THE PUBLISHED STANDARDS AND INTERPRETATIONS WHICH BECAME BINDING AS OF 1 JANUARY 2019**

The implementation of new standards and interpretations and amendments thereto, which became binding on 1 January 2019, such as, among other things, changes to IFRS 9 *Financial Instruments*, IAS 28 *Investments in Associates and Joint Ventures*, IAS 19 *Employee Benefits*, apart from IFRS 16 *Leases*, as described in chapter 3.1, did not have a material impact on these financial statements.

### **3.3 NEW STANDARDS AND INTERPRETATIONS, AND AMENDMENTS THERETO, WHICH HAVE BEEN PUBLISHED AND HAVE BEEN APPROVED 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 periods beginning on 1 January 2019 and have not been applied to the condensed interim financial statements, but which will have a material impact on the financial statements.

### **3.4 NEW STANDARDS AND INTERPRETATIONS, AS WELL AS THE AMENDMENTS THERETO, WHICH WERE PUBLISHED AND HAVE NOT YET BEEN ENDORSED BY THE EUROPEAN UNION**

Amendments to IFRS 3 *Business Combinations*, IFRS 10 *Consolidated Financial Statements*, IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 28 *Investments in Associates and Joint Ventures*, and the implementation of IFRS 17 *Insurance Contracts* will not have a material impact on the Bank's financial statements.



## NOTES TO THE INCOME STATEMENT

### 4. INTEREST INCOME AND EXPENSES

INTEREST INCOME	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
<b>Interest income recognized under the effective interest rate method, including:</b>	<b>226,585</b>	<b>630,042</b>	<b>175,209</b>	<b>481,623</b>
on financial instruments measured at amortized cost,				
loans and advances to customers	220,731	614,824	171,160	469,521
amounts due from banks and on mandatory reserve	220,706	614,750	171,152	469,480
	25	74	8	41
on instruments measured at fair value through other comprehensive income, including:				
debt securities	5,854	15,218	4,049	12,102
	5,854	15,218	4,049	12,102
<b>Income similar to interest income on instruments measured at fair value through profit or loss, including:</b>	<b>404</b>	<b>1,184</b>	<b>308</b>	<b>776</b>
hedging IRS transactions (net)	404	1,184	308	776
<b>Total</b>	<b>226,989</b>	<b>631,226</b>	<b>175,517</b>	<b>482,399</b>
including: interest income on impaired financial instruments	155	388	77	169

INTEREST EXPENSE	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
<b>Interest expense on financial instruments measured at amortized cost, including:</b>	<b>(89,393)</b>	<b>(239,982)</b>	<b>(72,352)</b>	<b>(189,955)</b>
loans received and overdraft facility used	(12,289)	(30,934)	(9,354)	(24,171)
deferred payment for the purchase of receivables	(13,705)	(28,654)	(12,343)	(38,095)
mortgage-covered bonds issued	(42,830)	(120,764)	(35,140)	(84,599)
bonds issued	(20,529)	(59,509)	(15,515)	(43,090)
lease liabilities	(40)	(121)		
<b>Interest expense on instruments measured at fair value through profit or loss, including:</b>	<b>(54,551)</b>	<b>(157,881)</b>	<b>(40,052)</b>	<b>(109,830)</b>
hedging CIRS transactions (net)	(54,551)	(157,881)	(40,052)	(109,830)
<b>Total</b>	<b>(143,944)</b>	<b>(397,863)</b>	<b>(112,404)</b>	<b>(299,785)</b>

### 5. FEE AND COMMISSION INCOME AND EXPENSES

FEE AND COMMISSION INCOME	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Fees for property valuation	1,556	4,314	1,667	4,618
Fees for property inspection	651	1,991	714	1,899
Commission for full or partial early repayment of loans	1,414	4,286	1,246	3,408
Other	431	1,297	291	909
<b>Total</b>	<b>4,052</b>	<b>11,888</b>	<b>3,918</b>	<b>10,834</b>

**CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE YEAR ENDED 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)**



**Bank Hipoteczny**

FEE AND COMMISSION EXPENSE	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Preparation by property valuers of appraisal reports on Property Value for Mortgage Lending Purposes (BHWN)	(2,324)	(6,503)	(2,391)	(6,852)
Expenses related to unsecured bonds issuance programmes	(772)	(2,780)	(820)	(2,574)
Expenses related to credit lines	(933)	(2,461)	(786)	(1,892)
Expenses related to mortgage covered bonds issuance programmes	(416)	(1,023)	(278)	(877)
Loan insurance costs	(1,054)	(2,848)	(799)	(2,033)
Commission on other operating services	(50)	(147)	(91)	(167)
Costs of debt collection and intermediation in selling collateral	12	(27)	-	-
<b>Total</b>	<b>(5,537)</b>	<b>(15,789)</b>	<b>(5,165)</b>	<b>(14,395)</b>

## 6. NET FOREIGN EXCHANGE GAINS / (LOSSES)

NET FOREIGN EXCHANGE GAINS / (LOSSES)	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Result on revaluation	197	210	671	(208)
Gain / loss on derivative instruments (CIRS, FX-Forward) before designation to hedge accounting	-	(389)	-	(1,376)
Gain / loss on derivative instruments (CIRS, FX-Forward) related to hedge ineffectiveness	5,156	3,637	(7,208)	(963)
<b>Total</b>	<b>5,353</b>	<b>3,458</b>	<b>(6,537)</b>	<b>(2,547)</b>

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

## 7. NET CREDIT LOSSES

NET CREDIT LOSSES	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Net allowances on loans and advances to customers	(4,411)	(9,956)	(2,271)	(6,666)
Net provisions for loan commitments	95	(40)	(14)	(64)
<b>Total</b>	<b>(4,316)</b>	<b>(9,996)</b>	<b>(2,285)</b>	<b>(6,730)</b>

## 8. ADMINISTRATIVE EXPENSES

GENERAL ADMINISTRATIVE EXPENSES	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Employee benefits	(4,156)	(12,861)	(4,098)	(12,105)
Overheads	(7,916)	(22,611)	(6,785)	(19,512)
Amortization and depreciation, including:	(807)	(2,444)	(520)	(1,642)
property, plant and equipment	(51)	(171)	(59)	(193)
right-of-use assets, including:	(310)	(896)		
real estate	(256)	(762)		
cars	(54)	(134)		
intangible assets	(446)	(1,377)	(461)	(1,449)
<b>Total</b>	<b>(12,879)</b>	<b>(37,916)</b>	<b>(11,403)</b>	<b>(33,259)</b>

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE YEAR ENDED 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



Bank Hipoteczny

EMPLOYEE BENEFITS	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Wages and salaries, including: provision for disability and retirement benefits	(3,602)	(10,933)	(3,571)	(10,297)
Salary surcharges	(424)	(1,495)	(371)	(1,376)
Other employee benefits	(130)	(433)	(156)	(432)
<b>Total</b>	<b>(4,156)</b>	<b>(12,861)</b>	<b>(4,098)</b>	<b>(12,105)</b>

OVERHEADS	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Services relating to supporting operations under Outsourcing Agreement	(1,159)	(2,806)	(900)	(2,371)
Servicing of loans granted and receivables purchased under Outsourcing Agreement	(5,170)	(14,706)	(4,127)	(11,664)
External services under other contracts	(564)	(1,975)	(603)	(1,955)
IT costs	(440)	(1,328)	(309)	(1,051)
Life- and non-life insurance costs	(96)	(278)	(73)	(206)
Rents and service charges			(632)	(1,545)
Car leases			(68)	(201)
Costs related to short-term lease contracts	(3)	(88)		
Costs related to lease contracts for low-value assets (other than short-term) non-deductible VAT expenses and service charges	(168)	(579)		
Other	(316)	(851)	(73)	(519)
<b>Total</b>	<b>(7,916)</b>	<b>(22,611)</b>	<b>(6,785)</b>	<b>(19,512)</b>

## 9. NET REGULATORY CHARGES

NET REGULATORY CHARGES	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Contribution and payments to the Bank Guarantee Fund (BGF), including: resolution fund	-	(22,058)	-	(4,556)
Payments to Polish Financial Supervision Authority (PFSA)	(3)	(2,238)	166	(1,524)
Other taxes and charges	(92)	(282)	(83)	(222)
<b>Total</b>	<b>(95)</b>	<b>(24,578)</b>	<b>83</b>	<b>(6,302)</b>

## 10. INCOME TAX

INCOME TAX EXPENSE	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Current income tax expense	(17,112)	(33,545)	(9,816)	(23,721)
Deferred income tax due to temporary differences	3,872	(1,245)	2,199	(2,140)
<b>Income tax reported in the income statement</b>	<b>(13,240)</b>	<b>(34,790)</b>	<b>(7,617)</b>	<b>(25,861)</b>
Income tax reported in other comprehensive income due to temporary differences	(8,018)	(28,694)	4,561	(4,894)
<b>Total</b>	<b>(21,258)</b>	<b>(63,484)</b>	<b>(3,056)</b>	<b>(30,755)</b>



CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE YEAR ENDED 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



Bank Hipoteczny

RECONCILIATION OF THE EFFECTIVE TAX RATE	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
<b>Profit / (loss) before income tax</b>	<b>47,765</b>	<b>99,944</b>	<b>25,482</b>	<b>86,314</b>
Corporate income tax calculated at the statutory tax rate in force in Poland (19%)	(9,075)	(18,989)	(4,842)	(16,400)
<b>Effect of permanent differences between profit before income tax and taxable income, including:</b>	<b>(4,165)</b>	<b>(15,801)</b>	<b>(2,775)</b>	<b>(9,461)</b>
tax on certain financial institutions	(4,156)	(11,575)	(3,078)	(8,289)
fees to BGF	-	(4,191)	-	(866)
costs exceeding the limit set in Article 15e of the CIT Act	-	-	309	(287)
PFRON (State Disabled Persons Fund) costs	(3)	(12)	(4)	(12)
impact of other permanent differences	(6)	(23)	(2)	(7)
<b>Income tax reported in the income statement</b>	<b>(13,240)</b>	<b>(34,790)</b>	<b>(7,617)</b>	<b>(25,861)</b>
<b>Effective tax rate</b>	<b>27.72%</b>	<b>34.81%</b>	<b>29.89%</b>	<b>29.96%</b>

#### TAX GROUP

Based on the contract dated 5 November 2018 PKO Bank Polski SA, as the parent company, jointly with its two subsidiaries: PKO Bank Hipoteczny SA and PKO Leasing SA, created the Podatkowa Grupa Kapitałowa Powszechnej Kasy Oszczędności Banku Polskiego Spółki Akcyjnej Tax Group ("PGK PKO Banku Polskiego SA"). The contract was registered by the Head of the Second Masovian Tax Office in Warsaw. PGK PKO Banku Polskiego SA was established for three tax years. The first tax year began on 1 January 2019.

A tax group is an institution of the tax law stipulated in the provisions of the Corporate Income Tax Act. Its creation means that the income of the Tax Group companies will be consolidated for corporate income tax purposes and that solutions will be available facilitating the application of other, in particular operational, regulations of the Corporate Income Tax Act, dedicated specifically to Tax Groups.

Due to PKO Bank Hipoteczny SA acceding to the PGK PKO Banku Polskiego SA tax group as of 1 January 2019, the current income tax liability shown in the statement of financial position as at 30 September 2019 is a liability to PKO Bank Polski SA.

## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 11. DERIVATIVE HEDGING INSTRUMENTS

As regards hedging strategies, the Bank did not introduce any changes in the nine-month period ended 30 September 2019.

**STRATEGY 1**                      **HEDGING CASH FLOW VOLATILITY FROM MORTGAGE LOANS IN PLN DUE TO CHANGES IN REFERENCE INTEREST RATES AND FROM CONVERTIBLE CURRENCY MORTGAGE COVERED BONDS RESULTING FROM CHANGES IN THE EXCHANGE RATE, USING CIRS AND FX-FORWARD HEDGING INSTRUMENTS**

DERIVATIVE HEDGING INSTRUMENTS	NOMINAL VALUE OF DERIVATIVE HEDGING INSTRUMENTS	CARRYING AMOUNT / FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNISED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF HEDGING INSTRUMENT SINCE DESIGNATION
		Assets	Liabilities		
<b>30.09.2019</b>					
CIRS EUR/PLN	fixed EUR	2,775,514	494,782	-	3,613
	float PLN	11,863,682			
FX forward	purchase EUR	2,891	185	481	24
	sale EUR	1,752			
<b>31.12.2018</b>					
CIRS EUR/PLN	fixed EUR	2,076,360	162,100	14,786	1,334
	float PLN	8,858,819			
FX forward	purchase EUR	2,173	237	468	(24)
	sale EUR	1,656			

The average fixed rate weighted with the nominal value for CIRS transactions amounted to 0.504% as at 30 September 2019, and 0.585% as at 31 December 2018.

HEDGED ITEMS	CARRYING AMOUNT OF HEDGED ITEMS	ITEM OF THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF HEDGED ITEMS SINCE DESIGNATION
<b>30.09.2019</b>			
floating rate PLN loans	11,863,682	Loans and advances to customers	(502,491)
fixed-rate mortgage covered bonds issued in a convertible currency	12,143,970	Mortgage covered bonds issued	
<b>31.12.2018</b>			
floating rate PLN loans	8,858,819	Loans and advances to customers	(150,942)
fixed-rate mortgage covered bonds issued in a convertible currency	8,930,571	Mortgage covered bonds issued	

**STRATEGY 2**                      **HEDGING CASH FLOW VOLATILITY FROM CASH LOANS IN PLN WITH FLUCTUATING INTEREST RATES, RESULTING FROM THE RISK OF FLUCTUATIONS IN INTEREST RATES, USING IRS TRANSACTIONS**

DERIVATIVE HEDGING INSTRUMENTS	NOMINAL VALUE OF DERIVATIVE HEDGING INSTRUMENTS	CARRYING AMOUNT / FAIR VALUE OF HEDGING INSTRUMENTS		INEFFECTIVE PORTION OF CASH FLOW HEDGES RECOGNISED IN THE INCOME STATEMENT	CHANGE IN THE FAIR VALUE OF HEDGING INSTRUMENT SINCE DESIGNATION
		Assets	Liabilities		
<b>30.09.2019</b>					
IRS PLN	PLN	325,000	8,382	-	49
<b>31.12.2018</b>					
IRS PLN	PLN	325,000	5,952	-	63

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE YEAR ENDED 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



The average fixed rate weighted with the nominal value for IRS transactions amounted to 2.84% as at 30 September 2019 as well as at 31 December 2018.

HEDGED ITEMS	CARRYING AMOUNT OF HEDGED ITEMS	ITEM IN THE STATEMENT OF FINANCIAL POSITION	CHANGE IN THE FAIR VALUE OF HEDGED ITEMS SINCE DESIGNATION
<b>30.09.2019</b>			
floating rate PLN loans	325,000	Loans and advances to customers	(8,656)
<b>31.12.2018</b>			
floating rate PLN loans	325,000	Loans and advances to customers	(6,248)

**FINANCIAL INFORMATION:**

CARRYING AMOUNT / FAIR VALUE OF DERIVATIVES USED AS CASH FLOW HEDGES	30.09.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	8,382	-	5,952	-
CIRS	494,782	-	162,100	14,786
FX forward	185	481	237	468
<b>Total</b>	<b>503,349</b>	<b>481</b>	<b>168,289</b>	<b>15,254</b>

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 HEDGES	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019	3rd quarter 01.07.2018 - 30.09.2018	3 quarters cumulative 01.01.2018 - 30.09.2018
Accumulated other comprehensive income on cash flow hedges at the beginning of the period, gross	184,336	73,411	8,321	(38,730)
Gains / (Losses) recognized in other comprehensive income during the period	326,181	202,739	(250,477)	105,316
Amounts transferred from other comprehensive income to the income statement during the period	(283,569)	(49,202)	227,119	(81,623)
- interest income	(404)	(1,184)	(308)	(776)
- Interest expense	54,551	157,881	40,052	109,830
- net foreign exchange gains / (losses)	(337,716)	(205,899)	187,375	(190,677)
Accumulated other comprehensive income on cash flow hedges as at the end of the period, gross	226,948	226,948	(15,037)	(15,037)
Tax effect	(43,120)	(43,120)	2,857	2,857
<b>Accumulated other comprehensive income on cash flow hedges at the end of the period, net</b>	<b>183,828</b>	<b>183,828</b>	<b>(12,180)</b>	<b>(12,180)</b>
<b>Ineffective portion of cash flow hedges recognized in the income statement</b>	<b>5,172</b>	<b>3,686</b>	<b>(7,222)</b>	<b>(953)</b>
Impact on other comprehensive income during the period, gross	42,612	153,537	(23,358)	23,693
Deferred tax on cash flow hedges	(8,095)	(29,171)	4,439	(4,501)
<b>Impact on other comprehensive income during the period, net</b>	<b>34,517</b>	<b>124,366</b>	<b>(18,919)</b>	<b>19,192</b>

## 12. SECURITIES

SECURITIES	30.09.2019	31.12.2018
Measured at fair value through other comprehensive income	1,184,174	842,965
issued by the State Treasury, PLN Treasury bonds	1,184,174	842,965
<b>Total</b>	<b>1,184,174</b>	<b>842,965</b>

## 13. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.09.2019	31.12.2018
<b>Measured at amortized cost</b>		
Residential mortgage loans, gross, including:	25,422,546	21,098,742
loans granted	11,309,798	8,781,520
receivables acquired	14,112,748	12,317,222
Allowances for expected credit losses	(38,057)	(28,273)
<b>Loans and advances to customers, net</b>	<b>25,384,489</b>	<b>21,070,469</b>

In the nine-month period of 2019 the Bank purchased, based on the Framework Agreement for the Sale of Receivables signed with PKO Bank Polski SA on 17 November 2015, receivables portfolios relating to residential mortgage loans amounting to PLN 2,745,208 thousand, and in the nine-month period of 2018 – in the amount of PLN 2,398,938 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 by the liability, the nature of which is described in Note 15 "Amounts due to Banks". The Bank had been refinancing the purchased receivable portfolios primarily through issuing mortgage covered bonds.

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 "Mortgage covered bonds issued".

Information about the quality of the loan portfolio is also presented in Note 29 "Credit Risk Management".

Information about exposure to credit risk for loans and advances granted measured at amortized cost are 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 30.09.2019	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
<b>Measured at fair value through other comprehensive income</b>								
securities	1,184,174	-	-	-	-	-	1,184,174	-
issued by the State Treasury, PLN Treasury bonds	1,184,174	-	-	-	-	-	1,184,174	-
<b>Total</b>	<b>1,184,174</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,184,174</b>	<b>-</b>
<b>Measured at amortized cost</b>								
amounts due from banks	14	-	-	-	-	-	14	-
loans and advances to customers	25,086,697	(9,254)	320,811	(22,853)	15,038	(5,950)	25,422,546	(38,057)
residential mortgage loans	25,086,697	(9,254)	320,811	(22,853)	15,038	(5,950)	25,422,546	(38,057)
loans granted	11,125,576	(4,992)	179,518	(14,018)	4,704	(2,149)	11,309,798	(21,159)
acquired receivables	13,961,121	(4,262)	141,293	(8,835)	10,334	(3,801)	14,112,748	(16,898)
other financial assets	579	-	-	-	-	-	579	-
<b>Total</b>	<b>25,087,290</b>	<b>(9,254)</b>	<b>320,811</b>	<b>(22,853)</b>	<b>15,038</b>	<b>(5,950)</b>	<b>25,423,139</b>	<b>(38,057)</b>

As at 30 September 2019 there were no purchased or originated credit-impaired assets (POCI).

LOAN COMMITMENTS AND PROVISIONS AS AT 30.09.2019	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
<b>Loan commitments</b>	<b>585,990</b>	<b>(138)</b>	<b>1,281</b>	<b>(46)</b>	<b>-</b>	<b>-</b>	<b>587,271</b>	<b>(184)</b>

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



FINANCIAL ASSETS AND ALLOWANCES FOR EXPECTED CREDIT LOSSES AS AT 31.12.2018	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
<b>Measured at fair value through other comprehensive income</b>								
securities	842,965	-	-	-	-	-	842,965	-
issued by the State Treasury, PLN Treasury bonds	842,965	-	-	-	-	-	842,965	-
<b>Total</b>	<b>842,965</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>842,965</b>	<b>-</b>
<b>Measured at amortized cost</b>								
amounts due from banks	22	-	-	-	-	-	22	-
loans and advances to customers	20,823,722	(7,108)	266,928	(17,979)	8,092	(3,186)	21,098,742	(28,273)
residential mortgage loans	20,823,722	(7,108)	266,928	(17,979)	8,092	(3,186)	21,098,742	(28,273)
loans granted	8,636,038	(3,480)	143,432	(10,730)	2,050	(922)	8,781,520	(15,132)
receivables acquired	12,187,684	(3,628)	123,496	(7,249)	6,042	(2,264)	12,317,222	(13,141)
other financial assets	449	-	-	-	-	-	449	-
<b>Total</b>	<b>20,824,193</b>	<b>(7,108)</b>	<b>266,928</b>	<b>(17,979)</b>	<b>8,092</b>	<b>(3,186)</b>	<b>21,099,213</b>	<b>(28,273)</b>

As at 31 December 2018 there were no purchased or originated credit-impaired assets (POCI).

LOAN COMMITMENTS AND PROVISIONS AS AT 31.12.2018	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
<b>Loan commitments</b>	<b>717,808</b>	<b>(103)</b>	<b>1,409</b>	<b>(41)</b>	<b>-</b>	<b>-</b>	<b>719,217</b>	<b>(144)</b>

## 15. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.09.2019	31.12.2018
<b>Measured at amortized cost</b>		
overdraft within the limit available	13,659	10,513
liabilities in respect of overdraft facilities	2,106,824	1,881,512
liabilities in respect of term loans	100,007	100,007
liabilities in respect of the purchase of receivables	2,518,102	2,300,254
<b>Total</b>	<b>4,738,592</b>	<b>4,292,286</b>

### LIABILITIES IN RESPECT OF LOANS

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 30 September 2019	Amount of loan drawn as at 30 September 2019	Liability as at 30 September 2019
PKO Bank Polski SA	29.10.2015	29.10.2022	2,000,000	2,000,000	1,103,192
PKO Bank Polski SA	02.02.2017	02.02.2020	1,500,000	1,500,000	853,624
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
<b>Total</b>			<b>4,750,000</b>	<b>4,750,000</b>	<b>2,206,831</b>

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 31 December 2018	Amount of loan drawn as at 31 December 2018	Liability as at 31 December 2018
PKO Bank Polski SA	29.10.2015	29.10.2021	1,500,000	1,400,000	828,580
PKO Bank Polski SA	02.02.2017	02.02.2020	1,500,000	1,500,000	902,924
Other bank 1	05.06.2017	10.06.2019	150,000	150,000	150,008
Other bank 2	27.12.2018	28.12.2020	100,000	100,000	100,007
<b>Total</b>			<b>3,250,000</b>	<b>3,150,000</b>	<b>1,981,519</b>

### LIABILITY IN RESPECT OF THE PURCHASE OF RECEIVABLES

The line "Liability in respect of the purchase of receivables" represents the liabilities arising from the transactions of purchase of residential mortgage loans portfolios from PKO Bank Polski SA, as specified in Note 13 "Loans and advances to customers". The maturity date of the liability resulting from the purchase of receivables is agreed each time by the parties in the Receivables Sales Agreement. For receivables acquired in 2019, 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 is subject to interest. The Bank had been refinancing the purchased receivable portfolios primarily through issuing mortgage covered bonds. The liability resulting from the purchase of receivables at 30 September 2019 concerns portfolios purchased as of the nine-month period of 2019, whereas as at 31 December 2018 the liability concerned portfolios purchased from the second quarter of 2018.



## 16. MORTGAGE COVERED BONDS ISSUED

MORTGAGE COVERED BONDS ISSUED	30.09.2019	31.12.2018
<b>Measured at amortized cost</b>		
mortgage covered bonds, including issued under:		
International Mortgage Covered Bonds Issue Programme	16,297,661	12,841,500
National Mortgage Covered Bonds Issue Programme	12,157,401	8,949,417
	4,140,260	3,892,083
<b>Total</b>	<b>16,297,661</b>	<b>12,841,500</b>

On 10 June 2019 PKO Bank Hipoteczny SA, as the first bank in Poland, issued green mortgage covered bonds to finance residential mortgage loans that meet the energy effectiveness criteria. The energy effectiveness criteria developed by the Bank were approved by the International Climate Bonds Initiative Agency and are recommended as Low Carbon Building Criteria for housing properties in Poland. The Bank's green mortgage covered bonds have been certified by the Climate Bonds Initiative Agency as bonds that meet the highest international standards in terms of positive environmental impact.

In the nine-month period of 2019 the Bank issued the said green mortgage covered bonds in PLN amounting to PLN 250,000 thousand and conducted three issues of mortgage covered bonds in EUR totalling EUR 700,000 thousand. Whereas in the nine-month period of 2018, the Bank conducted four issues of mortgage covered bonds in PLN totalling PLN 1,360,000 thousand and one issue of mortgage covered bonds in EUR of EUR 500,000 thousand. In the nine-month period of 2019 and in 2018, the Bank did not redeem any mortgage covered bonds. The above-mentioned domestic issues of mortgage bonds are listed on the Warsaw Stock Exchange's parallel market and on the BondSpot OTC market, and the issues of foreign mortgage bonds are listed on the Luxembourg Stock Exchange and the Warsaw Stock Exchange (the Warsaw Stock Exchange's parallel market).

As at 30 September 2019 and 31 December 2018, the issued PLN- and EUR-mortgage covered bonds were rated by Moody's Investors Service at Aa3, i.e. the highest achievable by Polish securities. The limit for the ratings is the Polish country ceiling for debt instruments (i.e. the highest rating which can be obtained in Poland) which currently is at the level of Aa3.

The total nominal value of the issued mortgage covered bonds as at 30 September 2019 amounted to PLN 16,289,234 thousand and as at 31 December 2018 it amounted to PLN 12,824,700 thousand.

### SECURING THE MORTGAGE COVERED BONDS

The mortgage covered bonds are secured by loans secured by the highest priority mortgage. Additionally, the basis for the issue of mortgage covered bonds may also be the Bank's own funds:

- 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 Organization for Economic Cooperation and Development, excluding countries that are restructuring or have restructured their foreign debt in the past 5 years;
- funds deposited with the National Bank of Poland;
- held in cash.

The nominal value of loans included in the cover pool and constituting collateral for issues of mortgage covered bonds as at 30 September 2019 amounted to PLN 20,272,894 million, 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 2018, these amounts were PLN 16,947,730 thousand and PLN 251,000 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 issued mortgage covered bonds denominated in EUR and IRS transactions securing the interest rate risk of fixed rate mortgage covered bonds issued in PLN.

In the nine-month period of 2019 and in the previous years the Bank's mortgage covered bonds cover pool did not include asset-backed securities (ABS), that do not meet the requirements described in paragraph 1 of Art. 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. UNSECURED BONDS ISSUED

UNSECURED BONDS ISSUED	30.09.2019	31.12.2018
<b>Measured at amortized cost</b>		
unsecured bonds, including bonds issued under:		
Non-Public Bond Issue Programme	3,918,826	3,311,148
Public Bond Issue Programme	3,310,645	2,961,108
an individual agreement	257,304	-
	350,877	350,040
<b>Total</b>	<b>3,918,826</b>	<b>3,311,148</b>

In the 9-month period of 2019, under the Non-Public Bond Issue Programme the Bank issued bonds with a total nominal value of PLN 4,906,100 thousand and redeemed bonds with a total nominal value of PLN 4,562,300 thousand, whereas in the 9-month period of 2018 these amounts were PLN 5,529,700 thousand and PLN 4,855,900 thousand respectively. As at 30 September 2019 PKO Bank Polski SA did not hold any bonds under the guarantee (PLN 54,100 thousand as at 31 December 2018).

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 9-month period of 2019, under the said programme the Bank issued:

- one series of bonds of PLN 161,500 thousand to be redeemed after six months, which were taken up as part of the underwriting services provided by Dom Maklerski PKO Banku Polskiego SA;
- two series of bonds addressed primarily to retail investors with a total value of PLN 95,000 thousand and a two-year period of redemption.

By 30 September 2019, 4-series bonds of PLN 40,000 thousand were also subscribed, to be redeemed after two years.

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

The total nominal value of the issued unsecured bonds as at 30 September 2019 amounted to PLN 3,928,700 thousand and as at 31 December 2018 it amounted to PLN 3,328,400 thousand.

## 18. OTHER LIABILITIES

OTHER LIABILITIES	30.09.2019	31.12.2018
Expenses to be paid	8,877	8,506
Liabilities in respect of contribution to the Bank Guarantee Fund (BFG), including:	7,984	1,367
in respect of contribution accrued by BGF / payable to BGF to the resolution fund	-	-
maintained in the form of payments commitments to the resolution fund	7,984	1,367
Other liabilities, including:	15,238	12,101
sundry creditors	7,468	5,882
settlements with the state budget, including:	7,770	6,219
liabilities in respect of tax on certain financial institutions	7,366	5,818
Liabilities in respect of payment for shares which have not yet been registered by the National Court Register	-	100,000
Lease liabilities	5,346	
<b>Total</b>	<b>37,445</b>	<b>121,974</b>
including financial liabilities	21,691	14,388

As at 30 September 2019 and 31 December 2018, the Bank had no overdue contractual liabilities.

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)

## 19. PROVISIONS

PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 SEPTEMBER 2019	Provision for disability and retirement benefits	Provisions for loan commitments	Total
<b>As at 1 January 2019, including:</b>	<b>124</b>	<b>144</b>	<b>268</b>
Short-term provision	-	144	144
Long-term provision	124	-	124
Increase/reassessment of provisions	10	206	216
Release/utilization	-	(166)	(166)
<b>As at 30 September 2019, including:</b>	<b>134</b>	<b>184</b>	<b>318</b>
Short-term provision	-	184	184
Long-term provision	134	-	134

  

PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018	Provision for disability and retirement benefits	Provisions for loan commitments	Total
<b>As at 31 December 2017, including:</b>	<b>84</b>	<b>54</b>	<b>138</b>
Short-term provision	-	54	54
Long-term provision	84	-	84
<b>Changes due to IFRS 9 implementation</b>	<b>-</b>	<b>54</b>	<b>54</b>
Short-term provision	-	54	54
<b>As at 1 January 2018, including:</b>	<b>84</b>	<b>108</b>	<b>192</b>
Short-term provision	-	108	108
Long-term provision	84	-	84
Increase/reassessment of provisions	29	113	142
Release	-	(49)	(49)
<b>As at 30 September 2018, including:</b>	<b>113</b>	<b>172</b>	<b>285</b>
Short-term provision	-	172	172
Long-term provision	113	-	113

## 20. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.09.2019	31.12.2018
Share capital	1,611,300	1,295,000
Supplementary capital	161,563	54,932 <sup>1</sup>
Accumulated other comprehensive income, including:	186,219	63,889
cash flow hedges	183,828	59,462
measurement of financial assets measured at fair value through other comprehensive income	2,391	4,427
Retained earnings / accumulated losses (loss resulting from IFRS 9 implementation)	-	(11,787)
Net profit for the period	65,154	85,849
<b>Total equity</b>	<b>2,024,236</b>	<b>1,487,883</b>



## 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 the 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
<b>Total</b>		<b>1,611,300,000</b>		<b>1,611,300,000</b>			

PKO Bank Polski SA was the Bank's sole shareholder as at 30 September 2019 and 31 December 2018.

On 21 February 2019, the issue of 100,000,000 I-series shares (issued on 21 December 2018) was registered with the National Court Register.

Furthermore, in the nine-month period of 2019, the following occurred:

- 131,500,000 new J-series ordinary registered shares with a nominal value of PLN 1 each were issued and the shares were acquired for the issue price of PLN 1.14 per share. The share premium (less tax on civil law transactions and notarial fees) in the amount of PLN 17,741 thousand was recognized in supplementary capital. The issue was registered with the National Court Register on 16 May 2019.
- 84,800,000 new K-series ordinary registered shares with a nominal value of PLN 1 each were issued and the shares were acquired for the issue price of PLN 1.18 per share. The share premium (less tax on civil law transactions and notarial fees) in the amount of PLN 14,828 thousand was recognized in supplementary capital. The issue was registered with the National Court Register on 20 August 2019.

The Bank's share capital as at 30 September 2019 amounted to PLN 1,611,300,000 and consists 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.

In the nine-month period of 2019 and in 2018, the Bank did not pay any dividends.



## OTHER NOTES

### 21. CONTINGENT LIABILITIES GRANTED AND RECEIVED

#### 21.1 CONTRACTUAL COMMITMENTS

As at 30 September 2019 and 31 December 2018 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)	30.09.2019	31.12.2018
Undrawn residential mortgage loans (nominal value)		
residential mortgage loans to individuals	587,271	719,217
provisions for loan commitments	(184)	(144)
<b>Total, net</b>	<b>587,087</b>	<b>719,073</b>
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 ASSETS AT THE NOMINAL VALUE	30.09.2019	31.12.2018
Contingent assets		
financial	2,546,808	1,171,420
guarantees	2,000,000	1,945,900
<b>Total</b>	<b>4,546,808</b>	<b>3,117,320</b>

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 unsecured bond issues.

#### RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK

As at 30 September 2019 and 31 December 2018 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 September 2019 and 31 December 2018 there were no legal claims.

## 23. INFORMATION ABOUT LEASES

### LEASE – LESSEE

LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT - LESSEE	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulative 01.01.2019 - 30.09.2019
Amortization of the right-of-use assets		
real estate	(310)	(896)
cars	(256)	(762)
Interest expense	(54)	(134)
Costs related to short-term lease contracts	(40)	(121)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(3)	(88)
	(168)	(579)
<b>Total</b>	<b>(521)</b>	<b>(1,684)</b>

Right-of-use assets and lease liabilities are also shown in the tables below as recognized upon the implementation of IFRS 16 “Leases”, i.e. as at 1 January 2019.

RIGHT-OF-USE ASSETS	30.09.2019	01.01.2019
Real estate	4,670	5,361
Cars	616	66
<b>Total</b>	<b>5,286</b>	<b>5,427</b>

OTHER LIABILITIES	30.09.2019	01.01.2019
Lease liabilities	5,346	5,427
<b>Total</b>	<b>5,346</b>	<b>5,427</b>

### 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	30.09.2019	31.12.2018	30.09.2018
Cash and balances with the Central Bank	14	6	14
Amounts due from banks - current accounts	14	22	42
<b>Total</b>	<b>28</b>	<b>28</b>	<b>56</b>

As at 30 September 2019 and 31 December 2018 there were no cash and cash equivalents with restricted availability for use.

## 25. RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

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

Details of the Bank’s transactions with related parties are provided in Note 36.1 to the Condensed interim financial statements of PKO Bank Hipoteczny SA for the six-months period ended 30 June 2019.

In the third quarter of 2019:

- On 10 July 2019, the Bank concluded with PKO Bank Polski SA a current account revolving credit agreement with a limit of PLN 1,000,000 thousand for a period of three years. The loan is earmarked for servicing the redemption

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



of bonds issued under the Non-Public Programme. The Bank acquired the funding due to the duty to register and settle all non-public issues of securities through the National Depository of Securities binding as of 1 July 2019. In effect, it is impossible to redeem and receive funds from a new issue (roll-over) on the same day. As at 30 September 2019, PLN 1,000,000 thousand of the facility was available.

- On 30 September 2019, the Bank extended the PKO Bank Hipoteczny Non-Public Bond Issue Programme Agreement with PKO Bank Polski SA for another four years up to the amount of PLN 3,500,000 thousand as well as an Underwriting Agreement on PKO Bank Polski SA taking up the bonds issued under the programme of up to PLN 2,000,000 thousand.

**FINANCIAL INFORMATION:**

**AS AT 30 SEPTEMBER 2019**

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	503,928	503,349
<b>Total</b>	<b>503,928</b>	<b>503,349</b>

ENTITY	LIABILITIES				
	Current account credit limits, overdrafts	Liabilities in respect of the purchase of receivables	Mortgage-covered bonds and unsecured bonds	Other liabilities	including derivatives
PKO Bank Polski SA	1,970,475	2,518,103	56,987	14,664	481
PKO BP Finat Sp. z o.o.	-	-	-	17	-
PKO Leasing SA	-	-	-	626	-
PKO Towarzystwo Ubezpieczeń SA	-	-	-	346	-
PKO VC -fizan	-	-	33,277	-	-
<b>Total</b>	<b>1,970,475</b>	<b>2,518,103</b>	<b>90,264</b>	<b>15,653</b>	<b>481</b>

ENTITY	Loan commitments	Contingent assets
PKO Bank Polski SA	-	4,546,808
<b>Total</b>	<b>-</b>	<b>4,546,808</b>

**FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 SEPTEMBER 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	1,486	1,227	247,163	228,799	49	209,239
PKO BP Finat Sp. z o.o.	-	-	147	-	-	-
PKO Leasing SA	-	-	195	10	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	2,408	2,408	-	-
PKO VC -fizan	-	-	541	541	-	-
<b>Total</b>	<b>1,486</b>	<b>1,227</b>	<b>250,454</b>	<b>231,758</b>	<b>49</b>	<b>209,239</b>

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)

AS AT 31 DECEMBER 2018

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	168,754	168,289
<b>Total</b>	<b>168,754</b>	<b>168,289</b>

ENTITY	LIABILITIES				
	Current account credit limits, overdrafts	Liabilities in respect of the purchase of receivables	Mortgage-covered bonds and unsecured bonds	Other liabilities	including derivatives
PKO Bank Polski SA	1,742,017	2,300,254	137,491	122,185	15,254
PKO BP Finat Sp. z o.o.	-	-	-	18	-
PKO Leasing SA	-	-	-	50	-
PKO VC -fizan	-	-	34,675	-	-
<b>Total</b>	<b>1,742,017</b>	<b>2,300,254</b>	<b>172,166</b>	<b>122,253</b>	<b>15,254</b>

ENTITY	Loan commitments	Contingent assets
PKO Bank Polski SA	-	3,117,320
<b>Total</b>	<b>-</b>	<b>3,117,320</b>

FOR THE PERIOD FROM 1 JANUARY 2018 TO 30 SEPTEMBER 2018

ENTITY	Total revenues	including interest and commissions	Total expenses	including interest and commissions	Net income / (expense) from financial instruments measured at fair value	Net foreign exchange gains / (losses)
PKO Bank Polski SA	1,080	815	199,216	183,694	37	188,387
PKO BP Finat Sp. z o.o.	-	-	144	-	-	-
PKO Leasing SA	-	-	297	-	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	1,273	1,273	-	-
Qualia Sp. z o.o.	-	-	17	17	-	-
<b>Total</b>	<b>1,080</b>	<b>815</b>	<b>200,947</b>	<b>184,984</b>	<b>37</b>	<b>188,387</b>

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

## 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 of determining fair value were described in the financial statements of PKO Bank Hipoteczny SA for 2018.

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 30 SEPTEMBER 2019	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Derivative hedging instruments	11	503,349	-	503,349	-
CIRS		494,782	-	494,782	-
FX forward		185	-	185	-
IRS		8,382	-	8,382	-
Securities	12	1,184,174	1,184,174	-	-
comprehensive income		1,184,174	1,184,174	-	-
<b>Total financial assets measured at fair value</b>		<b>1,687,523</b>	<b>1,184,174</b>	<b>503,349</b>	<b>-</b>
Derivative financial instruments	11	481	-	481	-
CIRS		-	-	-	-
FX forward		481	-	481	-
IRS		-	-	-	-
<b>Total financial liabilities measured at fair value</b>		<b>481</b>	<b>-</b>	<b>481</b>	<b>-</b>

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31 DECEMBER 2018	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Derivative hedging instruments	11	168,289	-	168,289	-
CIRS		162,100	-	162,100	-
FX forward		237	-	237	-
IRS		5,952	-	5,952	-
Securities	12	842,965	842,965	-	-
measured at fair value through other		842,965	842,965	-	-
<b>Total financial assets measured at fair value</b>		<b>1,011,254</b>	<b>842,965</b>	<b>168,289</b>	<b>-</b>
Derivative hedging instruments	11	15,254	-	15,254	-
CIRS		14,786	-	14,786	-
FX forward		468	-	468	-
IRS		-	-	-	-
<b>Total financial liabilities measured at fair value</b>		<b>15,254</b>	<b>-</b>	<b>15,254</b>	<b>-</b>

In the 9-month period ended 30 September 2019, there were no changes in the valuation techniques or the input data for the individual levels of the fair value hierarchy. A detailed description of the valuation techniques is presented in the Financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2018.

In the nine-month period ended 30 September 2019, as in the nine-month period ended 30 September 2018, there were no transfers between the different levels of fair value hierarchy.



## 26.2 FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 30 JUNE 2019	fair value hierarchy level	valuation method	30.09.2019	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	amount of consideration due	14	14
Amounts due from banks	2	discounted cash flows	14	14
Loans and advances to customers, including:			25,384,489	25,043,390
residential mortgage loans	3	discounted cash flows	25,384,489	25,043,390
Other financial assets	3	amount of consideration due taking into account impairment	579	579
Amounts due to banks	2	discounted cash flows	4,738,592	4,738,592
Amounts due to customers	2	discounted cash flows	4,527	4,527
Mortgage-covered bonds issued	1.2	discounted cash flows, quotations on a regulated market	16,297,661	16,611,158
Unsecured bonds issued	2	discounted cash flows	3,918,826	3,918,826
Other financial liabilities	3	amount of consideration due	21,691	21,691

ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 31 DECEMBER 2018	fair value hierarchy level	valuation method	31.12.2018	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	at amounts due	6	6
Amounts due from banks	2	discounted cash flows	22	22
Loans and advances to customers, including:			21,070,469	21,026,457
residential mortgage loans	3	discounted cash flows	21,070,469	21,026,457
Other financial assets	3	at amount due less impairment allowance	449	449
Amounts due to banks	2	discounted cash flows	4,292,286	4,292,286
Amounts due to customers	2	discounted cash flows	4,359	4,359
Mortgage-covered bonds issued	1.2	discounted cash flows, quotations on a regulated market	12,841,500	12,855,959
Unsecured bonds issued	2	discounted cash flows	3,311,148	3,311,148
Other financial liabilities	3	at amounts due	14,388	14,388

## 27. OPERATING SEGMENTS

In the reporting period and in the period ended 30 September 2018, 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 IN 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 to guarantee the safety of funds deriving from the issue of bonds and the other sources of financing the Bank's operations. The assumed level of risk plays an important role in the planning process.

Risk management at PKO Bank Hipoteczny SA was described in detail in the Condensed interim financial statements of PKO Bank Hipoteczny SA for the six-month period ended 30 June 2019. In the third quarter of 2019, there were no changes to the objectives and principles of risk management.

### 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	30.09.2019	31.12.2018
Derivative hedging instruments	503,349	168,289
<b>Total balance sheet exposure</b>	<b>503,349</b>	<b>168,289</b>

#### 29.2 AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.09.2019	31.12.2018
Amounts not overdue, not impaired (counterparty rating A2)	14	22
<b>Total, gross</b>	<b>14</b>	<b>22</b>
Allowances for expected credit losses	-	-
<b>Total, net</b>	<b>14</b>	<b>22</b>

#### 29.3 SECURITIES

SECURITIES	30.09.2019	31.12.2018
Issued by the State Treasury, PLN Treasury bonds (rating A)	1,184,174	842,965
<b>Total, gross</b>	<b>1,184,174</b>	<b>842,965</b>
Allowances for expected credit losses	-	-
<b>Total, net</b>	<b>1,184,174</b>	<b>842,965</b>

#### 29.4 LOANS AND ADVANCES TO CUSTOMERS

The loan portfolio is characterized by low exposure to impairment. As at 30 September 2019, 74 impaired loans were recognized, and their share in the total loan portfolio amount was 0.06%, whereas as at 31 December 2018, 42 impaired loans were recognized, and their share in the total loan portfolio amount was 0.04%.

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



Bank Hipoteczny

LOANS AND ADVANCES TO CUSTOMERS	30.09.2019	31.12.2018
Loans not overdue, not impaired	25,254,240	20,998,000
Loans overdue, not impaired	153,268	92,650
Loans impaired	15,038	8,092
<b>Total, gross</b>	<b>25,422,546</b>	<b>21,098,742</b>
Allowances for loans not overdue, not impaired	(24,476)	(19,205)
Allowances for loans overdue, not impaired	(7,631)	(5,882)
Allowances for loans impaired	(5,950)	(3,186)
<b>Total, net</b>	<b>25,384,489</b>	<b>21,070,469</b>

LOANS AND ADVANCES TO CUSTOMERS, NOT IMPAIRED	30.09.2019	31.12.2018
not overdue	25,254,240	20,998,000
up to 30 days overdue	142,406	84,269
from 31 to 60 days overdue	8,192	6,922
from 61 to 90 days overdue	2,670	1,459
<b>Total, gross</b>	<b>25,407,508</b>	<b>21,090,650</b>

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:

LOANS AND ADVANCES TO CUSTOMERS	30.09.2019				
	Stage 1	Stage 2	Stage 3	POCI	Total, gross
<0.01%	702,851	240	-	-	703,091
0.01% - 0.02%	3,184,572	2,208	-	-	3,186,780
0.02% - 0.05%	7,026,168	2,161	-	-	7,028,329
0.05% - 0.1%	6,040,661	3,190	-	-	6,043,851
0.1% - 0.3%	6,449,245	4,879	-	-	6,454,124
0.3% - 1.0%	1,482,480	84,808	-	-	1,567,288
1.0% - 10%	190,298	182,964	-	-	373,262
10% - 100%	10,422	40,361	15,038	-	65,821
<b>Total gross amount</b>	<b>25,086,697</b>	<b>320,811</b>	<b>15,038</b>	-	<b>25,422,546</b>

LOANS AND ADVANCES TO CUSTOMERS	31.12.2018				
	Stage 1	Stage 2	Stage 3	POCI	Total, gross
<0.01%	1,092,324	625	-	-	1,092,949
0.01% - 0.02%	2,880,865	1,438	-	-	2,882,303
0.02% - 0.05%	5,577,867	2,817	-	-	5,580,684
0.05% - 0.1%	4,672,304	2,070	-	-	4,674,374
0.1% - 0.3%	5,077,344	3,424	-	-	5,080,768
0.3% - 1.0%	1,201,972	74,853	-	-	1,276,825
1.0% - 10%	312,451	150,920	-	-	463,371
10% - 100%	8,595	30,781	8,092	-	47,468
<b>Total gross amount</b>	<b>20,823,722</b>	<b>266,928</b>	<b>8,092</b>	-	<b>21,098,742</b>

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



Bank Hipoteczny

LOAN COMMITMENTS						30.09.2019
PD range	Stage 1	Stage 2	Stage 3	POCI	Total	
<0.01%	23,464	-	-	-	-	23,464
0.01% - 0.02%	79,286	90	-	-	-	79,376
0.02% - 0.05%	112,757	-	-	-	-	112,757
0.05% - 0.1%	278,216	-	-	-	-	278,216
0.1% - 0.3%	71,572	-	-	-	-	71,572
0.3% - 1.0%	20,495	654	-	-	-	21,149
1.0% - 10%	200	537	-	-	-	737
10% - 100%	-	-	-	-	-	-
<b>Total nominal amount</b>	<b>585,990</b>	<b>1,281</b>	-	-	-	<b>587,271</b>

LOAN COMMITMENTS						31.12.2018
PD range	Stage 1	Stage 2	Stage 3	POCI	Total	
<0.01%	131,526	-	-	-	-	131,526
0.01% - 0.02%	122,745	-	-	-	-	122,745
0.02% - 0.05%	118,025	-	-	-	-	118,025
0.05% - 0.1%	250,835	110	-	-	-	250,945
0.1% - 0.3%	79,044	-	-	-	-	79,044
0.3% - 1.0%	15,633	995	-	-	-	16,628
1.0% - 10%	-	304	-	-	-	304
10% - 100%	-	-	-	-	-	-
<b>Total nominal amount</b>	<b>717,808</b>	<b>1,409</b>	-	-	-	<b>719,217</b>

### 30. CONCENTRATION RISK MANAGEMENT

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

GROSS LOANS AND ADVANCES TO CUSTOMERS - CONCENTRATION RATIO	30.09.2019	31.12.2018
10 largest exposures	0.05%	0.06%
20 largest exposures	0.09%	0.10%
50 largest exposures	0.21%	0.24%
100 largest exposures	0.40%	0.45%

### 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	30.09.2019	31.12.2018
below 50%	32%	29%
51% - 60%	19%	18%
61% - 70%	23%	23%
71% - 80%	18%	21%
81% - 90%	8%	9%
over 90%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Average LTV based on market valuation	57.3%	58.7%

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	30.09.2019	31.12.2018
mazowiecki	23.5%	24.2%
śląsko-opolski	11.7%	11.3%
dolnośląski	10.7%	10.5%
wielkopolski	9.3%	9.4%
małopolsko-świętokrzyski	8.2%	8.3%
pomorski	8.2%	8.1%
lubelsko-podkarpacki	6.6%	6.8%
zachodnio-pomorski	6.2%	6.2%
łódzki	4.9%	4.8%
kujawsko-pomorski	4.8%	4.7%
warmińsko-mazurski	3.4%	3.3%
podlaski	2.5%	2.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## 32. LIQUIDITY RISK MANAGEMENT

### 32.1 LIQUIDITY RISK MEASUREMENT AND ASSESSMENT

The Bank applies the following liquidity risk measures:

- contractual, actualized 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;
- the liquidity stress tests.

The adjusted liquidity gaps as at 30 September 2019 and as at 31 December 2018 are presented below.

LIQUIDITY GAP AS AT	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.09.2019								
Adjusted periodic gap	1,546,836	602,468	(409,542)	(2,656,618)	(1,047,942)	(3,608,858)	(12,767,014)	18,036,124
Adjusted cumulative periodic gap	1,546,836	2,149,304	1,739,762	(916,856)	(1,964,798)	(5,573,656)	(18,340,670)	(304,546)

As at 30 September 2019, in the ranges of up to 3 months, the cumulative adjusted liquidity gap had positive values, which means a surplus of maturing assets increased by estimated inflows from the available overdraft limit over mature liabilities in the short and medium term.

LIQUIDITY GAP AS AT	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
31.12.2018								
Adjusted periodic gap	1,171,448	393,495	(45,787)	(1,760,766)	(397,478)	(4,098,827)	(5,517,552)	9,610,867
Adjusted cumulative periodic gap	1,171,448	1,564,943	1,519,156	(241,610)	(639,088)	(4,737,915)	(10,255,467)	(644,600)

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

SENSITIVITY MEASURE	30.09.2019	31.12.2018
Liquidity surplus in the horizon of up to 1 month (in PLN million)	1,691	1,452

The Liquidity surplus is defined as the difference between the sum of liquid assets and the unconditional stand-by credit facility, and the expected and potential liabilities which mature in a given time horizon.

The Bank monitors all liquidity standards specified in the Resolution of the PFSA 386/2008 dated 17 December 2008. The values of liquidity standards binding as at 30 September 2019 and 31 December 2018, and the average, minimum and maximum values during the reporting period are shown in the following table:

30.09.2019	as at the end of the period	average during the period	minimum for the period	period high	regulatory minimum
M3	294.29	308.98	145.75	1,807.65	>1.0
M4	1.04	1.03	1.03	1.05	>1.0

  

31.12.2018	as at the end of the period	average during the period	minimum for the period	period high	regulatory minimum
M3	1,493.58	921.62	78.48	2,164.57	>1.0
M4	1.03	1.04	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	30.09.2019	31.12.2018
Liquidity coverage ratio up to 1 month (LCR)	270%	1255%
LCR regulatory limit	100%	100%

## 32.2 LIQUIDITY RISK CONTROL

The control of liquidity consists of determining strategic tolerance limits appropriate for the scale and complexity of the Bank, and internal liquidity risk limits for short-, medium-, and long-term liquidity, 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 September 2019 and 31 December 2018 was within the strategic and internal limits set. In the period ended 30 September 2019 and in the period ended 31 December 2018 the Bank did not exceed any of the standards nor any strategic or internal limits.

The Bank regularly reviews the business assumptions which may have a material effect 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

The 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.

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



30.09.2019	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months	Total
<b>Inflows</b>	<b>1,546,836</b>	<b>151,707</b>	<b>300,694</b>	<b>621,746</b>	<b>929,211</b>	<b>2,040,406</b>	<b>6,032,075</b>	<b>27,946,607</b>	<b>39,569,282</b>
securities	-	-	1,280	167,819	9,476	188,655	560,715	335,954	1,263,899
loans and advances to customers	-	151,707	299,414	453,927	919,735	1,851,751	5,471,360	27,610,653	36,758,547
credit lines	1,546,808	-	-	-	-	-	-	-	1,546,808
other	28	-	-	-	-	-	-	-	28
<b>Outflows</b>	<b>7,734</b>	<b>987,093</b>	<b>1,788,535</b>	<b>3,129,172</b>	<b>1,345,999</b>	<b>2,781,312</b>	<b>16,520,292</b>	<b>813,418</b>	<b>27,373,555</b>
amounts due to banks	7,734	13,367	5,543	1,512,409	1,164,491	1,207,226	2,035,888	-	5,946,658
mortgage covered bonds issued	-	11,729	16,911	53,858	75,472	1,440,734	14,483,646	813,410	16,895,760
unsecured bonds issued	-	804,595	1,584,305	1,451,981	1,163	97,111	-	-	3,939,155
disbursement of loan commitments	-	152,691	181,776	110,924	104,873	36,241	758	8	587,271
other	-	4,711	-	-	-	-	-	-	4,711
Inflows from hedging derivative instruments	-	-	7,234	31,975	33,232	73,988	12,303,970	8,370	12,458,769
Outflows on hedging derivative instruments	-	26,032	47,146	85,628	177,090	380,755	12,532,556	9,753	13,258,960
<b>Periodic gap</b>	<b>1,539,102</b>	<b>(861,418)</b>	<b>(1,527,753)</b>	<b>(2,561,079)</b>	<b>(560,646)</b>	<b>(1,047,673)</b>	<b>(10,716,803)</b>	<b>27,131,806</b>	<b>11,395,536</b>
<b>Cumulative gap</b>	<b>1,539,102</b>	<b>677,684</b>	<b>(850,069)</b>	<b>(3,411,148)</b>	<b>(3,971,794)</b>	<b>(5,019,467)</b>	<b>(15,736,270)</b>	<b>11,395,536</b>	
<b>31.12.2018</b>	<b>on demand</b>	<b>0-1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>12-24 months</b>	<b>24-60 months</b>	<b>over 60 months</b>	<b>Total</b>
<b>Inflows</b>	<b>1,171,448</b>	<b>314,154</b>	<b>244,439</b>	<b>373,354</b>	<b>760,153</b>	<b>1,694,468</b>	<b>4,852,822</b>	<b>23,000,979</b>	<b>32,411,817</b>
securities	-	191,172	-	1,280	5,985	169,036	335,428	181,920	884,821
loans and advances to customers	-	122,533	244,439	372,074	754,168	1,525,432	4,517,394	22,819,059	30,355,099
credit lines	1,171,420	-	-	-	-	-	-	-	1,171,420
other	28	449	-	-	-	-	-	-	477
<b>Outflows</b>	<b>5,496</b>	<b>641,563</b>	<b>656,458</b>	<b>4,103,379</b>	<b>926,399</b>	<b>2,200,035</b>	<b>8,770,547</b>	<b>5,992,147</b>	<b>23,296,024</b>
amounts due to banks	5,496	10,778	12,120	1,804,054	678,562	1,628,999	1,517,526	-	5,657,535
mortgage covered bonds issued	-	38,803	9,810	23,775	70,874	174,505	7,251,797	5,992,147	13,561,711
unsecured bonds issued	-	386,239	455,400	2,121,798	23,037	352,340	-	-	3,338,814
disbursement of loan commitments	-	186,996	179,128	153,752	153,926	44,191	1,224	-	719,217
other	-	18,747	-	-	-	-	-	-	18,747
Inflows from hedging derivative instruments	-	27,913	882	5,017	27,011	63,510	4,699,897	4,451,008	9,275,238
Outflows on hedging derivative instruments	-	26,465	28,673	61,503	129,001	282,588	5,297,119	4,442,569	10,267,918
<b>Periodic gap</b>	<b>1,165,952</b>	<b>(325,961)</b>	<b>(439,810)</b>	<b>(3,786,511)</b>	<b>(268,236)</b>	<b>(724,645)</b>	<b>(4,514,947)</b>	<b>17,017,271</b>	<b>8,123,113</b>
<b>Cumulative gap</b>	<b>1,165,952</b>	<b>839,991</b>	<b>400,181</b>	<b>(3,386,330)</b>	<b>(3,654,566)</b>	<b>(4,379,211)</b>	<b>(8,894,158)</b>	<b>8,123,113</b>	

### 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 FINANCING	30.09.2019	31.12.2018
Mortgage-covered bonds issued	60.2%	58.1%
Unsecured bonds issued	14.5%	15.0%
Funds from the parent entity	16.6%	18.7%
Equity	7.5%	6.7%
Other	1.3%	1.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The share of funding raised from the parent entity amounted to 16.6% as at 30 September 2019 and 18.7% as at 31 December 2018. Such level of the indicator is consistent with the financial plan at the current stage of the Bank's operations and is expected to gradually decrease with successive issues of mortgage covered bonds and unsecured bonds. 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 in short-term and long-term horizons, according to the mortgage covered bond issues carried out by the Bank. In the period ended 30 September 2019 and 31 December 2018 none of these limits were exceeded.

### 33. INTEREST RATE RISK MANAGEMENT

#### 33.1 INTEREST RATE RISK MEASUREMENT AND ASSESSMENT

The repricing gap report presented below includes assets and liabilities as 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, deposits from banks in the form of current account balances and current account overdrafts.

30.09.2019	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:	7,988,514	16,378,948	2,084,932	2,939	8,372	4,783	-	26,468,488
securities	-	143,000	1,043,480	-	-	-	-	1,186,480
loans and advances to customers	7,988,514	16,235,948	1,041,452	2,939	8,372	4,783	-	25,282,008
Liabilities	(5,202,547)	(6,137,053)	(1,097,500)	-	(265,000)	(12,154,234)	(60,000)	(24,916,334)
amounts due to banks	(2,318,247)	(2,380,153)	-	-	-	-	-	(4,698,400)
mortgage covered bonds issued	(2,030,000)	(1,780,000)	-	-	(265,000)	(12,154,234)	(60,000)	(16,289,234)
unsecured bonds issued	(854,300)	(1,976,900)	(1,097,500)	-	-	-	-	(3,928,700)
Derivative hedging instruments – assets	-	596	507	2,216	268,551	12,152,829	60,000	12,484,699
Derivative hedging instruments – liabilities	(4,232,131)	(7,957,148)	(503)	(2,114)	(3,375)	(15,087)	-	(12,210,358)
<b>Periodic gap</b>	<b>(1,446,164)</b>	<b>2,285,343</b>	<b>987,436</b>	<b>3,041</b>	<b>8,548</b>	<b>(11,709)</b>	<b>-</b>	<b>1,826,495</b>
<b>Cumulative gap</b>	<b>(1,446,164)</b>	<b>839,179</b>	<b>1,826,616</b>	<b>1,829,657</b>	<b>1,838,205</b>	<b>1,826,496</b>	<b>1,826,496</b>	



**CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)**



31.12.2018	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:	7,606,968	14,063,152	144,045	3,636	7,794	-	-	21,825,595
securities	693,480	-	143,000	-	-	-	-	836,480
loans and advances to customers	6,913,488	14,063,152	1,045	3,636	7,794	-	-	20,989,115
Liabilities	(3,642,594)	(5,357,824)	(2,119,700)	(18,500)	-	(4,797,200)	(4,467,500)	(20,403,318)
amounts due to banks	(1,227,794)	(3,022,424)	-	-	-	-	-	(4,250,218)
mortgage covered bonds issued	(2,030,000)	(1,530,000)	-	-	-	(4,797,200)	(4,467,500)	(12,824,700)
unsecured bonds issued	(384,800)	(805,400)	(2,119,700)	(18,500)	-	-	-	(3,328,400)
Derivative hedging instruments - assets	435	-	1,202	295	2,040	4,799,644	4,466,738	9,270,354
Derivative hedging instruments - liabilities	(4,232,565)	(4,951,687)	(1,128)	(286)	(1,908)	(9,971)	(4,122)	(9,201,667)
<b>Periodic gap</b>	<b>(267,756)</b>	<b>3,753,641</b>	<b>(1,975,581)</b>	<b>(14,855)</b>	<b>7,926</b>	<b>(7,527)</b>	<b>(4,884)</b>	<b>1,490,964</b>
<b>Cumulative gap</b>	<b>(267,756)</b>	<b>3,485,885</b>	<b>1,510,304</b>	<b>1,495,449</b>	<b>1,503,375</b>	<b>1,495,848</b>	<b>1,490,964</b>	

### 34. FOREIGN EXCHANGE RISK MANAGEMENT

The table below presents the Bank's foreign exchange position.

FOREIGN CURRENCY POSITION EXPRESSED IN PLN '000	30.09.2019	31.12.2018
EUR	13	78
USD	1	2

The foreign exchange risk exposure of PKO Bank Hipoteczny SA as at 30 September 2019 and 31 December 2018 was within the strategic and internal limits set.

### 35. OPERATIONAL RISK MANAGEMENT

In the nine-month period of 2019, nine operational risk incidents were disclosed at the Bank, which involved operational losses totalling PLN 3 thousand net, whereas in the nine-month period of 2018 there were five incidents with a financial loss of PLN 5 thousand.

In order to limit 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 September 2019, the total capital ratio of the Bank amounted to 16.4% (15.2% as at 31 December 2018). Without taking account of the temporary solutions resulting from the implementation of IFRS 9, the total capital ratio of the Bank would have amounted to 16.2% (15.0% as at 31 December 2018).

#### 36.1 OWN FUNDS FOR THE PURPOSE OF CAPITAL ADEQUACY

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 core 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	30.09.2019	31.12.2018
Share capital	1,611,300	1,295,000
Supplementary capital	161,563	54,932
Retained earnings	-	(11,787)
Net profit for the period	65,154	85,849
Accumulated other comprehensive income - cash flow hedges	183,828	59,462
Accumulated other comprehensive income - financial assets measured at fair value through other comprehensive income	2,391	4,427
<b>Equity</b>	<b>2,024,236</b>	<b>1,487,883</b>
Equity adjustments	(205,167)	(94,036)
Net profit for the period	(65,154)	(85,849)
Current profit, included by permission from the PFSA	30,629	42,588
Accumulated other comprehensive income - cash flow hedges	(183,828)	(59,462)
Intangible assets	(2,841)	(4,165)
Adjustment to assets measured at fair value (AVA)	(1,447)	(949)
Adjustment relating to the transitional period for IFRS 9 implementation	17,474	13,801
<b>Total own funds</b>	<b>1,819,069</b>	<b>1,393,847</b>

As at 30 September 2019, the Bank's own funds Tier I common equity capital and Tier I capital, without accounting for transitional solutions following from the implementation of IFRS 9, would have amounted to PLN 1,801,595 thousand and to PLN 1,380,046 thousand as at 31 December 2018.

## 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	30.09.2019	31.12.2018
Leverage ratio (LR)	6.8%	6.3%

As at 30 September 2019 and as at 31 December 2018, the Bank's financial leverage ratio was above the 3% level recommended for banks by the Basel Committee.

As at 30 September 2019, the leverage ratio, without taking account of the transitional solutions resulting from the implementation of IFRS 9, would have amounted to 6.7%, whereas it was 6.2% as at 31 December 2018.

## 36.3 REQUIREMENTS REGARDING OWN FUNDS (PILLAR I)

In accordance with the CRR Regulation, 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.

CONDENSED INTERIM FINANCIAL STATEMENTS OF  
PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD 30 SEPTEMBER 2019  
(IN PLN THOUSANDS)



Bank Hipoteczny

At 30 September 2019 and as at 31 December 2018, 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	30.09.2019	31.12.2018
Credit risk	867,267	718,961
Operational risk	22,695	15,655
<b>Total own funds requirement</b>	<b>889,962</b>	<b>734,616</b>
Common equity Tier 1 capital ratio (CET1)	16.4%	15.2%
Tier 1 capital ratio (T1);	16.4%	15.2%
<b>Total capital ratio (TCR)</b>	<b>16.4%</b>	<b>15.2%</b>



## EVENTS AFTER THE END OF THE REPORTING PERIOD

### 37. EVENTS AFTER THE END OF THE REPORTING PERIOD

None.

Signatures of all Members of the Bank's Management Board

30.10.2019	Paulina Strugała	President of the Management Board	<i>Signed on Polish original</i> ..... (SIGNATURE)
30.10.2019	Piotr Kochanek	Vice-President of the Management Board	<i>Signed on Polish original</i> ..... (SIGNATURE)
30.10.2019	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

30.10.2019

Tomasz Rynkowski  
Director, the Bank's Chief Accountant

*Signed on Polish original*  
.....  
(SIGNATURE)