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Bank Hipoteczny

SELECTED FINANCIAL DATA RELATING TO THE FINANCIAL STATEMENTS



SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	period from 01.01.2021 to 30.09.2021	period from 01.01.2020 to 30.09.2020	period from 01.01.2021 to 30.09.2021	period from 01.01.2020 to 30.09.2020
Net interest income	226,898	252,916	49,775	56,937
Net fee and commission income	(5,108)	(2,976)	(1,121)	(670)
Operating profit	97,982	95,454	21,494	21,489
Profit before tax	97,982	95,454	21,494	21,489
Net profit	59,426	56,482	13,036	12,715
Net comprehensive income	(451)	93,091	(99)	20,957
Net cash from/used in operating activities	1,399,456	(1,265,301)	306,999	(284,849)
Net cash from/used in investing activities	175,671	19,435	38,537	4,375
Net cash from/used in financing activities	(1,574,690)	1,245,842	(345,440)	280,469
Total net cash flows	437	(24)	96	(5)

SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	as at 30.09.2021	as at 31.12.2020	as at 30.09.2021	as at 31.12.2020
Total assets	25,710,188	27,310,492	5,549,480	5,918,023
Total equity	2,092,754	2,093,205	451,716	453,585
Share capital	1,611,300	1,611,300	347,795	349,159
Number of shares (in thousands)	1,611,300	1,611,300	1,611,300	1,611,300
Book value per share (in PLN/EUR)	1.30	1.30	0.28	0.28
Diluted number of shares (in thousands)	1,611,300	1,611,300	1,611,300	1,611,300
Diluted book value per share (in PLN/EUR)	1.30	1.30	0.28	0.28
Total capital ratio (TCR)	20.2%	18.7%	20.2%	18.7%
Common equity Tier 1 (CET1)	1,985,717	1,933,805	428,612	419,044
Own funds	1,985,717	1,933,805	428,612	419,044

Selected financial statement items have been translated to EUR at the following foreign exchange rates		
items of the income statement, statement of comprehensive income and statement of cash flows items – the average of the NBP exchange rates prevailing as at the last day of each month of the period	01.01.2021 - 30.09.2021	01.01.2020 - 30.09.2020
	4.5585	4.4420
items of the statement of financial position – the average NBP exchange rate as at the last day of the period	30.09.2021	31.12.2020
	4.6329	4.6148

Condensed interim
financial statements
of PKO Bank Hipoteczny SA
for the nine-month period ended
30 September 2021



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INCOME STATEMENT

INCOME STATEMENT	Note	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Interest income and income similar to interest income, including:	3	123,065	374,311	143,631	573,295
Interest income recognized under the effective interest rate method		121,699	369,733	142,120	570,683
Income similar to interest income on instruments measured at fair value through profit or loss		1,366	4,578	1,511	2,612
Interest expenses and expenses similar to interest expenses	3	(48,827)	(147,413)	(63,953)	(320,379)
Net interest income		74,238	226,898	79,678	252,916
Fee and commission income	4	1,873	5,763	2,050	6,743
Fee and commission expense	4	(3,332)	(10,871)	(3,743)	(9,719)
Net fee and commission income		(1,459)	(5,108)	(1,693)	(2,976)
Net gain/(loss) on financial instruments measured at fair value through profit or loss		17	50	40	69
Net foreign exchange gains / (losses)	5	321	335	173	5,767
Net income / (expense) on modification		456	806	(1,124)	(2,648)
Net allowance for expected credit losses	6	629	(819)	(7,187)	(26,762)
Other operating income		101	348	105	313
Other operating expenses		(62)	(198)	(59)	(392)
Net other operating income and expenses		39	150	46	(79)
Administrative expenses	7	(11,199)	(35,963)	(12,046)	(38,013)
Regulatory charges	8	(145)	(24,773)	(286)	(25,534)
Tax on certain financial institutions		(20,772)	(63,594)	(22,102)	(67,286)
Operating profit		42,125	97,982	35,499	95,454
Profit before tax		42,125	97,982	35,499	95,454
Corporate income tax	9	(16,576)	(38,556)	(14,491)	(38,972)
Net profit		25,549	59,426	21,008	56,482



STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Net profit		25,549	59,426	21,008	56,482
Other comprehensive income		(6,534)	(59,877)	9,480	36,609
Items which may be reclassified to profit or loss		(6,534)	(59,877)	9,480	36,609
Cash flow hedges (gross)		(8,399)	(72,239)	9,507	43,404
Deferred income tax		1,595	13,725	(1,807)	(8,247)
Cash flow hedges (net)	10	(6,804)	(58,514)	7,700	35,157
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)		333	(1,683)	2,198	1,793
Deferred income tax		(63)	320	(418)	(341)
Remeasurement of financial assets measured at fair value through other comprehensive income (net)		270	(1,363)	1,780	1,452
Total net comprehensive income		19,015	(451)	30,488	93,091



STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Note	30.09.2021	31.12.2020
ASSETS			
Cash and balances with the Central Bank		18	21
Amounts due from banks		463	23
measured at amortized cost		463	23
Derivative hedging instruments	10	1,122,693	1,154,692
Securities	11	1,067,981	1,241,821
measured at fair value through other comprehensive income		1,067,981	1,241,821
Loans and advances to customers	12, 13	23,509,934	24,902,659
measured at amortized cost		23,509,934	24,902,659
Intangible assets		190	1,050
Property, plant and equipment		4,105	3,747
Other assets		4,804	6,479
TOTAL ASSETS		25,710,188	27,310,492
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to banks	14	3,939,872	3,575,133
measured at amortized cost		3,939,872	3,575,133
Derivative hedging instruments	10	419	541
Amounts due to customers		6,229	6,641
measured at amortized cost		6,229	6,641
Liabilities in respect of mortgage covered bonds issued	15	15,987,173	17,205,554
measured at amortized cost		15,987,173	17,205,554
Liabilities in respect of bonds issued	16	3,596,750	4,337,081
measured at amortized cost		3,596,750	4,337,081
Other liabilities	17	45,599	38,428
Current income tax liabilities		4,706	4,055
Deferred income tax provision		36,450	49,634
Provisions	18	236	220
TOTAL LIABILITIES		23,617,434	25,217,287
Equity			
Share capital	19	1,611,300	1,611,300
Supplementary capital		332,263	250,733
Accumulated other comprehensive income		89,765	149,642
Retained earnings		-	-
Net profit for the period		59,426	81,530
TOTAL EQUITY		2,092,754	2,093,205
TOTAL LIABILITIES AND EQUITY		25,710,188	27,310,492
Total capital ratio (TCR)	33	20.2%	18.7%
Book value (in PLN '000)		2,092,754	2,093,205
Number of shares (in thousands)	19	1,611,300	1,611,300
Book value per share (in PLN)		1.30	1.30
Diluted number of shares (in thousands)		1,611,300	1,611,300
Diluted book value per share (in PLN)		1.30	1.30

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 SEPTEMBER 2021	Note	Share capital	Supplementary capital	Accumulated other comprehensive income	including:		Retained earnings	Net profit for the period	Total equity
					Cash flow hedges	Financial assets measured at fair value through other comprehensive income			
1 January 2021		1,611,300	250,733	149,642	141,186	8,456	-	81,530	2,093,205
Transfer from retained earnings		-	-	-	-	-	81,530	(81,530)	-
Transfer from profit to equity		-	81,530	-	-	-	(81,530)	-	-
Total comprehensive income, including:		-	-	(59,877)	(58,514)	(1,363)	-	59,426	(451)
Net profit		-	-	-	-	-	-	59,426	59,426
Other comprehensive income		-	-	(59,877)	(58,514)	(1,363)	-	-	(59,877)
30 September 2021	19	1,611,300	332,263	89,765	82,672	7,093	-	59,426	2,092,754

FOR THE PERIOD ENDED 30 September 2020	Note	Share capital	Supplementary capital	Accumulated other comprehensive income	including:		Retained earnings	Net profit for the period	Total equity
					Cash flow hedges	Financial assets measured at fair value through other comprehensive income			
1 January 2020		1,611,300	161,563	137,990	134,421	3,569	-	89,170	2,000,023
Transfer from retained earnings		-	-	-	-	-	89,170	(89,170)	-
Transfer from profit to equity		-	89,170	-	-	-	(89,170)	-	-
Total comprehensive income, including:		-	-	36,609	35,157	1,452	-	56,482	93,091
Net profit		-	-	-	-	-	-	56,482	56,482
Other comprehensive income		-	-	36,609	35,157	1,452	-	-	36,609
30 September 2020	19	1,611,300	250,733	174,599	169,578	5,021	-	56,482	2,093,114



STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	Note	01.01.2021 - 30.09.2021	01.01.2020 - 30.09.2020
Cash flows from operating activities			
Profit before tax		97,982	95,454
Income tax paid		(37,043)	(36,191)
Total adjustments:		1,338,517	(1,324,564)
Amortization and depreciation		1,872	2,108
Interest recognized in cash flows from investing activities and cash flows from financing activities		119,346	209,525
Change in:			
derivative financial instruments (asset)		31,999	(761,170)
loans and advances to customers (gross)		1,391,933	505,351
securities measured at fair value through other comprehensive income		521	5,928
other assets and right-of-use assets		337	3,664
amounts due to banks		(201,472)	(2,086,390)
derivative financial instruments (liability)		(122)	(45,388)
amounts due to customers		(411)	(287)
liabilities in respect of mortgage covered bonds issued		46,619	738,365
liabilities in respect of bonds issued		11,196	30,536
allowances for expected credit losses and provisions		808	26,450
other liabilities, excluding liabilities in respect of unregistered issues of own shares		8,129	3,341
Other adjustments (including changes in the measurement of derivative instruments recognized in other comprehensive income)		(72,238)	43,403
Net cash from/used in operating activities		1,399,456	(1,265,301)
Cash flows from investing activities			
Inflows from investing activities		3,430,640	369,347
Redemption securities measured at fair value through other comprehensive income		3,430,640	369,347
Outflows on investing activities		(3,254,969)	(349,912)
Acquisition of securities measured at fair value through other comprehensive income		(3,254,938)	(349,865)
Purchase of intangible assets and property, plant and equipment		(31)	(47)
Net cash from/used in investing activities		175,671	19,435
Cash flows from financing activities			
Redemption mortgage covered bonds issued		(1,265,000)	-
Proceeds from issue of bonds		4,895,972	4,327,183
Redemption of bonds issued		(5,647,500)	(4,766,500)
Inflows related to overdraft facilities		4,941,006	13,912,943
Outflows related to overdraft facilities		(4,434,795)	(12,146,849)
Inflows related to term loans		60,000	150,000
Repayment of interest on mortgage covered bonds issued, bonds issued and loans obtained		(123,414)	(229,977)
Payments of lease liabilities (IFRS 16)		(959)	(958)
Net cash from/used in financing activities		(1,574,690)	1,245,842
Total net cash flows		437	(24)
Cash and cash equivalents at the beginning of the period		44	51
Cash and cash equivalents at the end of the period	23	481	27



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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. GENERAL INFORMATION

BANKING ACTIVITIES

PKO Bank Hipoteczny Spółka Akcyjna ("PKO Bank Hipoteczny SA", "Bank") with its registered office in Warsaw ul. Puławska 15, 02-515 Warsaw is entered in the Register of Businesses of the National Court Register (KRS) maintained by the District Court in Warsaw, 13th Business Department of the National Court Register with the reference number KRS 0000528469. The Bank was entered to the Register of Businesses on 24 October 2014. The Bank was assigned the statistical number REGON 222181030. Its share capital as at 30 September 2021 was PLN 1,611,300,000 and it was fully paid up.

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

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

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

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

The Parent of PKO Bank Hipoteczny SA is PKO Bank Polski SA, in which the State Treasury holds a 29.43% share in the share capital. PKO Bank Polski SA prepares consolidated financial statements for the PKO Bank Polski Group.

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

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

No.	Name and surname	Position	Date of appointment to the Supervisory Board	Date of dismissal / resignation end of term
1	Mieczysław Król	Chairman of the Supervisory Board	13.08.2021	-
2	Jan Emyryk Rościszewski	Chairman of the Supervisory Board	13.04.2021	12.08.2021
3	Jakub Papierski	Chairman of the Supervisory Board	06.10.2014	13.04.2021
4	Paweł Metrycki	Member of the Supervisory Board (from 30.03.2019 to 07.10.2019) / Deputy Chairman of the Supervisory Board (from 07.10.2019)	30.03.2019	-
5	Justyna Borkiewicz	Member of the Supervisory Board	28.10.2016	07.07.2021
6	Lucyna Kopińska	Member of the Supervisory Board	01.09.2019	-
7	Piotr Kwiecień	Member of the Supervisory Board (independent)	18.10.2017	-
8	Jadwiga Lesisz	Member of the Supervisory Board (independent)	01.09.2019	-
9	Dariusz Odzioba	Member of the Supervisory Board	01.09.2019	30.08.2021
10	Ilona Wołyniec	Member of the Supervisory Board	30.03.2019	-

The following changes in the composition of the Supervisory Board took place in the period covered by the condensed interim financial statements:

- On 6 April 2021, Mr Jakub Papierski submitted his resignation as a member of the Bank's Supervisory Board effective as of the date of the Ordinary General Shareholders' Meeting approving the financial statements for the financial year ended 31 December 2020.
- On 13 April 2021, the Ordinary Shareholders Meeting of the Bank appointed Mr Jan Emyryk Rościszewski to the Supervisory Board for a joint four-year term of office.
- On 7 July 2021, Ms Justyna Borkiewicz submitted her resignation as a member of the Supervisory Board;
- On 12 August 2021, Mr Jan Emyryk Rościszewski submitted his resignation as a member of the Supervisory Board Member;
- On 13 August 2021, the Extraordinary Shareholders Meeting of the Bank appointed Mr Mieczysław Król to the Supervisory Board for a joint four-year term of office;
- On 30 August 2021, Mr Dariusz Odzioba submitted his resignation as a member of the Supervisory Board.

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

No.	Name and surname	Position	Date of appointment	Date of dismissal / resignation
1	Paulina Strugała	President of the Management Board	16.04.2018	30.09.2021
2	Daniel Goska	Vice-President of the Management Board	01.10.2020	-
3	Piotr Kochanek	Vice-President of the Management Board	01.01.2019	-

The following changes in the composition of the Management Board took place in the period covered by the condensed interim financial statements:

- On 20 August 2021, Ms Paulina Strugała submitted her resignation from membership in the Bank's Supervisory Board effective as of the end of 30 September 2021;
- On 27 August 2021, the Bank's Supervisory Board appointed Mr Daniel Goska, a Vice-President of the Bank's Management Board until that date, the President of the Bank's Management Board as part of the current joint four-year term of office of the Bank's Management Board, subject to the consent of the Polish Financial Supervision Authority and as at the date of such consent, but not earlier than 1 October 2021. Should the Polish Financial Supervision Authority not issue the said consent by 1 October 2021, the Supervisory Board entrusted to Mr Daniel Goska the task of directing the work of the Management Board in the period from 1 October 2021 until the date of the Polish Financial Supervision Authority issuing the consent.
- In addition, on 27 August 2021, the Bank's Supervisory Board appointed Ms Katarzyna Surdy a Vice-President of the Bank's Management Board for the current joint four-year term of office of the Bank's Management Board as of 1 October 2021.

BASIS FOR THE 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 2021 and contain comparative data:

- for the nine-month and three-month periods ended 30 September 2020 in respect of the income statement and statement of comprehensive income;
- for the nine months ended 30 June 2021 in respect of the statement of cash flows and the statement of changes in equity;
- as at 31 December 2020 in respect of the statement of financial position.

The financial data is presented in thousands of Polish zlotys (PLN), rounded to a thousand, unless otherwise indicated. Therefore, there might be differences resulting from rounding the amounts to full thousands.

1.1 STATEMENT OF COMPLIANCE

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

Except for the specific principles of taxation relating to interim periods referred to in Note 2.4 Income tax in the interim financial statements, the accounting policies and calculation methods used in the preparation of these condensed



interim financial statements are consistent with the policies applied in the financial year ended 31 December 2020 and they are described in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020.

The condensed interim financial statements for the nine months ended 30 September 2021 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 2020 prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

1.2 REPRESENTATIONS OF THE MANAGEMENT BOARD

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

1.3 APPROVAL OF THE FINANCIAL STATEMENT

These condensed interim financial statement, having been reviewed with an opinion issued by the Audit and Finance Committee of the Supervisory Board and reviewed by the Supervisory Board on 29 October 2021 were approved by the Bank's Management Board for publication on 29 October 2021.

2. CHANGES IN ACCOUNTING POLICIES, ESTIMATES

2.1 NEW STANDARDS AND AMENDMENTS TO THE PUBLISHED STANDARDS AND INTERPRETATIONS WHICH BECAME BINDING AS OF 1 JANUARY 2021

2.1.1. AMENDMENTS RELATING TO THE IBOR REFORM

At stage I, amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* published in 2019 modified some detailed requirements concerning hedge accounting, mainly in order to prevent the expected interest rates reform (IBOR reform) from effectively ending hedge accounting. The key exemptions resulting from the amendment concern:

- the "highly probable" requirement for cash flows;
- the risk components;
- prospective assessments;
- retrospective effectiveness testing (for IAS 39);
- reclassifications of the cash flow hedge reserve.

In view of the above, the Bank did not take the impact of uncertainty as to the IBOR rates, the Bank did not take into account the impact of uncertainty relating to IBOR benchmarks after 31 December 2021 in its tests of effectiveness performed as part of the prospective verification of the effectiveness of hedging relationships.

In 2020, the International Accounting Standards Board published stage II amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments relate to, among other things, the accounting treatment of cash flow changes, hedge accounting and disclosures associated with the IBOR reform.

The Bank does not expect these amendments to have a material effect on financial statements.

2.1.2. OTHER CHANGES

The Bank does not identify any new standards or amendments to standards or interpretations which have been published and endorsed by the European Union, but are not binding for annual periods beginning on 1 January 2021, but which will have a material impact on the financial statements.

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

The Bank does not identify any new standards or amendments to standards or interpretations, which have been published and endorsed by the European Union, but are not binding for annual periods beginning on 1 January 2021 and have not been applied to the financial statements, but which will have a material impact on the financial statements.



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

Amendments to:

- IAS 1 *Presentation of Financial Statements*, with respect to the classification of liabilities as current and non-current, and the obligation to disclose significant information relating to the accounting policies which were defined in the standard;
 - IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, with respect to the definition of estimates;
 - IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* with respect to the clarification on the costs that an entity considers when analysing whether a contract is onerous;
 - IFRS 16 *Leases* in connection with the COVID-19 pandemic;
- and the introduction of IFRS 17 *Insurance Contracts* will not have a material effect on the Bank's financial statements.

2.4 INCOME TAX IN THE INTERIM FINANCIAL STATEMENTS

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

The calculation of the average annual effective income tax rate requires the use of a forecast of the income before tax for the whole financial year and the permanent differences between the carrying amounts of assets and liabilities for accounting and tax purposes.



NOTES TO THE INCOME STATEMENT

3. INTEREST INCOME AND EXPENSES

INTEREST INCOME AND INCOME SIMILAR TO INTEREST INCOME	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Interest income recognized under the effective interest rate method, including:	121,699	369,733	142,120	570,683
on financial instruments measured at amortized cost, including:				
loans and advances to customers	120,496	366,187	139,431	556,158
amounts due from banks and on mandatory reserve	3	11	1	49
on instruments measured at fair value through other comprehensive income, including:				
debt securities	1,203	3,546	2,689	14,525
Income similar to interest income on instruments measured at fair value through profit or loss, including:	1,366	4,578	1,511	2,612
hedging IRS transactions (net)	1,366	4,578	1,511	2,612
Total	123,065	374,311	143,631	573,295
including: interest income on impaired financial instruments	212	590	199	668

INTEREST EXPENSES AND EXPENSES SIMILAR TO INTEREST EXPENSES	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Interest expense on financial instruments measured at amortized cost, including:	(40,094)	(118,696)	(48,501)	(214,044)
loans received and overdraft facility used	(8,875)	(22,184)	(11,481)	(57,088)
liabilities in respect of the purchase of receivables	(75)	(794)	(225)	(5,854)
mortgage covered bonds issued	(26,952)	(80,871)	(29,958)	(110,653)
bonds issued	(4,182)	(14,809)	(6,815)	(40,360)
lease liabilities	(10)	(38)	(22)	(89)
Expenses similar to interest expense on instruments measured at fair value through profit or loss, including:	(8,733)	(28,717)	(15,452)	(106,335)
hedging CIRS transactions (net)	(8,733)	(28,717)	(15,452)	(106,335)
Total	(48,827)	(147,413)	(63,953)	(320,379)



4. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Fees for property valuation	106	332	236	780
Fees for property inspection	230	899	401	1,326
Commission for full or partial prepayment of loans	1,359	3,915	1,163	3,533
Other	178	617	250	1,104
Total	1,873	5,763	2,050	6,743

FEE AND COMMISSION EXPENSE	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Preparation by property valuers of appraisal reports on Property Value for Mortgage Lending Purposes (MLV)	(203)	(611)	(437)	(827)
Expenses related to bond issue programmes	(1,197)	(4,180)	(1,038)	(2,255)
Expenses related to credit lines	(1,123)	(3,619)	(1,242)	(3,035)
Expenses related to mortgage covered bond issue programmes	(266)	(677)	(285)	(867)
Loan insurance costs	(471)	(1,578)	(691)	(2,537)
Commissions for other operating services	(61)	(182)	(50)	(180)
Costs of debt collection and intermediation in selling collateral	(11)	(24)	0	(18)
Total	(3,332)	(10,871)	(3,743)	(9,719)

5. NET FOREIGN EXCHANGE GAINS / (LOSSES)

NET FOREIGN EXCHANGE GAINS / (LOSSES)	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Result on revaluation	316	330	159	676
Gain/(loss) on derivative instruments (CIRS, FX-Forward) in the speculative period (before designation to hedge accounting and in respect of the final settlement)	1	(10)	1	(3)
Gain/loss on derivative instruments (CIRS, FX-Forward) related to hedge ineffectiveness	4	15	13	5,094
Total	321	335	173	5,767

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



6. NET ALLOWANCE FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	Note	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Net allowances for loans and advances to customers	13	585	(851)	(7,187)	(26,827)
Net provisions for financial commitments related to residential loans not drawn in full	18	44	32	0	65
Total		629	(819)	(7,187)	(26,762)

7. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Employee benefits	(3,637)	(11,447)	(3,705)	(11,284)
Overheads	(6,937)	(22,644)	(7,715)	(24,621)
Amortization and depreciation, including:	(625)	(1,872)	(626)	(2,108)
property, plant and equipment	(25)	(82)	(34)	(122)
right-of-use assets, including:	(310)	(919)	(298)	(930)
real estate	(249)	(745)	(242)	(766)
cars	(61)	(174)	(56)	(164)
intangible assets	(290)	(871)	(294)	(1,056)
Total	(11,199)	(35,963)	(12,046)	(38,013)

EMPLOYEE BENEFITS	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Wages and salaries, including:	(3,179)	(9,753)	(3,323)	(9,701)
provisions for disability and retirement benefits	-	(48)	-	(15)
costs of contributions to the Employee Pension Plan	(74)	(232)	(95)	(243)
Salary surcharges	(399)	(1,491)	(326)	(1,343)
Other employee benefits	(59)	(203)	(56)	(240)
Total	(3,637)	(11,447)	(3,705)	(11,284)



OVERHEADS	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Services relating to supporting operations under Outsourcing Agreement	(955)	(2,920)	(1,035)	(3,004)
Servicing of loans granted and receivables purchased under Outsourcing Agreement	(4,675)	(15,505)	(5,464)	(17,585)
External services under other contracts	(341)	(1,584)	(494)	(1,698)
IT costs	(531)	(1,320)	(333)	(1,175)
Life- and non-life insurance costs	(117)	(344)	(95)	(289)
Costs related to short-term lease contracts	-	-	-	-
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(171)	(538)	(146)	(499)
Other	(147)	(433)	(147)	(370)
Total	(6,937)	(22,644)	(7,715)	(24,621)

8. REGULATORY CHARGES

REGULATORY CHARGES	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Contribution and payments to the Bank Guarantee Fund (BGF), including:	-	(21,053)	-	(22,507)
resolution fund	-	(21,053)	-	(22,507)
Payments to Polish Financial Supervision Authority (PFSA)	(3)	(3,327)	(3)	(2,132)
Payments to Borrowers Support Fund (potential)	-	(22)	(121)	(364)
Other taxes and charges	(142)	(371)	(162)	(531)
Total	(145)	(24,773)	(286)	(25,534)



9. CORPORATE INCOME TAX

INCOME TAX EXPENSE	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Current income tax expense	(12,686)	(37,694)	(11,669)	(29,435)
Deferred income tax due to temporary differences	(3,890)	(862)	(2,822)	(9,537)
Income tax reported in the income statement	(16,576)	(38,556)	(14,491)	(38,972)
Income tax reported in other comprehensive income due to temporary differences	1,532	14,045	(2,225)	(8,588)
Total	(15,044)	(24,511)	(16,716)	(47,560)

RECONCILIATION OF THE EFFECTIVE TAX RATE	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Profit / (loss) before income tax	42,125	97,982	35,499	95,454
Corporate income tax calculated at the statutory tax rate in force in Poland (19%)	(8,004)	(18,617)	(6,745)	(18,136)
Effect of permanent differences between profit before income tax and taxable income, including:	(3,956)	(16,072)	(4,230)	(17,016)
tax on certain financial institutions	(3,947)	(12,083)	(4,199)	(12,784)
fees to the BGF	-	(4,000)	-	(4,276)
PFRON (State Disabled Persons Fund) costs	(2)	(11)	(4)	(11)
impact of tax costs under Article 15cb of the CIT Act (internal financing)	-	48	-	143
impact of other permanent differences	(7)	(26)	(27)	(88)
Impact of applying the annual effective tax rate in the interim financial statements	(4,616)	(3,867)	(3,516)	(3,820)
Effect of other differences between profit before income tax and taxable income, including adjustments to previous periods	-	-	-	-
Income tax reported in the income statement	(16,576)	(38,556)	(14,491)	(38,972)
Effective tax rate	39.35%	39.35%	40.83%	40.83%

The Bank's approach to the calculation of the tax charge is to use the tax rate that would be applicable to the expected profit before tax for the whole year, i.e. using the estimated average annual effective income tax rate applicable to income before tax in the interim period.

The calculation of the average annual effective income tax rate requires the use of a forecast of the income before tax for the whole financial year and the permanent differences between the carrying amounts of assets and liabilities for accounting and tax purposes.

The forecast annual effective tax rate used to calculate the income tax expense in the nine-month period ended 30 September 2021 was 39.35%.



NOTES TO THE STATEMENT OF FINANCIAL POSITION

10. DERIVATIVE HEDGING INSTRUMENTS

As regards hedging strategies, the Bank did not introduce any changes in the nine-month period ended 30 September 2021.

CARRYING AMOUNT / FAIR VALUE OF DERIVATIVES USED AS CASH FLOW HEDGES	30.09.2021		31.12.2020	
	Assets	Liabilities	Assets	Liabilities
IRS	3,557	-	15,203	-
CIRS	1,119,081	-	1,139,378	-
FX-Forward	55	419	111	541
Total	1,122,693	419	1,154,692	541

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

CHANGE IN OTHER COMPREHENSIVE INCOME ON CASH FLOW HEDGES AND THE INEFFECTIVE PORTION OF CASH FLOW HEDGES	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Accumulated other comprehensive income on cash flow hedges at the beginning of the period, gross	110,464	174,304	199,850	165,953
Gains / (Losses) recognized in other comprehensive income during the period	295,696	(45,891)	164,479	684,986
Amounts transferred from other comprehensive income to the income statement during the period	(304,095)	(26,348)	(154,972)	(641,582)
- interest income	(1,366)	(4,578)	(1,511)	(2,612)
- interest expense	8,733	28,717	15,452	106,335
- net foreign exchange gains/(losses)	(311,462)	(50,487)	(168,913)	(745,305)
Accumulated other comprehensive income on cash flow hedges as at the end of the period, gross	102,065	102,065	209,357	209,357
Tax effect	(19,393)	(19,393)	(39,779)	(39,779)
Accumulated other comprehensive income on cash flow hedges as at the end of the period, net	82,672	82,672	169,578	169,578
Ineffective portion of cash flow hedges recognized in the income statement	(220)	(175)	53	5,163
Impact on other comprehensive income during the period, gross	(8,399)	(72,239)	9,507	43,404
Deferred tax on cash flow hedges	1,595	13,725	(1,807)	(8,248)
Impact on other comprehensive income during the period, net	(6,804)	(58,514)	7,700	35,156



11. SECURITIES

SECURITIES	30.09.2021	31.12.2020
Measured at fair value through other comprehensive income, including:	1,067,981	1,241,821
issued by the State Treasury, PLN Treasury bonds	1,067,981	1,241,821
NBP bills	-	-
Total	1,067,981	1,241,821

12. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.09.2021	31.12.2020
Measured at amortized cost		
Residential loans, gross, including:	23,588,761	24,980,694
loans granted	11,813,021	12,261,768
receivables acquired	11,775,740	12,718,926
Allowances for expected credit losses	(78,827)	(78,035)
Loans and advances to customers, net	23,509,934	24,902,659

In the nine-month period ended 30 September 2021, the Bank purchased, based on the Framework Agreement for the Sale of Receivables signed with PKO Bank Polski SA on 17 November 2015, residential mortgage loan receivables portfolios amounting to PLN 157,984 thousand, and in the nine-month period ended 30 September 2020, amounting to PLN 341,910 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 in the Bank's books of account on the transfer dates set in the Receivables Sale Agreements, on which the Bank acquired the rights to the cash flows from individual portfolios, and assumed all related liability for costs and economic risks in the constituent receivables. The purchase of the receivable portfolios was financed with a liability the nature of which is described in Note 14 "Amounts due to banks". The Bank ultimately refinances the purchased receivable portfolios primarily through the issue of 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 by the Bank, as described in Note 15 "Liabilities in respect of mortgage covered bonds issued".

Information about exposure to credit risk for loans and advances to customers granted measured at amortized cost is described in Note 13 "Expected credit losses".

Information about the quality of the loan portfolio is presented in note 27.4 "Loans and advances to customers and impairment".

13. EXPECTED CREDIT LOSSES

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

FINANCIAL ASSETS AND ALLOWANCES FOR EXPECTED CREDIT LOSSES AS AT 30 September 2021	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)	Purchased or originated credit-impaired assets, gross (Stage 3 and POCI)	Allowances for expected credit losses (Stage 3 and POCI)	Total gross amount	Total allowances for expected credit losses
Measured at fair value through other comprehensive income								
securities	1,067,981	-	-	-	-	-	1,067,981	-
issued by the State Treasury, PLN Treasury bonds	1,067,981	-	-	-	-	-	1,067,981	-
NBP bills	-	-	-	-	-	-	-	-
Total	1,067,981	-	-	-	-	-	1,067,981	-
Measured at amortized cost								
amounts due from banks	463	-	-	-	-	-	463	-
loans and advances to customers	21,766,267	(8,656)	1,769,598	(49,045)	52,896	(21,126)	23,588,761	(78,827)
residential loans	21,766,267	(8,656)	1,769,598	(49,045)	52,896	(21,126)	23,588,761	(78,827)
loans granted	10,659,866	(4,856)	1,129,895	(32,137)	23,260	(8,305)	11,813,021	(45,298)
receivables acquired	11,106,401	(3,800)	639,703	(16,908)	29,636	(12,821)	11,775,740	(33,529)
other financial assets	156	-	-	-	-	-	156	-
Total	21,766,886	(8,656)	1,769,598	(49,045)	52,896	(21,126)	23,589,380	(78,827)

As at 30 September 2021, the Bank had purchased or originated credit-impaired assets (POCI) of PLN 160 thousand, gross.

The increase in POCI assets is largely due to applying a new definition of default starting from 1 January 2021, as described in Note 26.

LOAN COMMITMENTS AND PROVISIONS AS AT 30 SEPTEMBER 2021	Nominal amount of loan commitments with no significant increase in credit risk since initial recognition (Stage 1)	Provisions for loan commitments (Stage 1)	Nominal amount of loan commitments with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Provisions for loan commitments (Stage 2)	Nominal amount of credit-impaired loan commitments (Stage 3)	Provisions for loan commitments (Stage 3)	Total nominal amount	Total provisions for loan commitments
Loan commitments	58,778	(16)	47	(3)	-	-	58,825	(19)

This document is a translation of a document originally issued in Polish. The only binding version is the original Polish version.

CONDENSED INTERIM FINANCIAL STATEMENTS
OF PKO BANK HIPOTECZNY SA
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(IN PLN THOUSANDS)



FINANCIAL ASSETS AND ALLOWANCES FOR EXPECTED CREDIT LOSSES AS AT 31 DECEMBER 2020	Assets with no significant increase in credit risk since initial recognition, gross (Stage 1)	Allowances for expected credit losses (Stage 1)	Assets with a significant increase in credit risk since initial recognition, but not credit-impaired, gross (Stage 2)	Allowances for expected credit losses (Stage 2)	Credit-impaired assets, gross (Stage 3)	Allowances for expected credit losses (Stage 3)	Total gross amount	Total allowances for expected credit losses
Measured at fair value through other comprehensive income								
securities	1,241,821	-	-	-	-	-	1,241,821	-
issued by the State Treasury, PLN Treasury bonds	1,241,821	-	-	-	-	-	1,241,821	-
Total	1,241,821	-	-	-	-	-	1,241,821	-
Measured at amortized cost								
amounts due from banks	23	-	-	-	-	-	23	-
loans and advances to customers	23,079,938	(9,651)	1,874,060	(55,822)	26,696	(12,562)	24,980,694	(78,035)
residential loans	23,079,938	(9,651)	1,874,060	(55,822)	26,696	(12,562)	24,980,694	(78,035)
loans granted	11,082,641	(5,200)	1,168,965	(35,723)	10,162	(4,694)	12,261,768	(45,617)
receivables acquired	11,997,297	(4,451)	705,095	(20,099)	16,534	(7,868)	12,718,926	(32,418)
other financial assets	31	-	-	-	-	-	31	-
Total	23,079,992	(9,651)	1,874,060	(55,822)	26,696	(12,562)	24,980,748	(78,035)

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

LOAN COMMITMENTS AND PROVISIONS AS AT 31 DECEMBER 2020	Nominal amount of loan commitments with no significant increase in credit risk since initial recognition (Stage 1)	Provisions for loan commitments (Stage 1)	Nominal amount of loan commitments with a significant increase in credit risk since initial recognition, but not credit-impaired (Stage 2)	Provisions for loan commitments (Stage 2)	Nominal amount of credit-impaired loan commitments (Stage 3)	Provisions for loan commitments (Stage 3)	Total nominal amount	Total provisions for loan commitments
Loan commitments	114,179	(36)	1,277	(15)	-	-	115,456	(51)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS FOR THE PERIOD FROM 1 JANUARY 2021 TO 30 SEPTEMBER 2021	As at 01.01.2021	Increase due to granting and purchase of loans	Changes due to changes in credit risk (net), including total repayment	Changes due to non-substantial modification, net	Decrease due to derecognition	Changes due to lengthening the loss recognition horizon from 12 months to lifetime	Changes due to shortening the loss recognition horizon from lifetime to 12 months	Change due to partial write-off or reversal	Transfers to Stage 1 (S1)	Transfers to Stage 2 (S2)	Transfers to Stage 3 and POCI (S3 and POCI)	Other changes	As at 30.09.2021
Measured at fair value through other comprehensive income													
securities (S1)	-	-	-	-	-	-	-	-				-	-
Total	-	-	-	-	-	-	-	-				-	-
Measured at amortized cost													
amounts due from banks (S1)	-	-	-	-	-	-	-	-				-	-
loans and advances to customers	78,035	245	(4,804)	725	(121)	30,845	(26,039)	(59)				-	78,827
residential loans	78,035	245	(4,804)	725	(121)	30,845	(26,039)	(59)				-	78,827
Stage 1	9,651	136	(271)	159	(12)	30,845	-	(2)	2,038	(32,223)	(1,665)	-	8,656
Stage 2	55,822	109	(1,380)	453	(94)	-	(26,028)	(11)	(2,038)	33,537	(11,325)	-	49,045
Stage 3 and POCI	12,562	-	(3,153)	113	(15)	-	(11)	(46)	-	(1,314)	12,990	-	21,126
other financial assets (S1)	-	-	-	-	-	-	-	-				-	-
Total	78,035	245	(4,804)	725	(121)	30,845	(26,039)	(59)				-	78,827

CONDENSED INTERIM FINANCIAL STATEMENTS
OF PKO BANK HIPOTECZNY SA
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(IN PLN THOUSANDS)

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS FOR THE PERIOD FROM 1 January 2020 TO 30 September 2020	As at 01.01.2020	Increase due to granting and purchase of loans	Changes due to changes in credit risk (net), including total repayment	Changes due to non-substantial modification, net	Decrease due to derecognition	Changes due to lengthening the loss recognition horizon from 12 months to lifetime	Changes due to shortening the loss recognition horizon from lifetime to 12 months	Change due to partial write-off or reversal	Transfers to Stage 1 (S1)	Transfers to Stage 2 (S2)	Transfers to stage 3 (S3)	Other changes	As at 30.09.2020
Measured at fair value through other comprehensive income													
securities (S1)	-	-	-	-	-	-	-	-				-	-
Total	-	-	-	-	-	-	-	-				-	-
Measured at amortized cost													
amounts due from banks (S1)	-	-	-	-	-	-	-	-				-	-
loans and advances to customers	42,726	439	1,182	939	(204)	48,201	(23,731)	(326)				-	69,226
residential loans	42,726	439	1,182	939	(204)	48,201	(23,731)	(326)				-	69,226
Stage 1	9,333	254	5,859	1,333	(19)	48,201	-	(6)	1,959	(54,667)	(236)	-	12,011
Stage 2	25,895	185	(5,638)	(113)	(185)	-	(23,223)	(4)	(1,959)	54,972	(3,645)	-	46,285
Stage 3	7,498	-	961	(281)	-	-	(508)	(316)	-	(305)	3,881	-	10,930
other financial assets (S1)	-	-	-	-	-	-	-	-				-	-
Total	42,726	439	1,182	939	(204)	48,201	(23,731)	(326)				-	69,226



CALCULATION OF ESTIMATES

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

ESTIMATED CHANGE IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DUE TO A DETERIORATION OR IMPROVEMENT IN RISK PARAMETERS, INCLUDING: ¹	30.09.2021		31.12.2020	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
changes in probability of default	8,368	(11,479)	10,125	(12,807)
changes in rates of recovery	(19,951)	19,952	(17,034)	17,045

¹ in plus - an increase in allowances, in minus - a decrease in allowances

14. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.09.2021	31.12.2020
Measured at amortized cost		
overdraft within the limit available	-	14,275
liability related to overdraft facilities	3,730,035	3,222,246
liability related to term loans	209,837	149,864
liability in respect of the purchase of receivables	-	188,748
Total	3,939,872	3,575,133

LIABILITIES IN RESPECT OF LOANS

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 30 September 2021	Amount of loan drawn as at 30 September 2021	Liability as at 30 September 2021
PKO Bank Polski SA	29.10.2015	29.10.2022	2,000,000	2,000,000	1,313,444
PKO Bank Polski SA	02.02.2017	03.02.2026	2,000,000	2,000,000	1,579
PKO Bank Polski SA	10.07.2019	01.07.2025	4,000,000	4,000,000	2,265,010
PKO Bank Polski SA ¹⁾	10.09.2020	22.03.2026	210,000	210,000	209,837
Other bank 1	10.06.2019	14.06.2022	150,000	150,000	150,002
Total			8,360,000	8,360,000	3,939,872

¹⁾ The period during which the tranches may be used expired on 10 September 2021. Therefore, the amount of the loan granted and made available as at 30 September 2021 was presented in the amount of the tranches used, and the maturity date was shown for the last tranche drawn.

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 31 December 2020	Amount of loan drawn as at 31 December 2020	Liability as at 31 December 2020
PKO Bank Polski SA	29.10.2015	29.10.2022	2,000,000	2,000,000	621,517
PKO Bank Polski SA	02.02.2017	03.02.2023	2,000,000	2,000,000	-
PKO Bank Polski SA	10.07.2019	01.07.2022	2,500,000	2,500,000	2,450,726
PKO Bank Polski SA	10.09.2020	10.09.2026	300,000	300,000	149,864
Other bank 1	10.06.2019	13.06.2021	150,000	150,000	150,003
Total			6,950,000	6,950,000	3,372,110



LIABILITY IN RESPECT OF THE PURCHASE OF RECEIVABLES

The line “Liability in respect of the purchase of receivables” represents the liability arising from the purchases of residential mortgage loans portfolios from PKO Bank Polski SA, as specified in Note 12 “Loans and advances to customers”. The repayment date of the liability resulting from the purchase of receivables is agreed by the parties each time in the Receivables Sales Agreement. For receivables acquired in 2021 and 2020, 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 price is increased by interest. The Bank ultimately refinances the purchased receivable portfolios primarily through the issue of mortgage covered bonds.

15. LIABILITIES IN RESPECT OF MORTGAGE COVERED BONDS ISSUED

LIABILITIES IN RESPECT OF MORTGAGE COVERED BONDS ISSUED	30.09.2021	31.12.2020
Measured at amortized cost		
mortgage-covered bonds, including issued under:		
International Mortgage Covered Bonds Issue Programme	15,987,173	17,205,554
National Mortgage Covered Bonds Issue Programme	12,896,999	12,847,883
	3,090,174	4,357,671
Total	15,987,173	17,205,554

In the nine-month period ended 30 September 2021, the Bank did not issue any mortgage covered bonds and redeemed three issues of mortgage covered bonds totalling PLN 1,265,000 thousand.

In the nine-month period ended 30 September 2020, the Bank did not issue and did not redeem any mortgage covered bonds.

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

As at 30 September 2021 and as at 31 December 2020, the PLN- and EUR-denominated mortgage covered bonds issued were rated by Moody’s Investors Service at Aa1, i.e. the highest achievable by Polish securities. The limit for the ratings is the Polish country ceiling for debt instruments which is currently at the level of Aa1.

The total nominal value of the issued mortgage covered bonds as at 30 September 2021 amounted to PLN 15,964,829 thousand and PLN 17,179,529 as at 31 December 2020.

SECURITY FOR MORTGAGE COVERED BONDS

The mortgage covered bonds are secured with loans secured with the highest priority mortgage entered in the Land and Mortgage Register. Additionally, the mortgage covered bonds may also be issued based on the Bank’s own funds:

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

The nominal value of loans entered in the Bank’s cover pool and representing collateral for the mortgage covered bonds issued as at 30 September 2021 amounted to PLN 22,331,201 thousand, whereas the nominal value of additional collateral in the form of PLN-denominated securities issued by the State Treasury amounted to PLN 100,000 thousand. As at 31 December 2020, these amounted to PLN 23,106,628 thousand and PLN 250,000 thousand, respectively. The Bank’s mortgage covered bonds cover pool also included CIRS and FX-Forward transactions hedging the currency and interest rate risk of mortgage covered bonds denominated in EUR and IRS transactions hedging the interest rate risk of fixed rate mortgage covered bonds denominated in PLN.



In the nine-month period ended 30 September 2021 and in the prior years, the Bank's covered bonds cover pool did not include asset-backed securities (ABS) which 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).

16. LIABILITIES IN RESPECT OF BONDS ISSUED

LIABILITIES IN RESPECT OF BONDS ISSUED	30.09.2021	31.12.2020
Measured at amortized cost		
bonds, including bonds issued under:	3,596,750	4,337,081
Bond Issue Programme	3,526,695	3,771,812
Public Bond Issue Programme	70,055	214,969
an individual agreement	-	350,300
Total	3,596,750	4,337,081

BOND ISSUE PROGRAMME

In the nine-month period ended 30 September 2021, as part of the Bond Issue Programme, the Bank issued bonds with a total nominal value of PLN 4,905,000 thousand (i.e. 9,810 bonds with PLN 500,000 nominal value each) and redeemed bonds with a total nominal value of PLN 5,152,500 thousand (i.e. 10,305 bonds with PLN 500,000 nominal value each). In the nine-month period ended 30 September 2020, these amounted to PLN 3,997,500 thousand (i.e. 7,995 bonds with PLN 500,000 nominal value each) and PLN 4,255,000 (i.e. 1,020 bonds with PLN 100,000 nominal value each and 8,306 bonds with PLN 500,000 nominal value each).

The above-mentioned issues of bonds are governed by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. In accordance with the said agreement, the maximum nominal value of bonds issued and not yet redeemed is PLN 6,000,000 thousand. At the same time, pursuant to the Underwriting Agreement concluded, PKO Bank Polski SA as the Underwriter shall be obliged to take up the issuer's bonds up to the amount of PLN 2,000,000 thousand.

As at 30 September 2021, the Bank's liability in respect of bonds issued as part of the Bond Issue Programme had a nominal value of PLN 3,529,000 thousand, and as at 31 December 2020 its nominal value was PLN 3,776,500 thousand. As at 30 September 2021 and as at 31 December 2020, PKO Bank Polski SA did not hold any bonds under the Underwriting Agreement.

PUBLIC BOND ISSUE PROGRAMME

In the nine-month period ended 30 September 2021, the Bank did not issue any bonds under the Public Bond Issue Programme but redeemed bonds with a total nominal value of PLN 145,000 thousand (i.e. 1,450,000 bonds with PLN 100 nominal value each). In the nine-month period ended 30 September 2020, the Bank did not issue any bonds as part of this programme and redeemed bonds with a total nominal value of PLN 161,500 thousand (i.e. 1,615 bonds with PLN 100,000 nominal value each).

As at 30 September 2021, the Bank's liability in respect of bonds issued as part of the Public Bond Issue Programme amounted to PLN 70,000 thousand (at nominal value), of which bonds issued under the underwriting agreement with the PKO Bank Polski Brokerage Office amounted to PLN 0. As at 31 December 2020, these amounts were PLN 215,000 thousand and PLN 0 thousand, respectively.

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

OTHER ISSUES OF UNSECURED BONDS (BASED ON INDIVIDUAL AGREEMENTS)

In the nine-month period ended 30 September 2021, the Bank did not issue unsecured bonds under an individual agreement.

On 24 February 2021, PKO Bank Hipoteczny SA redeemed unsecured bonds with a nominal value of PLN 350,000 thousand (i.e. 350 bonds with a nominal value of PLN 1,000,000 each), and therefore, as at 30 September 2021, the Bank's liability in respect of the aforesaid bonds totalled PLN 0 (as at 31 December 2020 it was PLN 350,000 thousand).



17. OTHER LIABILITIES

OTHER LIABILITIES	30.09.2021	31.12.2020
Expenses to be paid *	10,138	9,331
Liabilities in respect of contribution to the Bank Guarantee Fund (BGF), including:	20,393	14,581
the contribution to the resolution fund accrued by BGF / payable to BGF	-	-
maintained in the form of payments commitments to the resolution fund	20,393	14,581
Deferred commissions and costs relating to loans granted, in the part corresponding to unpaid principal and adjustments of deferred commission income on loans granted	1,907	588
Other liabilities, including:	9,123	10,303
sundry creditors*	1,949	2,218
settlements with the state budget, including:	7,174	8,085
liabilities in respect of tax on certain financial institutions	6,838	7,380
Lease liabilities *	4,038	3,625
Total	45,599	38,428
including liabilities marked with * above	16,125	15,174

* The symbol designates financial liabilities.

As at 30 September 2021 and 31 December 2020, the Bank had no overdue contractual liabilities.

18. PROVISIONS

PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2021 TO 30 SEPTEMBER 2021	Provision for disability and retirement benefits	Provisions for loan commitments	Total
As at 1 January 2021, including:	169	51	220
Short-term provision	-	51	51
Long-term provision	169	-	169
Set-up/reassessment of provisions	48	32	80
Release/utilization	-	(64)	(64)
As at 30 September 2021, including:	217	19	236
Short-term provision	-	19	19
Long-term provision	217	-	217

PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 SEPTEMBER 2020	Provision for disability and retirement benefits	Provisions for loan commitments	Total
As at 1 January 2020, including:	154	140	294
Short-term provision	-	140	140
Long-term provision	154	-	154
Set-up/reassessment of provisions	15	65	80
Release/utilization	-	(130)	(130)
As at 30 September 2020, including:	169	75	244
Short-term provision	-	75	75
Long-term provision	169	-	169



19. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.09.2021	31.12.2020
Share capital	1,611,300	1,611,300
Supplementary capital	332,263	250,733
Accumulated other comprehensive income, including:	89,765	149,642
cash flow hedges	82,672	141,186
measurement of financial assets measured at fair value through other comprehensive income	7,093	8,456
Net profit for the period	59,426	81,530
Total equity	2,092,754	2,093,205

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
Total		1,611,300,000		1,611,300,000			

PKO Bank Polski SA was the Bank's sole shareholder as at 30 September 2021 and 31 December 2020.

The Bank's share capital amounts to PLN 1,611,300,000 and comprises 1,611,300,000 (one billion six hundred and eleven million three hundred thousand) ordinary registered shares with a nominal value of PLN 1 (one zloty) each. The PKO Bank Hipoteczny SA shares are non-preference shares and have been paid up in full.

The Bank did not pay dividend in the nine-month period ended 30 September 2021 or in 2020.



OTHER NOTES

20. CONTINGENT LIABILITIES GRANTED AND RECEIVED

20.1 CONTRACTUAL COMMITMENTS

As at 30 September 2021 and 31 December 2020 the Bank had no contractual commitments relating to the purchase of intangible assets and property, plant and equipment.

20.2 LOAN COMMITMENTS

LOAN COMMITMENTS (CONTINGENT)	30.09.2021	31.12.2020
Relating to residential loans not drawn in full (nominal value)	58,825	115,456
provision for residential loans not drawn in full	(19)	(51)
Total, net	58,806	115,405
including irrevocable loan commitments	-	-

20.3 GUARANTEE COMMITMENTS GRANTED

PKO Bank Hipoteczny SA does not grant guarantee commitments.

20.4 CONTINGENT LIABILITIES RECEIVED

CONTINGENT COMMITMENTS RECEIVED AT THE NOMINAL VALUE	30.09.2021	31.12.2020
Contingent commitments received		
financial	4,421,546	3,577,757
guarantees	2,000,000	2,000,000
Total	6,421,546	5,577,757

Contingent liabilities received of a financial nature represent initiated and available loans, while guarantee commitments received represent the available guarantees to underwrite bonds issued.

RIGHT TO SELL OR PLEDGE COLLATERAL ESTABLISHED FOR THE BANK

As at 30 September 2021 and 31 December 2020, 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.

21. LEGAL CLAIMS

As at 30 September 2021 and 31 December 2020 there were no legal claims.



22. INFORMATION ABOUT LEASES

LEASES – LESSEE

LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT - LESSEE	3rd quarter 01.07.2021 - 30.09.2021	3 quarters cumulative 01.01.2021 - 30.09.2021	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020
Amortization of the right-of-use assets	(310)	(919)	(298)	(930)
real estate	(249)	(745)	(242)	(766)
cars	(61)	(174)	(56)	(164)
Interest expense	(10)	(38)	(22)	(89)
Costs related to short-term lease contracts	-	-	-	-
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(171)	(538)	(146)	(499)
Total	(491)	(1,495)	(466)	(1,518)

LEASES – LESSOR

The Bank does not conclude contracts in which it acts as the lessor.

23. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents	30.09.2021	31.12.2020
Cash and balances with the Central Bank	18	21
Amounts due from banks – current accounts	463	23
Total	481	44

As at 30 September 2021 and 31 December 2020 there were no cash and cash equivalents with restricted availability for use.

24. RELATED PARTY TRANSACTIONS – CAPITAL LINKS

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

Details of transactions with related parties with capital links were presented in Note 35.1 of the PKO Bank Hipoteczny SA financial statements for the year ended 31 December 2020.

Furthermore, in the nine-month period ended 30 September 2021:

- On 15 March 2021, the Bank concluded with PKO Bank Polski SA Annex No. 9 to the Bond Issue Programme Agreement of 30 September 2015, based on which the amount of the Programme was increased from PLN 4,000,000 thousand to PLN 6,000,000 thousand.
- On 23 June 2021, as a result of signing an annex to the agreement of 10 July 2019, the lending period was extended until 1 July 2025, and the limit amount to PLN 4,000,000 thousand.
- On 2 September 2021, as a result of signing an annex to the agreement of 2 February 2017, the lending period was extended until 3 February 2026.



AS AT 30 SEPTEMBER 2021

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	1,123,296	1,122,693
Total	1,123,296	1,122,693

ENTITY	LIABILITIES				
	Loans and overdraft	Acquisition of receivables	Mortgage covered bonds and bonds	Other liabilities	including derivatives
PKO Bank Polski SA	3,790,041	-	9,441	7,185	419
PKO BP Finat Sp. z o.o.	-	-	-	22	-
PKO Leasing SA	-	-	-	208	-
Prime Car Management SA	-	-	-	166	-
PKO Towarzystwo Ubezpieczeń SA	-	-	97,498	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	61,920	-	-
PKO VC -fizan	-	-	20,961	-	-
NEPTUN - fizan	-	-	-	-	-
Bankowe Towarzystwo Kapitałowe SA	-	-	15,978	-	-
Total	3,790,041	-	205,798	7,581	419

ENTITY	Loan commitments	Contingent commitments received
PKO Bank Polski SA	-	6,421,546
Total	-	6,421,546



FOR THE PERIOD FROM 1 JANUARY 2021 TO 30 SEPTEMBER 2021

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	4,696	4,578	80,803	60,792	50	50,572
PKO BP Finat Sp. z o.o.	-	-	147	-	-	-
PKO Leasing SA	-	-	230	4	-	-
Prime Car Management SA	-	-	25	1	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	1,896	1,896	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	259	259	-	-
PKO VC -fizan	-	-	59	59	-	-
NEPTUN - fizan	-	-	59	59	-	-
Bankowe Towarzystwo Kapitałowe SA	-	-	85	85	-	-
Total	4,696	4,578	83,563	63,155	50	50,572

AS AT 31 DECEMBER 2020

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	1,154,740	1,154,692
Total	1,154,740	1,154,692

ENTITY	LIABILITIES				
	Loans and overdraft	Acquisition of receivables	Mortgage covered bonds and bonds	Other liabilities	including derivatives
PKO Bank Polski SA	3,236,523	188,748	19,338	7,212	541
PKO BP Finat Sp. z o.o.	-	-	-	17	-
PKO Leasing SA	-	-	-	359	-
Prime Car Management SA	-	-	-	72	-
PKO Towarzystwo Ubezpieczeń SA	-	-	97,458	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	116,885	-	-
PKO VC -fizan	-	-	20,969	-	-
NEPTUN - fizan	-	-	29,995	-	-
Bankowe Towarzystwo Kapitałowe SA	-	-	24,934	-	-
Total	3,236,523	188,748	309,579	7,660	541



ENTITY	Loan commitments	Contingent commitments received
PKO Bank Polski SA	-	5,577,757
Total	-	5,577,757

FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 SEPTEMBER 2020

ENTITY	Total revenues	including interest and commissions	Total costs	including interest and commissions	Net income / (expense) from financial instruments measured at fair value	Net foreign exchange gains / (losses)
PKO Bank Polski SA	2,791	2,628	197,584	175,454	69	750,490
PKO BP Finat Sp. z o.o.	-	-	147	-	-	-
PKO Leasing SA	-	-	248	9	-	-
Prime Car Management SA	-	-	2	2	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	3,536	3,536	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	764	764	-	-
PKO VC -fizan	-	-	302	302	-	-
NEPTUN - fizan	-	-	-	-	-	-
Total	2,791	2,628	202,583	180,067	69	750,490

25. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

The classification of financial instruments and the methods for determining their fair value are described in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 30 SEPTEMBER 2021	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Derivative hedging instruments	10	1,122,693	-	1,122,693	-
CIRS		1,119,081	-	1,119,081	-
FX-Forward		55	-	55	-
IRS		3,557	-	3,557	-
Securities	11	1,067,981	1,067,981	-	-
measured at fair value through other comprehensive income		1,067,981	1,067,981	-	-
Total financial assets measured at fair value		2,190,674	1,067,981	1,122,693	-
Derivative hedging instruments	10	419	-	419	-
CIRS		-	-	-	-
FX-Forward		419	-	419	-
IRS		-	-	-	-
Total financial liabilities measured at fair value		419	-	419	-



ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31 December 2020	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Measurement techniques based on observable market data	Other measurement techniques
Derivative hedging instruments	10	1,154,692	-	1,154,692	-
CIRS		1,139,378	-	1,139,378	-
FX-Forward		111	-	111	-
IRS		15,203	-	15,203	-
Securities	11	1,241,821	1,241,821	-	-
measured at fair value through other comprehensive income		1,241,821	1,241,821	-	-
Total financial assets measured at fair value		2,396,513	1,241,821	1,154,692	-
Derivative hedging instruments	10	541	-	541	-
CIRS		-	-	-	-
FX-Forward		541	-	541	-
IRS		-	-	-	-
Total financial liabilities measured at fair value		541	-	541	-

In the nine-month period ended 30 September 2021 there were no changes to the measurement techniques and input data for the respective levels of the fair value hierarchy. The measurement techniques have been described in detail in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020.

In the nine-month period ended 30 September 2021 and in 2020, there were no transfers between the different levels of fair value hierarchy.

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

The fair value measurement methods and assumptions used in the estimation of fair value of financial instruments which are not presented at fair value have been described in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020.

FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 30 SEPTEMBER 2021	fair value hierarchy level	measurement method	30.09.2021	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	amount of consideration due	18	18
Amounts due from banks	2	discounted cashflows	463	463
Loans and advances to customers, including:			23,509,934	22,832,222
residential loans	3	discounted cashflows	23,509,934	22,832,222
Other financial assets	3	amount of consideration due taking into account impairment	156	156
Amounts due to banks	2	discounted cashflows	3,939,872	3,939,872
Amounts due to customers	2	discounted cashflows	6,229	6,229
Liabilities in respect of mortgage covered bonds issued	1	quotation on the regulated market	15,987,173	16,183,517
Liabilities in respect of bonds issued, including issued under:			3,596,750	3,596,729
Public Bond Issue Programme	1	quotation on the regulated market	70,055	70,034
Bond Issue Programme and an individual agreement	2	discounted cashflows	3,526,695	3,526,695
Other financial liabilities	3	amount of consideration due	16,125	16,125



FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 31 December 2020	fair value hierarchy level	measurement method	31.12.2020	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	amount of consideration due	21	21
Amounts due from banks	2	discounted cashflows	23	23
Loans and advances to customers, including:			24,902,659	24,072,854
residential loans	3	discounted cashflows	24,902,659	24,072,854
Other financial assets	3	amount of consideration due taking into account impairment	31	31
Amounts due to banks	2	discounted cashflows	3,575,133	3,575,133
Amounts due to customers	2	discounted cashflows	6,641	6,641
Liabilities in respect of mortgage covered bonds issued	1	quotation on the regulated market	17,205,554	17,478,010
Liabilities in respect of bonds issued, including issued under:			4,337,081	4,337,362
Public Bond Issue Programme	1	quotation on the regulated market	214,969	215,250
Bond Issue Programme and an individual agreement	2	discounted cashflows	4,122,112	4,122,112
Other financial liabilities	3	amount of consideration due	15,174	15,174

OPERATING SEGMENTS

In the nine-month period ended 30 September 2021 and in 2020, the Bank did not analyse its operations by segments due to the specific nature of its operations.



OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

26. RISK MANAGEMENT AT PKO BANK HIPOTECZNY SA

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

The risk management at PKO Bank Hipoteczny SA was described in detail in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020. In the nine-month period ended 30 September 2021, the following changes were introduced in the risk management principles:

- As of 1 January 2021, the Bank started applying a new definition of default in accordance with Guidelines EBA/GL/2016/07 of 18 January 2017 on the application of the definition of default as defined in Article 178 of Regulation (EU) No. 575/2013 using the materiality thresholds in line with the Regulation of the Minister of Finance, Investments and Development of 3 October 2019 on the materiality level of overdue loan liabilities.
- As of 31 March 2021, the Bank included the derivative instruments risk on the list of risk types identified in the Bank, whereas the Bank concludes derivative transactions solely in order to hedge risks related to its operations, in particular interest rate risk and foreign exchange risk. The Bank manages the derivative instruments risk as part of managing other types of risks, including credit risk, interest rate risk, foreign exchange risk and liquidity risk. The purpose of managing the derivative instruments risk is to limit losses relating to derivative transactions, mainly resulting from the potential ineffectiveness of hedging strategies by taking appropriate, i.e. consistent with the management of other risks, positions in such instruments and by implementing appropriate procedures and controls specific for derivative instruments.
- As of 31 March 2021 the Bank introduced an economic capital sensitivity measure to the interest rate risk limits system. The sensitivity measure is calculated assuming a parallel shift in yield curves of 100 b.p. The former sensitivity measure was based on the Basis Point Value, i.e. "BPV". The change made allows for more accurate accounting for automatic options embedded in particular transactions consisting of setting interest rate floors.
- In accordance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 (CRR II), the Bank has implemented the EU long-term liquidity standard in the form of the Net Stable Funding Ratio (NSFR), which applies to banks from 28 June 2021. At the same time, in accordance with the provisions of Article 94(2) of the Act on Macroprudential Supervision, the provisions of PFSA Resolution No. 386/2008 of 17 December 2008 with regard to long-term liquidity standards (i.e. M3 and M4) expired on that date.
- Starting from 30 June 2021, the Bank has made changes to comply with the revised Recommendation S of the Polish Financial Supervision Authority. As regards the assessment of a customer's creditworthiness, the most important modifications include: a reduction from 30 to 25 years of the maximum term used in the calculation of a customer's creditworthiness, the introduction of an additional income buffer used to determine a customer's net income, the replacement of the Dtl (debt to income) indicator with DStI (debt service to income). DStI is an indicator expressing the ratio of the total annual cost of servicing credit and non-credit financial liabilities (from which a retail customer cannot withdraw, i.e. resulting from, among other things, legal provisions or having a permanent and irrevocable character) to the total annual income of the retail customer. The Bank has also introduced a limit on the target share (in terms of value) of loans bearing a periodic fixed 5-year interest rate in the Bank's loan portfolio.



27. CREDIT RISK MANAGEMENT

27.1 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	30.09.2021	31.12.2020
Derivative hedging instruments	1,122,693	1,154,692
Balance sheet exposure – total	1,122,693	1,154,692

27.2 AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.09.2021	31.12.2020
Amounts not overdue, not impaired (counterparty rating A2)	463	23
Total, gross	463	23
Allowances for expected credit losses	-	-
Total, net	463	23

27.3 SECURITIES

SECURITIES	30.09.2021	31.12.2020
Issued by the State Treasury, PLN Treasury bonds (rating A)	1,067,981	1,241,821
Total, gross	1,067,981	1,241,821
Allowances for expected credit losses	-	-
Total, net	1,067,981	1,241,821

27.4 LOANS AND ADVANCES TO CUSTOMERS AND IMPAIRMENT

PKO Bank Hipoteczny SA performs monthly reviews of credit exposures in order to identify those that are at risk of impairment or whose credit risk has increased significantly since initial recognition, to measure the impairment of credit exposures and to set up provisions for expected credit losses.

The loan portfolio is characterized by a low level of exposure to impairment. At 30 September 2021, 271 impaired loans were recognized, and their share in the total loan portfolio amount was 0.22%, whereas as at 31 December 2020, 130 impaired loans were recognized, and their share in the total loan portfolio amount was 0.11%. The increase in the share of impaired loans in the nine-month period ended 30 September 2021 is mainly due to the application, as of 1 January 2021, of the new definition of default in line with Guidelines EBA/GL/2016/07.



LOANS AND ADVANCES TO CUSTOMERS	30.09.2021	31.12.2020
Loans not overdue, not impaired	23,438,284	24,839,142
Loans overdue, not impaired	97,581	114,856
Loans impaired	52,896	26,696
Total, gross	23,588,761	24,980,694
Allowances for loans not overdue, not impaired	(42,639)	(53,140)
Allowances for loans overdue, not impaired	(15,062)	(12,333)
Allowances for impaired loans	(21,126)	(12,562)
Total, net	23,509,934	24,902,659

LOANS AND ADVANCES TO CUSTOMERS, NOT IMPAIRED	30.09.2021	31.12.2020
not overdue	23,438,284	24,839,142
up to 30 days overdue	77,603	103,767
from 31 to 60 days overdue	13,150	9,187
from 61 to 90 days overdue	6,828	1,902
Total, gross	23,535,865	24,953,998

In calculating the value of allowances for expected credit losses, the Bank considers the impact of macroeconomic scenarios on the respective parameters (PD, LGD). The tables below present forecasts of the main macroeconomic indices adopted as at 30 September 2021 and 31 December 2020, and the respective probabilities of occurrence assumed.

SCENARIO AS AT 30.09.2021	base			optimistic			pessimistic		
probability	75%			5%			20%		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP growth y/y	5.7	5.4	3.0	9.6	10.5	3.0	1.8	0.2	3.0
Unemployment rate	3.0	2.8	2.8	2.7	1.9	2.8	4.3	5.5	2.8
WIBOR 3M	0.2	0.5	2.4	0.5	2.0	2.4	0.2	(0.2)	2.4
Real estate price index	103.4	109.8	102.5	105.8	119.0	102.5	101.6	100.2	102.5

SCENARIO AS AT 31.12.2021	base			optimistic			pessimistic		
probability	75%			5%			20%		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
GDP growth y/y	5.4	4.7	3.0	9.9	7.0	3.0	0.8	2.4	3.0
Unemployment rate	5.9	4.5	3.7	5.2	3.4	3.7	8.0	5.6	3.7
WIBOR 3M	0.2	1.0	2.4	1.9	2.9	2.4	(0.2)	0.3	2.4
Real estate price index	99.5	102.9	102.5	103.3	103.4	102.5	96.1	99.5	102.5

Due to the COVID-19 pandemic, in 2020 the Bank allowed customers to suspend up to 6 principal or principal-and-interest instalments on the terms and conditions adopted by the banking sector in cooperation with the Polish Bank Association. Taking advantage of the above-mentioned moratorium does not automatically change the classification of exposures to exposures under restructuring, unless they have been classified as such previously. Throughout the period of the moratorium and afterwards, the Bank will assess the probability of default by debtors covered by the moratorium in accordance with the standard procedures, taking into account in particular the repayment delays occurring after the



suspension period. The moratorium was offered until 30 September 2020, therefore, up until 31 March 2021, the Bank continued suspending instalments for its customers who took advantage of this option when it was offered.

Moreover, on 24 June 2020 the Bank gave customers the possibility to suspend the performance of a loan agreement based on the Act on subsidization of interest on bank loans granted to provide liquidity to entrepreneurs affected by COVID-19 and a simplified arrangement approval procedure due to COVID-19 of 19 June 2020 (the "Shield 4.0"). By 30 September 2021, a total of 25 loan agreements were subject to the statutory moratorium, of which 1 were still active as at 30 September 2021.

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		30.09.2021		
PD RANGE	Stage 1	Stage 2	Stage 3 and POCI	Total, gross
<0.01%	8,042	-	-	8,042
0.01% - 0.02%	1,168,029	392	-	1,168,421
0.02% - 0.05%	6,109,612	2,525	-	6,112,137
0.05% - 0.1%	5,078,687	3,247	-	5,081,934
0.1% - 0.3%	7,185,684	396,966	-	7,582,650
0.3% - 1.0%	2,016,264	874,609	-	2,890,873
1.0% - 10%	199,949	365,823	-	565,772
10% - 99.99%	-	126,036	-	126,036
100%	-	-	52,896	52,896
Total gross amount	21,766,267	1,769,598	52,896	23,588,761

LOANS AND ADVANCES TO CUSTOMERS		31.12.2020		
PD RANGE	Stage 1	Stage 2	Stage 3	Total, gross
<0.01%	10,867	-	-	10,867
0.01% - 0.02%	1,303,648	836	-	1,304,484
0.02% - 0.05%	6,469,842	5,407	-	6,475,249
0.05% - 0.1%	5,508,591	3,375	-	5,511,966
0.1% - 0.3%	7,591,281	411,563	-	8,002,844
0.3% - 1.0%	2,009,449	931,096	-	2,940,545
1.0% - 10%	186,260	380,439	-	566,699
10% - 99.99%	-	141,344	-	141,344
100%	-	-	26,696	26,696
Total gross amount	23,079,938	1,874,060	26,696	24,980,694



FINANCIAL LIABILITIES GRANTED					30.09.2021
PD RANGE	Stage 1	Stage 2	Stage 3	Total	
<0.01%	459	-	-	459	
0.01% - 0.02%	4,974	-	-	4,974	
0.02% - 0.05%	15,733	-	-	15,733	
0.05% - 0.1%	8,629	-	-	8,629	
0.1% - 0.3%	27,860	-	-	27,860	
0.3% - 1.0%	1,123	5	-	1,128	
1.0% - 10%	-	42	-	42	
10% - 99.99%	-	-	-	-	
100%	-	-	-	-	
Total nominal amount	58,778	47	-	58,825	

FINANCIAL LIABILITIES GRANTED					31.12.2020
PD RANGE	Stage 1	Stage 2	Stage 3	Total	
<0.01%	665	-	-	665	
0.01% - 0.02%	8,607	-	-	8,607	
0.02% - 0.05%	32,522	-	-	32,522	
0.05% - 0.1%	42,772	-	-	42,772	
0.1% - 0.3%	24,824	634	-	25,458	
0.3% - 1.0%	4,160	435	-	4,595	
1.0% - 10%	629	208	-	837	
10% - 99.99%	-	-	-	-	
100%	-	-	-	-	
Total nominal amount	114,179	1,277	-	115,456	

27.5 FORBEARANCE PRACTICES

EXPOSURES SUBJECT TO FORBEARANCE IN THE LOAN PORTFOLIO	30.09.2021	31.12.2020
Gross loans and advances to customers, including: subject to forbearance	23,588,761 7,644	24,980,694 6,201
Allowances for expected credit losses, including: on loans and advances subject to forbearance	(78,827) (1,433)	(78,035) (1,174)
Net loans and advances to customers, including: subject to forbearance	23,509,934 6,211	24,902,659 5,027

28. 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	30.09.2021	31.12.2020
10 largest exposures	0.05%	0.05%
20 largest exposures	0.10%	0.09%
50 largest exposures	0.22%	0.21%
100 largest exposures	0.41%	0.40%

29. RESIDUAL RISK MANAGEMENT

The following tables present the concentration ratio for the portfolio of loans and advances measured in terms of LTV based on market valuation and the value of these portfolios.

GROSS LOANS BY LTV BASED ON MARKET VALUATION – SHARE	30.09.2021	31.12.2020
below 50%	58%	47%
51% – 60%	23%	24%
61% – 70%	14%	18%
71% – 80%	5%	9%
81% – 90%	0%	2%
more than 90%	0%	0%
Total	100%	100%
Average LTV based on market valuation	46%	50%

GROSS LOANS BY LTV BASED ON MARKET VALUATION – AMOUNT	30.09.2021	31.12.2020
below 50%	13,741,395	11,767,792
51% – 60%	5,476,293	5,960,726
61% – 70%	3,268,746	4,521,396
71% – 80%	1,086,994	2,341,902
81% – 90%	15,333	388,878
more than 90%	-	-
Total, gross	23,588,761	24,980,694

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	30.09.2021	31.12.2020
Warsaw region	22.0%	22.0%
Wrocław region	11.9%	11.9%
Gdańsk region	11.4%	11.4%
Poznań region	10.4%	10.4%
Katowice region	9.8%	9.7%
Kraków region	8.1%	8.1%
Szczecin region	7.3%	7.3%
Łódź region	7.3%	7.3%
Lublin region	6.3%	6.3%
Białystok region	5.5%	5.6%
Total	100.0%	100.0%

A change in comparative data as at 31 December 2020 is due to an update to the poviat to region mapping vocabularies which took place during the reporting period. The data as at 31 December 2020 were recalculated and presented according to the vocabulary applied for the current data.



30. LIQUIDITY RISK MANAGEMENT

30.1 LIQUIDITY RISK MEASUREMENT AND ASSESSMENT

The Bank applies the following liquidity risk measures:

- contractual, adjusted and stress-test liquidity gap;
- liquidity surplus and survival horizon with no external support;
- regulatory liquidity measures:
 - LCR (liquidity coverage ratio) – the coverage ratio of net outflows up to 1 month;
 - NSFR – net stable funding ratio
- the concentration of funding sources;
- coverage ratio of long-term assets with long-term funding;
- liquidity stress tests.

The adjusted liquidity gaps as at 30 September 2021 and as at 31 December 2020 are presented below.

LIQUIDITY GAP AS AT 30.09.2021	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
Adjusted periodic gap	2,687,037	820,926	(2,420,023)	1,619,499	(3,504,229)	(6,264,512)	(9,120,815)	16,182,117
Adjusted cumulative periodic gap	2,687,037	3,507,963	1,087,940	2,707,439	(796,790)	(7,061,302)	(16,182,117)	-

As at 30 September 2021, in the ranges of up to 6 months, the cumulative adjusted liquidity gap was positive, which means the 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 31.12.2020	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
Adjusted periodic gap	3,378,527	934,217	(148,748)	(2,542,571)	(2,455,179)	(9,135,493)	(7,510,715)	17,479,962
Adjusted cumulative periodic gap	3,378,527	4,312,744	4,163,996	1,621,425	(833,754)	(9,969,247)	(17,479,962)	-

The liquidity surplus is determined taking account of outflows of funds under stress conditions.

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

SENSITIVITY MEASURE	30.09.2021	31.12.2020
Excess liquidity in the horizon of up to 1 month	2,949,986	3,829,808



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

SENSITIVITY MEASURE	30.09.2021	31.12.2020
Liquidity coverage ratio up to 1 month (LCR)	309.0%	1,762.8%
LCR regulatory limit	100.0%	100.0%

The net stable funding ratio (NSFR) applicable from 28 June 2021 is presented in the table below:

SENSITIVITY MEASURE	30.09.2021	31.12.2020
Net stable funding ratio (NSFR)	100.4%	
NSFR regulatory limit	100.0%	

30.2 LIQUIDITY RISK CONTROL

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

30.3 LIQUIDITY RISK FORECASTING AND MONITORING

The liquidity risk exposure of PKO Bank Hipoteczny SA as at 30 September 2021 and 31 December 2020 was within the strategic and internal limits set. In the period ended 30 September 2021 and in the period ended 31 December 2020, the Bank did not exceed any of the liquidity standards nor any strategic or internal limits.

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



30.4 LIQUIDITY GAP IN THE PRESENTATION OF CONTRACTUAL CASH FLOWS

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

30.09.2021	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months	Total
Inflows	481	141,908	262,519	394,551	790,200	1,724,274	5,540,437	21,226,170	30,080,540
securities	-	-	379	953	2,561	156,894	953,364	-	1,114,151
loans and advances to customers	-	141,908	262,140	393,598	787,639	1,567,380	4,587,073	21,226,170	28,965,908
other	481	-	-	-	-	-	-	-	481
Outflows	-	1,025,329	2,844,336	1,412,708	4,308,328	5,020,166	9,301,200	64,187	23,976,254
amounts due to banks	-	85	3,238	8,548	172,111	1,335,562	2,513,441	-	4,032,985
liabilities in respect of mortgage covered bonds issued	-	2,919	2,791,018	39,565	3,417,949	3,168,701	6,787,719	64,187	16,272,058
unsecured bonds issued	-	1,000,213	31,174	1,352,481	708,613	513,676	-	-	3,606,157
disbursement of loan commitments	-	15,883	18,906	12,114	9,655	2,227	40	-	58,825
other	-	6,229	-	-	-	-	-	-	6,229
Inflows/outflows due to initialled and available revolving current account loans	2,686,556	-	-	1,734,990	-	(686,556)	(3,734,990)	-	-
Inflows from derivative hedging instruments	-	-	2,787,861	33,865	2,803,288	2,621,542	4,790,604	4,185	13,041,345
Outflows on derivative hedging instruments	-	9,924	2,593,821	81,121	2,733,183	2,568,135	4,480,206	5,025	12,471,415
Periodic gap	2,687,037	(893,345)	(2,387,777)	669,577	(3,448,023)	(3,929,041)	(7,185,355)	21,161,143	6,674,216
Cumulative gap	2,687,037	1,793,692	(594,085)	75,492	(3,372,531)	(7,301,572)	(14,486,927)	6,674,216	

**CONDENSED INTERIM FINANCIAL STATEMENTS
OF PKO BANK HIPOTECZNY SA
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021
(IN PLN THOUSANDS)**



Bank Hipoteczny

31.12.2020	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months	Total
Inflows	44	318,928	270,486	407,983	818,516	1,777,452	5,348,444	23,226,022	32,167,875
securities	-	174,309	-	379	1,382	145,503	559,190	380,581	1,261,344
loans and advances to customers	-	144,619	270,486	407,604	817,134	1,631,949	4,789,254	22,845,441	30,906,487
other	44	-	-	-	-	-	-	-	44
Outflows	-	937,705	1,510,110	2,853,360	3,295,579	7,233,971	9,774,097	66,280	25,671,102
amounts due to banks	-	14,429	14,945	164,946	29,634	3,308,857	159,621	-	3,692,432
liabilities in respect of mortgage covered bonds issued	-	35,773	5,025	1,011,857	3,081,327	3,696,710	9,614,476	66,280	17,511,448
unsecured bonds issued	-	849,689	1,453,232	1,651,806	166,113	224,285	-	-	4,345,125
disbursement of loan commitments	-	31,173	36,908	24,751	18,505	4,119	-	-	115,456
other	-	6,641	-	-	-	-	-	-	6,641
Inflows/outflows due to initialled and available revolving current account loans	3,378,483		-	49,274	150,000	(1,427,757)	(2,000,000)	(150,000)	-
Inflows from derivative hedging instruments	-	32,776	946	7,345	2,804,112	3,076,443	7,130,769	6,278	13,058,669
Outflows on derivative hedging instruments	-	10,562	16,458	96,420	2,772,821	3,106,127	6,754,715	6,821	12,763,924
Periodic gap	3,378,527	(596,563)	(1,255,136)	(2,485,178)	(2,295,772)	(6,913,960)	(6,049,599)	23,009,199	6,791,518
Cumulative gap	3,378,527	2,781,964	1,526,828	(958,350)	(3,254,122)	(10,168,082)	(16,217,681)	6,791,518	

30.5 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	30.09.2021	31.12.2020
Mortgage covered bonds issued	62.2%	63.0%
Funds from the parent entity	14.7%	12.5%
Bonds issued	14.0%	15.9%
Equity	8.1%	7.7%
Other	1.0%	0.9%
Total	100.0%	100.0%

The share of funding raised from the parent entity amounted to 14.7% as at 30 September 2021 and 12.5% as at 31 December 2020. This share increased compared with the level at 31 December 2020 due to the redemption of mortgage covered bond issued maturing in the second and third quarter of 2021. The funding concentration risk is assessed as moderate.

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 nine-month period ended 30 September 2021 and in 2020 none of these limits were exceeded.



31. INTEREST RATE RISK MANAGEMENT

Interest rate risk identified in the operations of PKO Bank Hipoteczny SA is defined as the risk of incurring a loss on balance sheet items and financial commitments granted by the Bank which are sensitive to the risk of incurring a loss on balance sheet items and financial commitments granted by the Bank as a result of changes in the levels of market interest rates.

The aim of interest rate risk management is to limit any potential losses incurred due to changes in the market interest rates to an acceptable level by the proper shaping of the structure of the balance sheet items and off-balance sheet positions, among other things, in terms of the matching of the repricing periods.

31.1 INTEREST RATE RISK MEASUREMENT AND ASSESSMENT

In the process of interest rate risk management, the Bank uses the net interest income sensitivity (NIIS) measure, economic capital sensitivity measure, stress tests and repricing gap reports.

The net interest income sensitivity (NIIS) measure is a measure determining the change in net interest income arising from a sudden change in the interest rates while the economic value of capital sensitivity measure is a measure illustrating the impact of such a change on the fair value of an item in the banking portfolio. The measures are calculated assuming a parallel shift in the yield curves of 100 b.p. up and down (whichever scenario is more unfavourable), and take into account the diversification of repricing dates for individual interest items in each subsequent time band.

SENSITIVITY MEASURE	30.09.2021	31.12.2020
Net interest income sensitivity (NIIS)	(17,821)	(14,943)
Economic value of capital sensitivity	(5,326)	(2,881)

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

30.09.2021	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:	7,144,811	14,646,128	2,485,866	2,204	7,083	223,159	-	24,509,251
securities	-	303,000	762,000	-	-	-	-	1,065,000
loans and advances to customers	7,144,811	14,343,128	1,723,866	2,204	7,083	223,159	-	23,444,251
Liabilities	(6,352,954)	(5,168,740)	(1,127,000)	(3,268,240)	(2,566,627)	(4,958,723)	(60,000)	(23,502,284)
amounts due to the banks	(3,728,454)	-	-	-	-	(210,000)	-	(3,938,454)
liabilities in respect of mortgage covered bonds issued	(1,530,000)	(4,279,740)	-	(2,779,740)	(2,566,627)	(4,748,723)	(60,000)	(15,964,830)
unsecured bonds issued	(1,094,500)	(889,000)	(1,127,000)	(488,500)	-	-	-	(3,599,000)
Derivative hedging instruments - assets	-	2,779,437	531	2,778,108	2,567,267	4,747,902	60,000	12,933,245
Derivative hedging instruments - liabilities	(4,232,131)	(7,692,782)	(533)	(7,989)	(1,300)	(4,122)	-	(11,938,857)
Periodic gap	(3,440,274)	4,564,043	1,358,864	(495,917)	6,423	8,216	-	2,001,355
Cumulative gap	(3,440,274)	1,123,769	2,482,633	1,986,716	1,993,139	2,001,355	2,001,355	



31.12.2020	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:	8,463,404	15,282,116	2,127,482	2,811	6,285	183,319	-	26,065,417
securities	935,000	-	303,000	-	-	-	-	1,238,000
loans and advances to customers	7,528,404	15,282,116	1,824,482	2,811	6,285	183,319	-	24,827,417
Liabilities	(6,380,158)	(3,751,000)	(1,651,000)	(3,033,880)	(3,018,079)	(7,187,570)	(60,000)	(25,081,687)
amounts due to the banks	(3,410,658)	-	-	-	-	(150,000)	-	(3,560,658)
liabilities in respect of mortgage covered bonds issued	(2,030,000)	(2,000,000)	-	(3,033,880)	(3,018,079)	(7,037,570)	(60,000)	(17,179,529)
unsecured bonds issued	(939,500)	(1,751,000)	(1,651,000)	-	-	-	-	(4,341,500)
Derivative hedging instruments - assets	519	-	1,960	3,033,888	3,016,986	7,037,393	60,000	13,150,746
Derivative hedging instruments - liabilities	(4,232,662)	(7,956,551)	(1,924)	(1,538)	(8,518)	(5,419)	-	(12,206,612)
Periodic gap	(2,148,897)	3,574,565	476,518	1,281	(3,326)	27,723	-	1,927,864
Cumulative gap	(2,148,897)	1,425,668	1,902,186	1,903,467	1,900,141	1,927,864	1,927,864	

32. FOREIGN EXCHANGERISK MANAGEMENT

The Bank's FX positions are presented in the following table:

FOREIGN CURRENCY POSITION	30.09.2021	31.12.2020
EUR	(16)	(18)
USD	3	3

The FX VaR measure is a potential value of loss that may occur in normal market conditions at a specific time (i.e. horizon) and with an assumed level of probability related to changes in foreign exchange rates. The Bank's combined FX VaR for all currencies is presented in the following table:

SENSITIVITY MEASURE	30.09.2021	31.12.2020
10-day FX VaR at 99% confidence level	0.3	0.7

The foreign exchange risk exposure of PKO Bank Hipoteczny SA as at 30 September 2021 and 31 December 2020 was within the strategic and internal limits set.



33. CAPITAL ADEQUACY AND THE MANAGEMENT OF CAPITAL RISK

At 30 September 2021, the total capital ratio of the Bank amounted to 20.2% (as at 31 December 2020: 18.7%). If the temporary solutions resulting from the implementation of IFRS 9 and relating to the COVID-19 pandemic were not taken into account, the total capital ratio of the Bank would amount to 19.8% (as at 31 December 2020: 18.5%). As at 30 September 2021, all capital ratios were at safe levels, considerably higher than the internal limits adopted in the Bank and external capital requirements.

33.1 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.

BANK'S OWN FUNDS	30.09.2021	31.12.2020
Share capital	1,611,300	1,611,300
Supplementary capital	332,263	250,733
Retained earnings	-	-
Net profit for the period	59,426	81,530
Accumulated other comprehensive income – cash flow hedges	82,672	141,186
Accumulated other comprehensive income – financial assets measured at fair value through other comprehensive income	7,093	8,456
Equity	2,092,754	2,093,205
Equity adjustments	(107,037)	(159,400)
Net profit for the period	(59,426)	(81,530)
Net profit for the first half of 2020 included by permission from the PFSA		35,475
Accumulated other comprehensive income – cash flow hedges	(82,672)	(141,186)
Intangible assets	-	(742)
Adjustment to assets measured at fair value (AVA)	(2,036)	(2,131)
Adjustment relating to the transitional period, including:	37,097	30,714
- due to IFRS 9 implementation	12,611	17,656
- due to COVID-19 pandemic	24,486	13,058
Own funds	1,985,717	1,933,805

The Bank's own funds consist entirely of common equity Tier 1 capital (CET 1). In determining its own funds, the Bank makes use of the transitional provisions following from the implementation of IFRS 9 and related to the COVID-19 pandemic.

As at 30 September 2021, the Bank's own funds, Tier 1 common equity capital and Tier 1 capital would have amounted to PLN 1,948,620 thousand without taking into account the transitional solution, and as at 31 December 2020 they would have amounted to PLN 1,903,091 thousand.

33.2 FINANCIAL LEVERAGE

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

LEVERAGE	30.09.2021	31.12.2020
Leverage ratio (LR)	8.1%	7.4%

As at 30 September 2021 and 31 December 2020, the Bank's financial leverage ratio was above the 3% level resulting from Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019, which entered into force on 28 June 2021.



As at 30 September 2021, the leverage ratio, without taking account of the transitional solutions resulting from the implementation of IFRS 9 and relating to COVID-19, would have amounted to 7.9%, and as at 31 December 2020 it would have amounted to 7.3%.

33.3 REQUIREMENTS REGARDING OWN FUNDS (PILLAR I)

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

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

At 30 September 2021 and as at 31 December 2020, 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	30.09.2021	31.12.2020
Credit risk	743,350	790,074
Operational risk	44,320	35,171
Total own funds requirement	787,670	825,245
Common equity Tier 1 capital ratio (CET1)	20.2%	18.7%
Tier 1 capital ratio (T1);	20.2%	18.7%
Total capital ratio (TCR)	20.2%	18.7%

As at 30 September 2021 and 31 December 2020, the capital ratios were above the minimum regulatory requirements which amounted to, respectively:

- 10.5% for the total capital ratio;
- 8.5% for Tier 1 capital ratio;
- 7% for common equity Tier 1 capital ratio.



EVENTS AFTER THE END OF THE REPORTING PERIOD

34. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 18 October 2021, as a result of signing an annex to the overdraft facility agreement of 29 October 2015, the lending period was extended by 3 years, i.e. until 29 October 2025.

Signatures of all Members of the Bank's Management Board

29.10.2021	Daniel Goska	Vice-President of the Management Board directing the work of the Management Board	<i>Signed on Polish original</i> (signature)
29.10.2021	Piotr Kochanek	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)
29.10.2021	Katarzyna Surdy	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)

Signature of the person responsible for the Bank's accounts

29.10.2021

Tomasz Rynkowski
Director, the Bank's Chief Accountant

Signed on Polish original

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(signature)