

## SELECTED FINANCIAL DATA RELATING TO THE FINANCIAL STATEMENTS



SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	period from 01.01.2020 to 30.09.2020	period from 01.01.2019 to 30.09.2019	period from 01.01.2020 to 30.09.2020	period from 01.01.2019 to 30.09.2019
Net interest income	252,916	233,363	56,937	54,162
Net fee and commission income	(2,976)	(3,901)	(670)	(905)
Operating profit	95,454	99,944	21,489	23,196
<b>Profit before tax</b>	<b>95,454</b>	<b>99,944</b>	<b>21,489</b>	<b>23,196</b>
<b>Net profit</b>	<b>56,482</b>	<b>65,154</b>	<b>12,715</b>	<b>15,122</b>
Net earnings per share - basic (in PLN/EUR)	0.04	0.04	0.01	0.01
Net earnings per share - diluted (in PLN/EUR)	0.04	0.04	0.01	0.01
Net comprehensive income	93,090	187,485	20,957	43,514
Net cash from/used in operating activities	(1,265,301)	(3,796,795)	(284,849)	(881,213)
Net cash from/used in investing activities	19,435	(328,584)	4,375	(76,262)
Net cash from/used in financing activities	1,245,842	4,125,379	280,469	957,475
<b>Total net cash flows</b>	<b>(24)</b>	<b>-</b>	<b>(5)</b>	<b>-</b>

SELECTED FINANCIAL DATA	in PLN '000		in EUR '000	
	as at 30.09.2020	as at 31.12.2019	as at 30.09.2020	as at 31.12.2019
Total assets	27,473,704	27,253,301	6,069,123	6,399,742
Total equity	2,093,114	2,000,023	462,383	469,654
Share capital	1,611,300	1,611,300	355,947	378,373
Number of shares (in thousands)	1,611,300	1,611,300	1,611,300	1,611,300
Book value per share (in PLN/EUR)	1.30	1.24	0.29	0.29
Diluted number of shares (in thousands)	1,611,300	1,611,300	1,611,300	1,611,300
Diluted book value per share (in PLN/EUR)	1.30	1.24	0.29	0.29
Total capital ratio (TCR)	17.6%	16.6%	17.6%	16.6%
Common equity Tier 1 (CET 1)	1,881,438	1,820,780	415,622	427,564
Own funds	1,881,438	1,820,780	415,622	427,564

<b>Selected financial statement items have been translated to EUR at the following foreign exchange rates</b>		
items of the income statement, statement of comprehensive income and statement of cash flows – the average of the NBP exchange rates prevailing as at the last day of each month of the reporting period	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
	4.4420	4.3086
items of the statement of financial position – the average NBP exchange rate as at the last day of the reporting period	30.09.2020	31.12.2019
	4.5268	4.2585

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



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## INCOME STATEMENT

INCOME STATEMENT	Note	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Interest income and income similar to interest income, including:	4	143,631	573,295	226,989	631,226
Interest income recognized under the effective interest rate method		142,120	570,683	226,585	630,042
Income similar to interest income on instruments measured at fair value through profit or loss		1,511	2,612	404	1,184
Interest expenses and expenses similar to interest expenses	4	(63,953)	(320,379)	(143,944)	(397,863)
<b>Net interest income</b>		<b>79,678</b>	<b>252,916</b>	<b>83,045</b>	<b>233,363</b>
Fee and commission income	5	2,050	6,743	4,052	11,888
Fee and commission expense	5	(3,743)	(9,719)	(5,537)	(15,789)
<b>Net fee and commission income</b>		<b>(1,693)</b>	<b>(2,976)</b>	<b>(1,485)</b>	<b>(3,901)</b>
Net gain/(loss) on financial instruments measured at fair value through profit or loss		40	69	16	49
Net foreign exchange gains/(losses)	6	173	5,767	5,353	3,458
Net income/(expense) on modification		(1,124)	(2,648)	(19)	351
Net allowances for expected credit losses	7	(7,187)	(26,762)	(4,316)	(9,996)
Other operating income		105	313	103	427
Other operating expenses		(59)	(392)	(85)	(391)
<b>Net other operating income and expenses</b>		<b>46</b>	<b>(79)</b>	<b>18</b>	<b>36</b>
Administrative expenses	8	(12,046)	(38,013)	(12,879)	(37,916)
Regulatory charges	9	(286)	(25,534)	(95)	(24,578)
Tax on certain financial institutions		(22,102)	(67,286)	(21,873)	(60,922)
<b>Operating profit</b>		<b>35,499</b>	<b>95,454</b>	<b>47,765</b>	<b>99,944</b>
<b>Profit before tax</b>		<b>35,499</b>	<b>95,454</b>	<b>47,765</b>	<b>99,944</b>
Income tax expense	10	(14,491)	(38,972)	(13,240)	(34,790)
<b>Net profit</b>		<b>21,008</b>	<b>56,482</b>	<b>34,525</b>	<b>65,154</b>
Earnings per share - basic (PLN)		0.01	0.04	0.02	0.04
Earnings per share - diluted (PLN)		0.01	0.04	0.02	0.04
Weighted average number of ordinary shares during the period (in thousands)		1,611,300	1,611,300	1,565,213	1,455,837
Weighted average diluted number of ordinary shares during the period (in thousands)		1,611,300	1,611,300	1,565,213	1,455,837



## STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	Note	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
<b>Net profit</b>		21,008	56,482	34,525	65,154
<b>Other comprehensive income</b>		9,480	36,609	34,186	122,330
<b>Items which may be reclassified to profit or loss</b>		9,480	36,609	34,186	122,330
Cash flow hedges (gross)		9,507	43,404	42,612	153,537
Deferred tax		(1,807)	(8,247)	(8,095)	(29,171)
Cash flow hedges (net)	11	7,700	35,157	34,517	124,366
Remeasurement of financial assets measured at fair value through other comprehensive income (gross)		2,198	1,793	(408)	(2,513)
Deferred tax		(418)	(341)	77	477
Remeasurement of financial assets measured at fair value through other comprehensive income (net)		1,780	1,452	(331)	(2,036)
<b>Total net comprehensive income</b>		<b>30,488</b>	<b>93,090</b>	<b>68,711</b>	<b>187,484</b>



## STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION	Note	30.09.2020	31.12.2019
<b>ASSETS</b>			
Cash and balances with the Central Bank		12	20
Amounts due from banks		15	31
measured at amortized cost		15	31
Derivative hedging instruments	11	934,445	173,275
Securities	12	1,236,996	1,240,161
measured at fair value through other comprehensive income		1,236,996	1,240,161
Loans and advances to customers	13	25,289,219	25,821,070
measured at amortized cost		25,289,219	25,821,070
Intangible assets		1,340	2,395
Property, plant and equipment		4,039	5,271
Other assets		7,639	11,078
<b>TOTAL ASSETS</b>		<b>27,473,705</b>	<b>27,253,301</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to banks	15	4,640,963	4,811,259
measured at amortized cost		4,640,963	4,811,259
Derivative hedging instruments	11	696	46,084
Amounts due to customers		4,598	4,885
measured at amortized cost		4,598	4,885
Liabilities in respect of mortgage covered bonds issued	16	16,978,339	16,239,975
measured at amortized cost		16,978,339	16,239,975
Liabilities in respect of bonds issued	17	3,651,245	4,060,026
measured at amortized cost		3,651,245	4,060,026
Other liabilities	18	38,344	35,960
Current income tax liabilities	10	4,616	11,373
Deferred income tax provision		61,546	43,422
Provisions	19	244	294
<b>TOTAL LIABILITIES</b>		<b>25,380,591</b>	<b>25,253,278</b>
<b>Equity</b>			
Share capital	20	1,611,300	1,611,300
Supplementary capital		250,733	161,563
Accumulated other comprehensive income		174,599	137,990
Net profit for the period		56,482	89,170
<b>TOTAL EQUITY</b>		<b>2,093,114</b>	<b>2,000,023</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>27,473,705</b>	<b>27,253,301</b>
Total capital ratio (TCR)	36	17.6%	16.6%
Book value (in PLN '000)		2,093,114	2,000,023
Number of shares (in thousands)	20	1,611,300	1,611,300
Book value per share (in PLN)		1.30	1.24
Diluted number of shares (in thousands)		1,611,300	1,611,300
Diluted book value per share (in PLN)		1.30	1.24

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**OF PKO BANK HIPOTECZNY SA**  
**FOR THE NINE-MONTH PERIOD ENDED ON 30 SEPTEMBER 2020**  
**(IN PLN THOUSANDS)**



## STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 SEPTEMBER 2020	Note	Share capital	Supplementary capital	Accumulated other comprehensive income			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	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:		-	-	35,157	1,452	-	-	56,482	93,091
Net profit		-	-	-	-	-	-	56,482	56,482
Other comprehensive income		-	-	35,157	1,452	-	-	-	36,609
30 September 2020	20	1,611,300	250,733	169,578	5,021	-	-	56,482	2,093,114

  

FOR THE PERIOD ENDED 30 SEPTEMBER 2019	Note	Share capital	Supplementary capital	Accumulated other comprehensive income			Retained earnings	Net profit for the period	Total equity
				Cash flow hedges	Financial assets measured at fair value through other comprehensive income				
1 January 2019		1,295,000	54,932	59,462	4,427	(11,787)	-	85,849	1,487,883
Issue of I series shares	20	100,000	-	-	-	-	-	-	100,000
Issue of J series shares	20	131,500	17,741	-	-	-	-	-	149,241
Issue of K series shares	20	84,800	14,828	-	-	-	-	-	99,628
Transfer from retained earnings		-	-	-	-	85,849	(85,849)	-	-
Transfer from profit to equity		-	74,062	-	-	(74,062)	-	-	-
Total comprehensive income, including:		-	-	124,366	(2,036)	-	-	65,154	187,484
Net profit		-	-	-	-	-	-	65,154	65,154
Other comprehensive income		-	-	124,366	(2,036)	-	-	-	122,330
30 September 2019	20	1,611,300	161,563	183,828	2,391	-	-	65,154	2,024,236





## STATEMENT OF CASH FLOWS

STATEMENT OF CASH FLOWS	Note	01.01.2020 - 30.09.2020	01.01.2019 - 30.09.2019
<b>Cash flows from operating activities</b>			
Profit before tax		95,454	99,944
<b>Total adjustments:</b>		<b>(1,360,755)</b>	<b>(3,856,889)</b>
Amortization and depreciation		2,108	2,444
Interest recognized in cash flows from investing activities and cash flows from financing activities		209,525	180,685
Change in derivative financial instruments (asset)		(761,170)	(335,060)
Change in loans and advances to customers (gross)		505,351	(4,323,804)
Change in securities measured at fair value through other comprehensive income		5,928	(93)
Change in other assets and right-of-use assets		3,664	2,046
Change in amounts due to banks		(2,086,390)	221,694
Change in derivative financial instruments (liability)		(45,388)	(14,773)
Change in amounts due to customers		(287)	168
Change in liabilities in respect of mortgage covered bonds issued		738,365	201,505
Change in liabilities in respect of bonds issued		30,536	53,550
Change in allowances for expected credit losses and provisions		26,450	9,834
Change in other liabilities, excluding liabilities in respect of unregistered issues of own shares		3,341	10,973
Income tax paid		(36,191)	(19,593)
Other adjustments (including changes in the measurement of derivative instruments recognized in other comprehensive income)		43,403	153,535
<b>Net cash from/used in operating activities</b>		<b>(1,265,301)</b>	<b>(3,756,945)</b>
<b>Cash flows from investing activities</b>			
<b>Inflows from investing activities</b>		<b>369,347</b>	<b>640,340</b>
Disposal of and interest on securities measured at fair value through other comprehensive income		369,347	640,340
<b>Outflows on investing activities</b>		<b>(349,912)</b>	<b>(968,924)</b>
Acquisition of securities measured at fair value through other comprehensive income		(349,865)	(968,844)
Acquisition of intangible assets and property, plant and equipment		(47)	(80)
<b>Net cash from/used in investing activities</b>		<b>19,435</b>	<b>(328,584)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of own shares and payments towards issue of own shares		-	248,869
Proceeds from issue of mortgage covered bonds		-	3,254,656
Proceeds from issue of bonds		4,327,183	5,116,428
Redemption of bonds issued		(4,766,500)	(4,562,300)
Inflows related to overdraft facilities		13,912,943	5,407,342
Outflows related to overdraft facilities		(12,146,849)	(5,182,730)
Inflows related to term loans		150,000	-
Repayment of interest on mortgage covered bonds issued, bonds and loans obtained		(229,977)	(195,809)
Payments of lease liabilities (IFRS 16)		(958)	(927)
<b>Net cash from/used in financing activities</b>		<b>1,245,842</b>	<b>4,085,529</b>
<b>Total net cash flows</b>		<b>(24)</b>	<b>-</b>
Cash and cash equivalents at the beginning of the period		51	28
<b>Cash and cash equivalents at the end of the period</b>	24	<b>27</b>	<b>28</b>

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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 registered in the Register of Businesses maintained by the District Court for the capital city of Warsaw in Warsaw, 13th Business Department of the National Court Register, with the reference number KRS 0000026438. The Bank was entered to the Register of Businesses on 24 October 2014. Until 24 September 2020, when the change of the Bank's registered office was registered with the National Court Register, the Bank's registered office was in Gdynia, at ul. Jerzego Waszyngtona 17, 81-342 Gdynia. The Bank was assigned the statistical number REGON 222181030. Its share capital as at 30 September 2020 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 mortgage loans for individuals and acquires receivables in respect of such loans from PKO Bank Polski SA. The Bank acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA.

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

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

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

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

#### 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	Date of dismissal/ resignation/ end of term
1	Jakub Papierski	Chairman of the Supervisory Board	06.10.2014	-
2	Paweł Metrycki	Member of the Supervisory Board (from 30.03.2019 to 07.10.2019) / Deputy Chairman of the Supervisory Board (from 07.10.2019)	30.03.2019	-
3	Justyna Borkiewicz	Member of the Supervisory Board	28.10.2016	-
4	Lucyna Kosińska	Member of the Supervisory Board	01.09.2019	-
5	Piotr Kwiecień	Member of the Supervisory Board (independent)	18.10.2017	-
6	Jadwiga Lesisz	Member of the Supervisory Board (independent)	01.09.2019	-
7	Dariusz Odzioba	Member of the Supervisory Board	01.09.2019	-
8	Ilona Wołyniec	Member of the Supervisory Board	30.03.2019	-

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

No.	Name and surname	Position	Date of appointment	Date of dismissal/ resignation
1	Paulina Strugała	President of the Management Board	16.04.2018	-
2	Piotr Kochanek	Vice-President of the Management Board	01.01.2019	-
3	Agnieszka Krawczyk	Vice-President of the Management Board	01.01.2018	30.09.2020



In connection with the resignation of Ms Agnieszka Krawczyk as Vice-President of the Bank's Management Board as of 30 September 2020, on 28 September 2020, the Supervisory Board of Bank Hipoteczny SA appointed Mr Daniel Goska Vice-President of the Bank's Management Board with effect from 1 October 2020.

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

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

### **2.1 STATEMENT OF COMPLIANCE**

These condensed interim financial statements of PKO Bank Hipoteczny SA were prepared in accordance with the requirements of International Accounting Standard 34 "Interim financial reporting", endorsed by the European Union.

The accounting principles and calculation methods applied in the preparation of these condensed interim financial statements are consistent with the principles applicable in the financial year ended 31 December 2019, except for the specific principles of taxation relating to interim periods described accordingly in note 3.4 *Income tax in the interim financial statements*.

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

### **2.2 REPRESENTATIONS OF THE MANAGEMENT BOARD**

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

### **2.3 APPROVAL OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**

These condensed interim financial statements, having been reviewed by the Audit and Finance Committee of the Supervisory Board on 2 November 2020, were approved by the Bank's Management Board for publication on 2 November 2020.

## **3. CHANGES TO ACCOUNTING POLICIES AND ESTIMATES**

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

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

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

did not have a material impact on these financial statements.



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

The Bank does not identify any new standards or amendments to standards, or interpretations which have been published and endorsed by the European Union, but are not binding for periods beginning on 1 January 2020 and have not been applied to the condensed interim financial statements, but which will have a material impact on the financial statements.

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

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

### **3.4 INCOME TAX IN THE INTERIM FINANCIAL STATEMENTS**

Income tax in the interim financial statements is determined in accordance with IAS 34. The tax charge 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 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.

### **3.5 CHANGES IN ESTIMATES**

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



## NOTES TO THE INCOME STATEMENT

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

INTEREST INCOME AND INCOME SIMILAR TO INTEREST INCOME	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Interest income recognized using the effective interest rate method, including:	142,119	570,683	226,585	630,042
on financial instruments measured at amortized cost, including:	139,431	556,158	220,731	614,824
loans and advances to customers	139,430	556,109	220,706	614,750
amounts due from banks and on mandatory reserve	1	49	25	74
instruments measured at fair value through other comprehensive income, including:	2,689	14,525	5,854	15,218
debt securities	2,689	14,525	5,854	15,218
Income similar to interest income on instruments measured at fair value through profit or loss, including:	1,511	2,612	404	1,184
hedging IRS transactions (net)	1,511	2,612	404	1,184
<b>Total</b>	<b>143,630</b>	<b>573,295</b>	<b>226,989</b>	<b>631,226</b>
including: interest income on impaired financial instruments	199	668	155	388

  

INTEREST EXPENSES AND EXPENSES SIMILAR TO INTEREST EXPENSES	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Interest expense on financial instruments measured at amortized cost, including:	(48,501)	(214,044)	(89,393)	(239,982)
loans received and overdraft facility used	(11,481)	(57,088)	(12,289)	(30,934)
deferred payment for the purchase of receivables	(225)	(5,854)	(13,705)	(28,654)
mortgage covered bonds issued	(29,958)	(110,653)	(42,830)	(120,764)
bonds issued	(6,815)	(40,360)	(20,529)	(59,509)
lease liabilities	(22)	(89)	(40)	(121)
Expenses similar to interest expense on instruments measured at fair value through profit or loss, including:	(15,452)	(106,335)	(54,551)	(157,881)
hedging CIRS transactions (net)	(15,452)	(106,335)	(54,551)	(157,881)
<b>Total</b>	<b>(63,953)</b>	<b>(320,379)</b>	<b>(143,944)</b>	<b>(397,863)</b>

## 5. FEE AND COMMISSION INCOME AND EXPENSE

FEE AND COMMISSION INCOME	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Fees for property valuation	236	780	1,556	4,314
Fees for property inspection	401	1,326	651	1,991
Commission for full or partial prepayment of loans	1,163	3,533	1,414	4,286
Other	250	1,104	431	1,297
<b>Total</b>	<b>2,050</b>	<b>6,743</b>	<b>4,052</b>	<b>11,888</b>

  

FEE AND COMMISSION EXPENSES	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Preparation by property valuers of appraisal reports on Property Value for Mortgage Lending Purposes (BHWN)	(437)	(827)	(2,324)	(6,503)
Expenses related to bond issue programmes	(1,038)	(2,255)	(772)	(2,780)
Expenses related to credit lines	(1,242)	(3,035)	(933)	(2,461)
Expenses related to mortgage covered bond issue programmes	(285)	(867)	(416)	(1,023)
Loan insurance costs	(691)	(2,537)	(1,054)	(2,848)
Commissions for other operating services	(50)	(180)	(50)	(147)
Costs of debt collection and intermediation in selling collateral	0	(18)	12	(27)
<b>Total</b>	<b>(3,743)</b>	<b>(9,719)</b>	<b>(5,537)</b>	<b>(15,789)</b>

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

NET FOREIGN EXCHANGE GAINS/(LOSSES)	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3 quarters cumulatively 01.01.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Result on revaluation	159	676	197	210
Gain/(loss) on derivative instruments (CIRS, FX-Forward) before designation to hedge accounting	1	(3)	-	(389)
Gain/(loss) on derivative instruments (CIRS, FX-Forward) related to hedge ineffectiveness	13	5,094	5,156	3,637
<b>Total</b>	<b>173</b>	<b>5,767</b>	<b>5,353</b>	<b>3,458</b>

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

## 7. NET ALLOWANCES FOR EXPECTED CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	Note	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Net allowances for loans and advances to customers	14	(7,187)	(26,827)	(4,411)	(9,956)
Net provisions for loan commitments	19	0	65	95	(40)
<b>Total</b>		<b>(7,187)</b>	<b>(26,762)</b>	<b>(4,316)</b>	<b>(9,996)</b>

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





## 8. ADMINISTRATIVE EXPENSES

ADMINISTRATIVE EXPENSES	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Employee benefits	(3,590)	(10,938)	(4,156)	(12,861)
Overheads	(7,830)	(24,967)	(7,916)	(22,611)
Amortization and depreciation, including:	(626)	(2,108)	(807)	(2,444)
property, plant and equipment	(34)	(122)	(51)	(171)
right-of-use assets, including:	(298)	(930)	(310)	(896)
real estate	(242)	(766)	(256)	(762)
cars	(56)	(164)	(54)	(134)
intangible assets	(294)	(1,056)	(446)	(1,377)
<b>Total</b>	<b>(12,046)</b>	<b>(38,013)</b>	<b>(12,879)</b>	<b>(37,916)</b>

EMPLOYEE BENEFITS	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Wages and salaries, including:	(3,208)	(9,355)	(3,602)	(10,933)
provision for disability and retirement benefits	-	(15)	-	(10)
Salary surcharges	(326)	(1,343)	(424)	(1,495)
Other employee benefits	(56)	(240)	(130)	(433)
<b>Total</b>	<b>(3,590)</b>	<b>(10,938)</b>	<b>(4,156)</b>	<b>(12,861)</b>

OVERHEADS	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Services relating to supporting operations under Outsourcing Agreement	(1,035)	(3,004)	(1,159)	(2,806)
Servicing of loans granted and receivables purchased under Outsourcing Agreement	(5,464)	(17,585)	(5,170)	(14,706)
External services under other contracts	(448)	(1,551)	(564)	(1,975)
IT costs	(379)	(1,322)	(440)	(1,328)
Non-life insurance costs	(95)	(289)	(96)	(278)
Costs related to short-term lease contracts	-	-	(3)	(88)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(146)	(499)	(168)	(579)
Other	(262)	(716)	(316)	(851)
<b>Total</b>	<b>(7,830)</b>	<b>(24,967)</b>	<b>(7,916)</b>	<b>(22,611)</b>





## 9. REGULATORY CHARGES

REGULATORY CHARGES	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Contribution and payments to the Bank Guarantee Fund (BGF), including:	-	(22,507)	-	(22,058)
resolution fund	-	(22,507)	-	(22,058)
Payments to Polish Financial Supervision Authority (PFSA)	(3)	(2,132)	(3)	(2,238)
Payments to Borrowers Support Fund (potential)	(121)	(364)	-	-
Other taxes and charges	(162)	(531)	(92)	(282)
<b>Total</b>	<b>(286)</b>	<b>(25,534)</b>	<b>(95)</b>	<b>(24,578)</b>

## 10. CORPORATE INCOME TAX

INCOME TAX EXPENSE	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Current income tax expense	(11,669)	(29,435)	(17,112)	(33,545)
Deferred income tax due to temporary differences	(2,822)	(9,537)	3,872	(1,245)
<b>Income tax reported in the income statement</b>	<b>(14,491)</b>	<b>(38,972)</b>	<b>(13,240)</b>	<b>(34,790)</b>
Income tax reported in other comprehensive income due to temporary differences	(2,225)	(8,588)	(8,018)	(28,694)
<b>Total</b>	<b>(16,716)</b>	<b>(47,560)</b>	<b>(21,258)</b>	<b>(63,484)</b>

RECONCILIATION OF THE EFFECTIVE TAX RATE	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
<b>Profit / (loss) before income tax</b>	<b>35,499</b>	<b>95,454</b>	<b>47,765</b>	<b>99,944</b>
Corporate income tax calculated at the statutory tax rate in force in Poland (19%)	(6,745)	(18,136)	(9,075)	(18,989)
<b>Effect of permanent differences between profit before income tax and taxable income, including:</b>	<b>(4,230)</b>	<b>(17,016)</b>	<b>(4,165)</b>	<b>(15,801)</b>
tax on certain financial institutions	(4,199)	(12,784)	(4,156)	(11,575)
fees to BGF	-	(4,276)	-	(4,191)
PFRON (State Disabled Persons Fund) costs	(4)	(11)	(3)	(12)
impact of tax costs under Article 15cb of the CIT Act (internal)	-	143	-	-
impact of other permanent differences	(27)	(88)	(6)	(23)
<b>Impact of applying the annual effective tax rate in the interim financial statements</b>	<b>(3,516)</b>	<b>(3,820)</b>		
<b>Effect of other differences between profit before income tax and taxable income, including adjustments to previous periods</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Income tax reported in the income statement</b>	<b>(14,492)</b>	<b>(38,973)</b>	<b>(13,240)</b>	<b>(34,790)</b>
<b>Effective tax rate</b>	<b>40.83%</b>	<b>40.83%</b>	<b>27.72%</b>	<b>34.81%</b>



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

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

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



## NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 11. DERIVATIVE HEDGING INSTRUMENTS

The Bank did not introduce any hedging changes in the nine-month period ended 30 September 2020 or in 2019.

#### FINANCIAL INFORMATION

CARRYING AMOUNT/FAIR VALUE OF DERIVATIVES USED AS CASH FLOW HEDGES	30.09.2020		31.12.2019	
	Assets	Liabilities	Assets	Liabilities
IRS	15,025	-	9,217	-
CIRS	919,298	-	163,676	45,237
FX forward	122	696	382	847
<b>Total</b>	<b>934,445</b>	<b>696</b>	<b>173,275</b>	<b>46,084</b>

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

CHANGE IN OTHER COMPREHENSIVE INCOME ON CASH FLOW HEDGES AND INEFFECTIVE PORTION OF CASH FLOW HDGES	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Accumulated other comprehensive income on cash flow hedges at the beginning of the period, gross	199,850	165,953	184,336	73,411
Gains / (Losses) recognized in other comprehensive income during the period	164,479	684,986	326,181	202,739
Amounts transferred from other comprehensive income to the income statement during the period	(154,972)	(641,582)	(283,569)	(49,202)
- interest income	(1,511)	(2,612)	(404)	(1,184)
- interest expenses	15,452	106,335	54,551	157,881
- net foreign exchange gains/(losses)	(168,913)	(745,305)	(337,716)	(205,899)
Accumulated other comprehensive income on cash flow hedges at the end of the period, gross	209,357	209,357	226,948	226,948
Tax effect	(39,779)	(39,779)	(43,120)	(43,120)
<b>Accumulated other comprehensive income on cash flow hedges at the end of the period, net</b>	<b>169,578</b>	<b>169,578</b>	<b>183,828</b>	<b>183,828</b>
Ineffective portion of cash flow hedges recognized in the income statement	53	5,163	5,172	3,686
Impact on other comprehensive income during the period, gross	9,507	43,404	42,612	153,537
Deferred tax on cash flow hedges	(1,807)	(8,248)	(8,095)	(29,171)
<b>Impact on other comprehensive income during the period, net</b>	<b>7,700</b>	<b>35,156</b>	<b>34,517</b>	<b>124,366</b>

### 12. SECURITIES

SECURITIES	30.09.2020	31.12.2019
Measured at fair value through other comprehensive income, including:	1,236,996	1,240,161
issued by the State Treasury, PLN Treasury bonds	1,236,996	1,240,161
<b>Total</b>	<b>1,236,996</b>	<b>1,240,161</b>

### 13. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.09.2020	31.12.2019
<b>Measured at amortized cost</b>		
Residential loans, gross, including:		
loans granted	25,358,445	25,863,796
receivables acquired	12,289,561	12,090,010
	13,068,884	13,773,786
Allowances for expected credit losses	(69,226)	(42,726)
<b>Loans and advances to customers, net</b>	<b>25,289,219</b>	<b>25,821,070</b>

In the nine months of 2020 the Bank purchased, based on the Framework Agreement for the Sale of Receivables signed with PKO Bank Polski SA on 17 November 2015, residential mortgage loan receivables portfolios amounting to PLN 341,910 thousand, and in the first nine months of 2019 amounting to PLN 2,745,208 thousand. The purchase price was determined on an arm's length basis, based on the valuation made by an independent expert. The purchased receivables were recognized in the Bank's books of account as at the transfer dates set in the Receivables Sale Agreements, on which the Bank acquired the rights to the cash flows from individual portfolios, and assumed all related liability for costs and economic risks in the constituent receivables. The purchase of the receivable portfolios was financed with the liability the nature of which is described in Note 15 "Amounts due to banks".

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

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

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

## CONDENSED INTERIM FINANCIAL STATEMENTS

OF PKO BANK HIPOTECZNY SA

FOR THE NINE-MONTH PERIOD ENDED ON 30 SEPTEMBER 2020

(IN PLN THOUSANDS)



### 14. 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 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
<b>Measured at fair value through other comprehensive income</b>								
securities	1,236,996	-	-	-	-	-	1,236,996	-
issued by the State Treasury, PLN Treasury bonds	1,236,996	-	-	-	-	-	1,236,996	-
<b>Total</b>	<b>1,236,996</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,236,996</b>	<b>-</b>
<b>Measured at amortized cost</b>								
amounts due from banks	15	-	-	-	-	-	15	-
loans and advances to customers	24,709,459	(12,011)	627,019	(46,285)	21,967	(10,930)	25,358,445	(69,226)
residential loans	24,709,459	(12,011)	627,019	(46,285)	21,967	(10,930)	25,358,445	(69,226)
loans granted	11,864,222	(6,662)	416,923	(28,292)	8,416	(4,326)	12,289,561	(39,280)
receivables acquired	12,845,237	(5,349)	210,096	(17,993)	13,551	(6,604)	13,068,884	(29,946)
other financial assets	78	-	-	-	-	-	78	-
<b>Total</b>	<b>24,709,552</b>	<b>(12,011)</b>	<b>627,019</b>	<b>(46,285)</b>	<b>21,967</b>	<b>(10,930)</b>	<b>25,358,538</b>	<b>(69,226)</b>

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

LOAN COMMITMENTS AND PROVISIONS AS AT 30 SEPTEMBER 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
<b>Loan commitments</b>	<b>161,229</b>	<b>(51)</b>	<b>1,118</b>	<b>(24)</b>	<b>-</b>	<b>-</b>	<b>162,347</b>	<b>(75)</b>

**CONDENSED INTERIM FINANCIAL STATEMENTS**

OF PKO BANK HIPOTECZNY SA

FOR THE NINE-MONTH PERIOD ENDED ON 30 SEPTEMBER 2020

(IN PLN THOUSANDS)



Bank Hipoteczny

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

# CONDENSED INTERIM FINANCIAL STATEMENTS

OF PKO BANK HIPOTECZNY SA

FOR THE NINE-MONTH PERIOD ENDED ON 30 SEPTEMBER 2020

(IN PLN THOUSANDS)



## CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 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 immaterial modification (net)	Decrease due to derecognition	Decrease due to partial write-off	Other changes	As at 30.09.2020
Measured at fair value through OCI securities	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-
Measured at amortized cost amounts due from banks	-	-	-	-	-	-	-	-
loans and advances to customers	42,726	2,991	23,100	939	(204)	(326)	-	69,226
residential loans	42,726	2,991	23,100	939	(204)	(326)	-	69,226
other financial assets	-	-	-	-	-	-	-	-
<b>Total</b>	42,726	2,991	23,100	939	(204)	(326)	-	69,226

CHANGES IN ALLOWANCES FOR EXPECTED CREDIT LOSSES ON FINANCIAL ASSETS FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 SEPTEMBER 2019	As at 01.01.2019	Increase due to granting and purchase of loans	Changes due to changes in credit risk (net), including total repayment	Changes due to immaterial modification (net)	Decrease due to derecognition	Decrease due to partial write-off	Other changes	As at 30.09.2019
Measured at fair value through OCI securities	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-
Measured at amortized cost amounts due from banks	-	-	-	-	-	-	-	-
loans and advances to customers	28,273	1,814	8,044	163	(65)	(172)	-	38,057
residential loans	28,273	1,814	8,044	163	(65)	(172)	-	38,057
other financial assets	-	-	-	-	-	-	-	-
<b>Total</b>	28,273	1,814	8,044	163	(65)	(172)	-	38,057



## CALCULATION OF ESTIMATES

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

ESTIMATED CHANGE IN ALLOWANCES FOR EXPECTED CREDIT LOSSES DUE TO A DETERIORATION OR IMPROVEMENT IN RISK PARAMETERS, INCLUDING: <sup>1</sup>	30.09.2020		31.12.2019	
	scenario +10%	scenario -10%	scenario +10%	scenario -10%
changes in probability of default	8,797	(11,410)	3,173	(3,540)
changes in rates of recovery	(14,875)	14,879	(9,206)	9,214

<sup>1</sup> in plus – an increase in allowances; in minus – a decrease in allowances

## FINANCIAL ASSETS IMPAIRED UPON INITIAL RECOGNITION - POCI

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

## 15. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.09.2020	31.12.2019
<b>Measured at amortized cost</b>		
overdraft within the limit available	16,460	10,081
liability related to overdraft facilities	4,186,735	2,422,408
liability related to term loans	249,859	100,007
liability in respect of the purchase of receivables	187,909	2,278,763
<b>Total</b>	<b>4,640,963</b>	<b>4,811,259</b>

## LIABILITIES IN RESPECT OF LOANS

LENDER	Effective date of agreement	Maturity date	Amount of loan granted as at 30 September 2020	Amount of loan drawn as at 30 September 2020	Liability as at 30 September 2020
PKO Bank Polski SA	29.10.2015	29.10.2022	2,000,000	2,000,000	2
PKO Bank Polski SA	02.02.2017	03.02.2023	2,000,000	2,000,000	906,168
PKO Bank Polski SA <sup>1)</sup>	10.07.2019	01.07.2022	3,130,562	3,130,562	3,130,562
PKO Bank Polski SA	10.09.2020	10.09.2026	300,000	300,000	149,856
Other bank 1	10.06.2019	13.06.2021	150,000	150,000	150,003
Other bank 2	27.12.2018	28.12.2020	100,000	100,000	100,003
<b>Total</b>			<b>7,680,562</b>	<b>7,680,562</b>	<b>4,436,594</b>

<sup>1)</sup> As a result of signing an annexe to the agreement of 10 July 2019, as at 18 March 2020 the limit was increased by PLN 1,500,000 thousand, i.e. to the maximum amount of PLN 4,000,000 thousand, and the increase could be used to redeem own bonds which matured in the first half of 2020, should there be any difficulties with refinancing particular series of own bonds caused by the conditions on the financial market. The amount of the liability as at 30 September 2020 results from the partial use of the temporarily increased limit by the Bank.



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

#### 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 mortgage backed residential loan portfolios from PKO Bank Polski SA, as specified in Note 13 "Loans and advances to customers." The repayment date of the liability resulting from the purchase of receivables is agreed by the parties in the Receivables Sale Agreement for each transaction. The parties agreed that the payment would be due no later than 18 months from the date of transfer. If the liability is not settled within 1 month from the date of transfer, the principal amount is subject to interest. The liability resulting from the purchase of receivables at 30 September 2020 concerns portfolios purchased in the third quarter of 2020, whereas as at 31 December 2019 the liability concerned portfolios purchased in 2019.

### 16. LIABILITIES IN RESPECT OF MORTGAGE COVERED BONDS ISSUED

LIABILITIES IN RESPECT OF MORTGAGE COVERED BONDS ISSUED	30.09.2020	31.12.2019
<b>Measured at amortized cost</b>		
mortgage covered bonds, including issued under:	16,978,339	16,239,975
International Mortgage Covered Bonds Issue Programme	12,593,355	11,847,023
National Mortgage Covered Bonds Issue Programme	4,384,984	4,392,952
<b>Total</b>	<b>16,978,339</b>	<b>16,239,975</b>

In the nine-month period of 2020 the Bank did not issue and mortgage covered bonds, and in the first nine months of 2019 the Bank issued green mortgage covered bonds denominated in PLN once, in the amount of PLN 250,000 thousand, and three times it issued euro-denominated mortgage covered bonds of EUR 700,000 thousand in total. The Bank did not redeem any mortgage covered bonds in the nine months of 2020 or in 2019.

Issues of mortgage covered bonds in Poland are quoted on the parallel market of the Warsaw Stock Exchange (WSE) and on BondSpot, and foreign issues on the Luxembourg and Warsaw markets (parallel market of the WSE).

As at 30 September 2020 and 31 December 2019 the issued PLN- and EUR-denominated mortgage covered bonds were rated by Moody's Investors Service at Aa3, i.e. the highest achievable by Polish securities. The limit for the ratings is the Polish country ceiling for debt instruments, which currently is at the level of Aa3.

The total nominal value of the issued mortgage covered bonds as at 30 September 2020 amounted to PLN 16,964,977 thousand, and as at 31 December 2019: PLN 16,219,372 thousand.

#### SECURING THE MORTGAGE COVERED BONDS

The mortgage covered bonds are secured by loans secured by the highest priority mortgage. 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 five 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 mortgage covered bonds issued totalled PLN 22,975,517 thousand as at 30 September 2020, whereas the nominal value of additional collateral in the form of securities denominated in PLN and issued by the State Treasury amounted to PLN 250,000 thousand. As at 31 December 2019 it amounted to PLN 21,662,027 thousand and PLN 250,000 thousand respectively. The Bank's mortgage covered bonds cover pool also included CIRS and FX-Forward transactions hedging the currency and interest-rate risk of issued covered bonds denominated in EUR and IRS transactions securing the interest rate risk of fixed rate mortgage covered bonds issued in PLN.

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

## 17. LIABILITIES IN RESPECT OF BONDS ISSUED

LIABILITIES IN RESPECT OF BONDS ISSUED	30.09.2020	31.12.2019
<b>Measured at amortized cost</b>		
bonds, including bonds issued under:		
Non-Public Bond Issue Programme	3,651,245	4,060,026
Public Bond Issue Programme	3,136,100	3,380,932
an individual agreement	164,900	328,148
	350,245	350,946
<b>Total</b>	<b>3,651,245</b>	<b>4,060,026</b>

### NON-PUBLIC BOND ISSUE PROGRAMME

In the nine months of 2020, under the Non-Public Bond Issue Programme, the Bank issued bonds of a total nominal value of PLN 3,997,500 thousand (i.e. 7,995 bonds with a PLN 500,000 nominal value each) and repurchased bonds with a total nominal value of PLN 4,255,000 thousand (i.e. 1,020 bonds with a nominal value of PLN 100,000 each and 8,306 bonds with a nominal value of PLN 500,000 each), whereas during the nine months of 2019 it was PLN 4,906,100 thousand (i.e. 40,721 bonds with a nominal value of PLN 100,000 each and 1,668 bonds with a nominal value of PLN 500,000 each) and PLN 4,562,300 thousand (i.e. 45,623 bonds with the nominal value PLN 100,000 each) respectively.

The above-mentioned issues of bonds are regulated by the Bond Issue Programme Agreement concluded with PKO Bank Polski SA. Based on this agreement the maximum nominal value of the bonds issued and not redeemed is PLN 4,000,000 thousand. At the same time, pursuant to the Underwriting Agreement concluded, PKO Bank Polski SA as the Underwriter assumes liability for taking up the issuer's bonds on its own account up to the amount of PLN 2,000,000 thousand.

As at 30 September 2020 the Bank's liability with respect to the bonds issued under the Non-Public Bond Issue Programme, in nominal amounts, totalled PLN 3,142,500 thousand, and as at 31 December 2019 it was PLN 3,400,000 thousand. As at 30 September 2020 and as at 31 December 2019 no bonds were taken up by PKO Bank Polski SA under the Underwriting Agreement.

### PUBLIC BOND ISSUE PROGRAMME

During the nine months of 2020 the Bank did not issue bonds under the Public Bond Issue Programme, but it redeemed bonds with a total nominal value of PLN 161,500 thousand (i.e. 1,615 bonds with the nominal value PLN 100,000 each). During the nine months of 2019, under the Programme, the Bank issued:

- one series of bonds with the value of PLN 161,500 thousand and a six-month period to maturity, which were taken up under the service underwriting agreement with Dom Maklerski PKO Banku Polskiego SA;
  - two series of bonds addressed mainly to retail investors, with a total value of PLN 95,000 thousand and a two-year period to maturity;
- however, it did not redeem bonds under the programme.

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

The nominal value of the bonds issued as at 30 September 2020 amounted to PLN 165,000 thousand, and as at 31 December 2019: PLN 326,500 thousand.



#### OTHER ISSUES OF UNSECURED BONDS

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

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

#### 18. OTHER LIABILITIES

OTHER LIABILITIES	30.09.2020	31.12.2019
Expenses to be paid	9,104	9,767
Liabilities in respect of contribution to the Bank Guarantee Fund, including:	14,581	7,984
in respect of contribution accrued by BGF / payable to BGF for the resolution fund	-	-
maintained in the form of payment commitments to the resolution fund	14,581	7,984
Other liabilities, including:	10,745	13,158
sundry creditors	2,949	5,295
settlements with the state budget, including:	7,796	7,863
liabilities in respect of tax on certain financial institutions	7,459	7,404
Lease liabilities	3,914	5,051
<b>Total</b>	<b>38,344</b>	<b>35,960</b>
including financial liabilities	15,967	20,113

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

#### 19. PROVISIONS

PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 SEPTEMBER 2020	Provision for disability and retirement benefits	Provision for loan commitments	Total
<b>As at 1 January 2020, including:</b>	<b>154</b>	<b>140</b>	<b>294</b>
Short-term provision	-	140	140
Long-term provision	154	-	154
Set-up/reassessment of provisions	15	65	80
Release/utilization	-	(130)	(130)
<b>As at 30 September 2020, including:</b>	<b>169</b>	<b>75</b>	<b>244</b>
Short-term provision	-	75	75
Long-term provision	169	-	169
PROVISIONS FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 SEPTEMBER 2019	Provision for disability and retirement benefits	Provision for loan commitments	Total
<b>As at 1 January 2019, including:</b>	<b>124</b>	<b>144</b>	<b>268</b>
Short-term provision	-	144	144
Long-term provision	124	-	124
Set-up/reassessment of provisions	10	206	216
Release/utilization	-	(166)	(166)
<b>As at 30 September 2019, including:</b>	<b>134</b>	<b>184</b>	<b>318</b>
Short-term provision	-	184	184
Long-term provision	134	-	134



## 20. EQUITY AND SHAREHOLDING STRUCTURE OF THE BANK

EQUITY	30.09.2020	31.12.2019
Share capital	1,611,300	1,611,300
Supplementary capital	250,733	161,563
Accumulated other comprehensive income, including:	174,599	137,990
cash flow hedges	169,578	134,421
measurement of financial assets measured at fair value through other comprehensive income	5,021	3,569
Net profit for the period	56,482	89,170
<b>Total equity</b>	<b>2,093,114</b>	<b>2,000,023</b>

### SHAREHOLDING STRUCTURE

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

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

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

During the nine months of 2020 the Bank did not pay dividend.



## OTHER NOTES

### 21. CONTINGENT LIABILITIES GRANTED AND RECEIVED

#### 21.1 CONTRACTUAL COMMITMENTS

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

#### 21.2 FINANCIAL LIABILITIES GRANTED

LOAN COMMITMENTS (CONTINGENT)	30.09.2020	31.12.2019
Undrawn residential loans (nominal value)		
residential loans to individuals	162,347	482,686
provisions for loan commitments	(75)	(140)
<b>Total, net</b>	<b>162,272</b>	<b>482,546</b>
including irrevocable loan commitments	-	-

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

#### 21.3 GUARANTEE COMMITMENTS GRANTED

PKO Bank Hipoteczny SA does not grant guarantee commitments.

#### 21.4 CONTINGENT LIABILITIES RECEIVED

CONTINGENT COMMITMENTS RECEIVED AT THE NOMINAL VALUE	30.09.2020	31.12.2019
Contingent commitments received		
financial	3,245,035	2,230,566
guarantees	2,000,000	2,000,000
<b>Total</b>	<b>5,245,035</b>	<b>4,230,566</b>

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

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

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

### 22. LEGAL CLAIMS

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



## 23. INFORMATION ABOUT LEASES

### LEASES – LESSEE

LEASE AMOUNTS RECOGNIZED IN THE INCOME STATEMENT - LESSEE	3rd quarter 01.07.2020 - 30.09.2020	3 quarters cumulatively 01.01.2020 - 30.09.2020	3rd quarter 01.07.2019 - 30.09.2019	3 quarters cumulatively 01.01.2019 - 30.09.2019
Amortization of the right-of-use assets	(298)	(930)	(310)	(896)
real estate	(242)	(766)	(256)	(762)
cars	(56)	(164)	(54)	(134)
Interest expenses	(22)	(89)	(40)	(121)
Costs related to short-term lease contracts	-	-	(3)	(88)
Costs related to lease contracts for low-value assets (other than short-term), non-deductible VAT expenses and service charges	(146)	(499)	(168)	(579)
<b>Total</b>	<b>(466)</b>	<b>(1,518)</b>	<b>(521)</b>	<b>(1,684)</b>

### LEASES – LESSOR

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

## 24. ADDITIONAL NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents	30.09.2020	31.12.2019
Cash and balances with the Central Bank	12	20
Amounts due from banks - current accounts	15	31
<b>Total</b>	<b>27</b>	<b>51</b>

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

## 25. RELATED PARTY TRANSACTIONS – CAPITAL LINKS

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

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

Furthermore, during the nine months of 2020:

- In accordance with an annexe to the Bond Issue Programme Agreement of 30 September 2015, the maximum value of bonds issued and outstanding under the non-public programme was increased by PLN 500,000 thousand i.e. to PLN 4,000,000 thousand;
- As a result of signing an annexe to the agreement of 10 July 2019, as at 18 March 2020 the limit was increased by PLN 1,500,000 thousand, i.e. to PLN 4,000,000 thousand, and the increase may be used to redeem treasury bonds which matured in the first half of 2020 in the event of problems with refinancing the individual series of own bonds resulting from the conditions on the financial market.
- On 10 September 2020 the Bank concluded an agreement of a revolving non-renewable facility with PKO Bank Polski SA. The facility amounts to PLN 300,000 thousand and has been offered for 6 years. The facility may be drawn in tranches, each of which will be repayable over five years. Interest will be determined at fixed rates for individual tranches.

**CONDENSED INTERIM FINANCIAL STATEMENTS  
OF PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD ENDED ON 30 SEPTEMBER 2020  
(IN PLN THOUSANDS)**



**Bank Hipoteczny**

**FINANCIAL INFORMATION**

**AS AT 30 SEPTEMBER 2020**

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	934,531	934,445
<b>Total</b>	<b>934,531</b>	<b>934,445</b>

ENTITY	LIABILITIES				
	Loans and overdraft	Acquisition of receivables	Mortgage covered bonds and bonds	Other liabilities	incl. derivatives
PKO Bank Polski SA	4,203,197	187,909	42,063	7,986	696
PKO BP Finat Sp. z o.o.	-	-	-	17	-
PKO Leasing SA	-	-	-	405	-
Prime Car Management SA	-	-	-	77	-
PKO Towarzystwo Ubezpieczeń SA	-	-	97,293	-	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	139,739	-	-
PKO VC -fizan	-	-	33,963	-	-
NEPTUN - fizan	-	-	29,946	-	-
<b>Total</b>	<b>4,203,197</b>	<b>187,909</b>	<b>343,004</b>	<b>8,485</b>	<b>696</b>

ENTITY	Financial liabilities granted	Contingent commitments received
PKO Bank Polski SA	-	5,245,035
<b>Total</b>	<b>-</b>	<b>5,245,035</b>

**FOR THE PERIOD FROM 1 JANUARY 2020 TO 30 SEPTEMBER 2020**

ENTITY	Total revenues	incl. interest and commissions	Total costs	incl. 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	-	-	-	-	-	-
<b>Total</b>	<b>2,791</b>	<b>2,628</b>	<b>202,583</b>	<b>180,067</b>	<b>69</b>	<b>750,490</b>

**CONDENSED INTERIM FINANCIAL STATEMENTS  
OF PKO BANK HIPOTECZNY SA  
FOR THE NINE-MONTH PERIOD ENDED ON 30 SEPTEMBER 2020  
(IN PLN THOUSANDS)**



**AS AT 31 DECEMBER 2019**

ENTITY	ASSETS	
	Receivables	including derivatives
PKO Bank Polski SA	173,515	173,275
<b>Total</b>	<b>173,515</b>	<b>173,275</b>

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

ENTITY	Financial liabilities granted	Contingent commitments received
PKO Bank Polski SA	-	4,230,566
<b>Total</b>	<b>-</b>	<b>4,230,566</b>

**FOR THE PERIOD FROM 1 JANUARY 2019 TO 30 SEPTEMBER 2019**

ENTITY	Total revenues	incl. interest and commissions	Total costs	incl. interest and commissions	Net income/(expense) from financial instruments measured at fair value	Net foreign exchange gains/(losses)
PKO Bank Polski SA	1,486	1,227	247,163	228,799	49	209,239
PKO BP Finat Sp. z o.o.	-	-	147	-	-	-
PKO Leasing SA	-	-	195	10	-	-
PKO Towarzystwo Ubezpieczeń SA	-	-	2,408	2,408	-	-
PKO VC -fizan	-	-	541	541	-	-
<b>Total</b>	<b>1,486</b>	<b>1,227</b>	<b>250,454</b>	<b>231,758</b>	<b>49</b>	<b>209,239</b>

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





## 26. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 30 SEPTEMBER 2020	Note	Carrying amount	Level 1	Level 2	Level 3
			Prices quoted on active markets	Measurement techniques based on observable market data	Other valuation techniques
Derivative hedging instruments	11	934,445	-	934,445	-
CIRS		919,298	-	919,298	-
FX forward		122	-	122	-
IRS		15,025	-	15,025	-
Securities	12	1,236,996	1,236,996	-	-
measured at fair value through other comprehensive income		1,236,996	1,236,996	-	-
<b>Total financial assets measured at fair value</b>		<b>2,171,441</b>	<b>1,236,996</b>	<b>934,445</b>	<b>-</b>
Derivative hedging instruments	11	696	-	696	-
CIRS		-	-	-	-
FX-Forward		696	-	696	-
IRS		-	-	-	-
<b>Total financial liabilities measured at fair value</b>		<b>696</b>	<b>-</b>	<b>696</b>	<b>-</b>

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

In the nine months of 2020 there were no changes in the valuation techniques or input data for the respective fair value hierarchy levels.

During the nine months of 2020 and during the nine months of 2019 there were no transfers between the different levels of fair value hierarchy.



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

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

FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE AS AT 30 SEPTEMBER 2020	fair value hierarchy level	measurement method	30.09.2020	
			carrying amount	fair value
Cash and balances with the Central Bank	N/A	amount of consideration due	12	12
Amounts due from banks	2	discounted cash flows	15	15
Loans and advances to customers, including:			25,289,219	24,484,611
residential loans	3	discounted cash flows	25,289,219	24,484,611
Other financial assets	3	amount of consideration due taking into account impairment	78	78
Amounts due to banks	2	discounted cash flows	4,640,963	4,640,963
Amounts due to customers	2	discounted cash flows	4,598	4,598
Liabilities in respect of mortgage covered bonds issued	1.2	discounted cash flows, quotation on a regulated market	16,978,339	17,237,693
Liabilities in respect of bonds issued	2	discounted cash flows	3,651,245	3,651,245
Other financial liabilities	3	amount of consideration due	15,967	15,967

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

## 27. OPERATING SEGMENTS

During the nine months of 2020 and in 2019 the Bank did not analyse its operations by segments due to the specific nature of its operations.



## OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

### 28. RISK MANAGEMENT IN PKO BANK HIPOTECZNY SA

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

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 2019. During the nine months of 2020, there were no changes to the objectives and principles of risk management.

### 29. CREDIT RISK MANAGEMENT

#### 29.1 MAXIMUM EXPOSURE TO CREDIT RISK

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

MAXIMUM EXPOSURE TO CREDIT RISK	30.09.2020	31.12.2019
Derivative hedging instruments	934,445	173,275
Balance sheet exposure - total	934,445	173,275

#### 29.2 AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.09.2020	31.12.2019
Amounts not overdue, not impaired (counterparty rating A2)	15	31
Total, gross	15	31
Allowances for expected credit losses	-	-
Total, net	15	31

#### 29.3 SECURITIES

SECURITIES	30.09.2020	31.12.2019
Issued by the State Treasury, PLN Treasury bonds (rating A)	1,236,996	1,240,161
Total, gross	1,236,996	1,240,161
Allowances for expected credit losses	-	-
Total, net	1,236,996	1,240,161

#### 29.4 LOANS AND ADVANCES TO CUSTOMERS

The loan portfolio is characterized by a low level of exposure to impairment. At 30 September 2020, 104 impaired loans were recognized, and their share in the total loan portfolio amount was 0.09%, whereas as at 31 December 2019, 88 impaired loans were recognized, and their share in the total loan portfolio amount was 0.07%.

Due to the COVID-19 pandemic and its adverse impact on the financial situation of customers, the Bank expects the quality of its loan portfolio to deteriorate in the following reporting periods. Even though the Bank's knowledge about the impact of the pandemic on the macroeconomic situation is still incomplete, an additional write-down for



a forecast deterioration in the quality of the loan portfolio of PLN 12,400 thousand was recognized during the nine months of 2020. The Bank considered the negative macroeconomic scenarios, whose base version assumes recession and increased unemployment. The COVID-19 pandemic does not affect the going concern principle.

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

LOANS AND ADVANCES TO CUSTOMERS	30.09.2020	31.12.2019
Loans not overdue, not impaired	25,241,906	25,728,434
Loans overdue, not impaired	94,572	117,439
Loans impaired	21,967	17,923
<b>Total, gross</b>	<b>25,358,445</b>	<b>25,863,796</b>
Allowances for loans not overdue, not impaired	(49,882)	(27,212)
Allowances for loans overdue, not impaired	(8,414)	(8,016)
Allowances for loans impaired	(10,930)	(7,498)
<b>Total, net</b>	<b>25,289,219</b>	<b>25,821,070</b>

Due to the COVID-19 pandemic, during the nine months of 2020 the Bank allowed the customers to suspend up to 6 capital or capital-and-interest instalments on the terms and conditions adopted by the banking sector in cooperation with the Polish Bank Association. Taking advantage of the above-mentioned moratorium does not automatically change the classification of exposures to exposures under restructuring, unless they have been classified as such previously. Throughout the period of the moratorium and afterwards, the Bank shall assess the probability of default by debtors covered by the moratorium in accordance with the standard procedures, taking into account in particular the repayment delays occurring after the suspension period. As at 30 September 2020, the Bank identified 2.6% of the loan portfolio (the share in the number of loans) as covered by the moratorium defined above. The portfolio value is presented in the following table:

LOANS AND ADVANCES TO CUSTOMERS SUBJECT TO A MORATORIUM	30.09.2020
Loans unimpaired, of which:	863,683
for loans whose credit risk has increased materially since initial recognition (Stage 2)	95,295
Loans impaired	2,234
<b>Total, gross</b>	<b>865,917</b>
Allowances for unimpaired loans, of which:	(11,836)
for loans whose credit risk has increased materially since initial recognition (Stage 2)	(10,815)
Allowances for impaired loans	(575)
<b>Total, net</b>	<b>853,506</b>

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



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

LOANS AND ADVANCES TO CUSTOMERS, NOT IMPAIRED	30.09.2020	31.12.2019
not overdue	25,241,906	25,728,434
up to 30 days overdue	86,496	107,093
from 31 to 60 days overdue	5,598	8,406
from 61 to 90 days overdue	2,478	1,940
<b>Total, gross</b>	<b>25,336,478</b>	<b>25,845,873</b>

Moreover, on 24 June 2020 the Bank gave customers the possibility to suspend the performance of a loan agreement based on the Act on subsidization of interest on bank loans granted to entities affected by COVID-19 and a simplified arrangement approval procedure due to COVID-19 of 19 June 2020 ("the Shield 4.0"). There were seven such suspensions as at 30 September 2020.

#### LOAN PORTFOLIO AND FINANCIAL LIABILITIES GRANTED BY PD RANGE

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

LOANS AND ADVANCES TO CUSTOMERS	30.09.2020			
PD RANGE	Stage 1	Stage 2	Stage 3	Total, gross
<0.01%	28,309	5	-	28,314
0.01% - 0.02%	1,446,490	515	-	1,447,005
0.02% - 0.05%	6,679,012	6,241	-	6,685,253
0.05% - 0.1%	5,566,630	4,471	-	5,571,101
0.1% - 0.3%	8,043,534	8,131	-	8,051,665
0.3% - 1.0%	2,650,264	212,917	-	2,863,181
1.0% - 10%	295,220	267,585	-	562,805
10% - 100%	-	127,154	21,967	149,121
<b>Total gross amount</b>	<b>24,709,459</b>	<b>627,019</b>	<b>21,967</b>	<b>25,358,445</b>

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



LOAN COMMITMENTS		30.09.2020			
PD RANGE	Stage 1	Stage 2	Stage 3	Total	
<0.01%	2,631	-	-	-	2,631
0.01% - 0.02%	15,478	-	-	-	15,478
0.02% - 0.05%	45,508	-	-	-	45,508
0.05% - 0.1%	26,746	-	-	-	26,746
0.1% - 0.3%	62,568	-	-	-	62,568
0.3% - 1.0%	7,819	1,056	-	-	8,875
1.0% - 10%	479	62	-	-	541
10% - 100%	-	-	-	-	-
<b>Total nominal amount</b>	<b>161,229</b>	<b>1,118</b>	<b>-</b>	<b>-</b>	<b>162,346</b>

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

## 29.5 FORBEARANCE PRACTICES

EXPOSURES SUBJECT TO FORBEARANCE IN THE LOAN PORTFOLIO	30.09.2020	31.12.2019
Gross loans and advances to customers, including:	25,358,445	25,863,796
subject to forbearance	5,949	4,469
Allowances for expected credit losses, of which:	(69,226)	(42,726)
on loans and advances subject to forbearance	(1,266)	(953)
<b>Net loans and advances to customers, including:</b>	<b>25,289,219</b>	<b>25,821,070</b>
<b>subject to forbearance</b>	<b>4,683</b>	<b>3,516</b>

## 30. CONCENTRATION RISK MANAGEMENT

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

GROSS LOANS AND ADVANCES TO CUSTOMERS - CONCENTRATION RATIO	30.09.2020	31.12.2019
10 largest exposures	0.05%	0.05%
20 largest exposures	0.09%	0.09%
50 largest exposures	0.21%	0.21%
100 largest exposures	0.40%	0.39%

## 31. RESIDUAL RISK MANAGEMENT

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



GROSS LOANS BY LTV BASED ON MARKET VALUATION	30.09.2020	31.12.2019
below 50%	44%	34%
51% - 60%	23%	21%
61% - 70%	20%	22%
71% - 80%	10%	16%
81% - 90%	3%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>
Average LTV based on market valuation	51.4%	56.2%

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	30.09.2020	31.12.2019
Warsaw region	22.0%	21.7%
Wrocław region	12.4%	12.4%
Gdańsk region	11.3%	11.2%
Poznań region	10.8%	10.9%
Katowice region	9.8%	9.9%
Kraków region	8.1%	8.1%
Szczecin region	7.3%	7.3%
Łódź region	6.8%	6.8%
Lublin region	6.0%	6.1%
Białystok region	5.5%	5.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## 32. LIQUIDITY RISK MANAGEMENT

### 32.1 LIQUIDITY RISK MEASUREMENT AND ASSESSMENT

The Bank applies the following liquidity risk measures:

- contractual, adjusted and stress-test liquidity gap;
- liquidity surplus and survival horizon with no external support;
- regulatory liquidity measures:
  - M3 – Non-liquid assets to own funds;
  - M4 – Non-liquid assets and assets with limited liquidity to own funds and stable external funds ratio;
  - Liquidity coverage ratio (LCR) – the coverage ratio of net outflows up to 1 month;
- the concentration of funding sources;
- coverage ratio of long-term assets with long-term funding;
- liquidity stress tests.

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

LIQUIDITY GAP	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.09.2020								
Adjusted periodic gap	3,095,062	807,827	2,903	(1,134,493)	(961,743)	(10,009,397)	(9,706,429)	17,906,270
Adjusted cumulative periodic gap	3,095,062	3,902,889	3,905,792	2,771,299	1,809,556	(8,199,841)	(17,906,270)	-

As at 30 September 2020, in the ranges up to 12 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 31.12.2019	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24 - 60 months	over 60 months
Adjusted periodic gap	1,230,618	839,626	41,062	(1,899,479)	(1,775,357)	(5,072,776)	(11,849,070)	18,485,376
Adjusted cumulative periodic gap	1,230,618	2,070,244	2,111,306	211,827	(1,563,530)	(6,636,306)	(18,485,376)	-

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

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

SENSITIVITY MEASURE	30.09.2020	31.12.2019
Excess liquidity in the horizon of up to 1 month	3,730,972	1,605,939

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

30.09.2020	as at the end of the period	average during the period	minimum for the period	maximum for the period	regulatory minimum
M3	456.63	380.15	308.74	469.94	>1.0
M4	1.06	1.05	1.03	1.07	>1.0

  

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

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

SENSITIVITY MEASURE	30.09.2020	31.12.2019
Liquidity coverage ratio up to 1 month (LCR)	4759%	163%
LCR regulatory limit	100%	100%

## 32.2 LIQUIDITY RISK CONTROL

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

## 32.3 LIQUIDITY RISK FORECASTING AND MONITORING

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

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



### 32.4 LIQUIDITY GAP IN THE PRESENTATION OF CONTRACTUAL CASH FLOWS

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

30.09.2020	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24 - 60 months	over 60 months	Total
<b>Inflows</b>	3,095,062	142,980	273,406	586,380	830,844	1,662,323	5,582,493	23,964,901	36,138,389
securities	-	-	1,045	174,309	1,525	2,164	699,687	379,941	1,258,671
loans and advances to customers	-	142,980	272,361	412,071	829,319	1,660,159	4,882,806	23,584,960	31,784,656
credit lines	3,095,035	-	-	-	-	-	-	-	3,095,035
other	27	-	-	-	-	-	-	-	27
<b>Outflows</b>	4,787	330,008	1,137,630	2,381,562	1,600,711	9,192,652	13,881,914	66,280	28,595,544
amounts due to banks	4,787	16,618	104,263	8,796	171,265	3,000,206	4,158,422	-	7,464,357
liabilities in respect of mortgage covered bonds issued	-	4,196	42,170	40,614	1,309,990	6,116,697	9,723,475	66,280	17,303,422
liabilities in respect of bonds issued	-	254,194	937,978	2,302,700	95,726	70,148	-	-	3,660,746
disbursement of loan commitments	-	50,328	53,219	29,452	23,730	5,601	17	-	162,347
other	-	4,672	-	-	-	-	-	-	4,672
<b>Inflows from derivative hedging instruments</b>	-	-	9,002	33,089	34,048	5,496,260	7,240,514	6,278	12,819,191
<b>Outflows on derivative hedging instruments</b>	-	10,351	17,495	93,997	194,470	5,489,012	7,045,923	7,426	12,858,674
<b>Periodic gap</b>	3,090,275	(197,379)	(872,717)	(1,856,090)	(930,289)	(7,523,081)	(8,104,830)	23,897,473	7,503,362
<b>Cumulative gap</b>	3,090,275	2,892,896	2,020,179	164,089	(766,200)	(8,289,281)	(16,394,111)	7,503,362	

  

31.12.2019	on demand	0 - 1 month	1 - 3 months	3 - 6 months	6-12 months	12-24 months	24 - 60 months	over 60 months	Total
<b>Inflows</b>	1,230,617	324,459	805,992	466,029	951,151	2,090,996	6,188,933	28,931,264	40,989,441
securities	-	168,267	-	1,280	9,806	190,568	566,007	388,754	1,324,682
loans and advances to customers	-	156,192	305,992	464,749	941,345	1,900,428	5,622,926	28,542,510	37,934,142
credit lines	1,230,566	-	500,000	-	-	-	-	-	1,730,566
other	51	-	-	-	-	-	-	-	51
<b>Outflows</b>	5,167	1,003,723	798,562	2,750,597	2,387,780	4,439,653	15,912,104	810,655	28,108,241
amounts due to banks	5,167	10,370	9,780	162,269	2,186,462	276,384	4,046,808	-	6,697,240
liabilities in respect of mortgage covered bonds issued	-	40,967	12,601	27,360	112,319	3,967,011	11,864,800	810,655	16,835,713
liabilities in respect of bonds issued	-	797,728	654,564	2,464,978	2,028	168,279	-	-	4,087,577
disbursement of loan commitments	-	149,633	121,617	95,990	86,971	27,979	496	-	482,686
other	-	5,025	-	-	-	-	-	-	5,025
<b>Inflows from derivative hedging instruments</b>	-	30,274	873	6,883	34,275	2,626,435	9,417,809	8,370	12,124,919
<b>Outflows on derivative hedging instruments</b>	-	26,415	46,277	87,886	181,515	2,963,035	9,858,376	9,166	13,172,670
<b>Periodic gap</b>	1,225,450	(675,405)	(37,974)	(2,365,571)	(1,583,869)	(2,685,257)	(10,163,738)	28,119,813	11,833,449
<b>Cumulative gap</b>	1,225,450	550,045	512,071	(1,853,500)	(3,437,369)	(6,122,626)	(16,286,364)	11,833,449	

## 32.5 CONCENTRATION OF FUNDING SOURCES

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

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

STRUCTURE OF THE BANK'S FINANCING	30.09.2020	31.12.2019
Mortgage covered bonds issued	61.8%	59.6%
Funds from the parent entity	16.0%	16.7%
Bonds issued	13.3%	14.9%
Equity	7.6%	7.3%
Other	1.3%	1.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The share of funding raised from the parent entity amounted to 16.0% as at 30 September 2020 and 16.7% as at 31 December 2019. The share decreased compared with the level observed as at the end of 2019, after a temporary increase following from a decrease in the share of own bonds and replacing it with funding provided by the parent entity due to the temporary problems with rolling over a part of the issues maturing in the first half of 2020 due to the COVID-19 pandemic. In the third quarter of 2020 the Bank rebuilt the share of bonds issued. The funding concentration risk is assessed as acceptable.

Seeking to reduce the concentration risk of funding sources, the Bank has implemented a system of internal limits, both short- and long-term, according to the mortgage covered bond issues carried out by the Bank. During the nine months of 2020 and in 2019 none of these limits were exceeded.

## 33. INTEREST RATE RISK MANAGEMENT

### 33.1 INTEREST RATE RISK MEASUREMENT AND ASSESSMENT

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

30.09.2020	0-1 month	1-3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years	Total
Assets, including:								
securities	7,793,190	15,953,413	2,531,344	2,580	4,960	159,824	-	26,445,311
loans and advances to customers	-	303,000	935,000	-	-	-	-	1,238,000
	7,793,190	15,650,413	1,596,344	2,580	4,960	159,824	-	25,207,311
Liabilities	(5,842,473)	(4,396,963)	(1,951,500)	(265,000)	(5,432,160)	(7,297,817)	(60,000)	(25,245,913)
amounts due to banks	(3,468,473)	(1,004,963)	-	-	-	(150,000)	-	(4,623,436)
liabilities in respect of mortgage covered bonds issued	(2,030,000)	(2,030,000)	-	(265,000)	(5,432,160)	(7,147,817)	(60,000)	(16,964,977)
liabilities in respect of bonds issued	(344,000)	(1,362,000)	(1,951,500)	-	-	-	-	(3,657,500)
Active positions on derivative hedging instruments	-	771	519	267,269	5,430,808	7,147,658	60,000	12,907,025
Passive positions on derivative hedging instruments	(4,232,131)	(7,957,328)	(520)	(2,188)	(9,734)	(5,405)	-	(12,207,306)
<b>Periodic gap</b>	<b>(2,281,414)</b>	<b>3,599,893</b>	<b>579,843</b>	<b>2,661</b>	<b>(6,126)</b>	<b>4,260</b>	<b>-</b>	<b>1,899,117</b>
<b>Cumulative gap</b>	<b>(2,281,414)</b>	<b>1,318,479</b>	<b>1,898,322</b>	<b>1,900,983</b>	<b>1,894,857</b>	<b>1,899,117</b>	<b>1,899,117</b>	

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

### 34. FOREIGN EXCHANGE RISK MANAGEMENT

The table below presents the structure of the Bank's foreign currency position.

FOREIGN CURRENCY POSITION EXPRESSED IN PLN '000	30.09.2020	31.12.2019
EUR	15	86
USD	2	4

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

### 35. OPERATIONAL RISK MANAGEMENT

In the nine months of 2020, 24 operational risk incidents were disclosed at the Bank, which generated financial losses totalling PLN 10 thousand, and in the first nine months of 2019 there were 9 incidents which generated losses totalling PLN 3 thousand.

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

### 36. CAPITAL ADEQUACY AND THE MANAGEMENT OF CAPITAL RISK

As at 30 September 2020, the total capital ratio of the Bank amounted to 17.6% (as at 31 December 2019: 16.6%). If the temporary solutions resulting from the implementation of IFRS 9 were not taken into account, the total capital ratio of the Bank would amount to 17.4% (as at 31 December 2019: 16.5%).

On 19 March 2020, the Minister of Finance signed a regulation on revoking the systemic risk buffer which amounted to 3%, decreasing the regulatory requirement relating to the common equity Tier 1 ratio (CET1) and the total capital ratio (TCR) to 10.5%.



### 36.1 OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES

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

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

BANK'S OWN FUNDS	30.09.2020	31.12.2019
Share capital	1,611,300	1,611,300
Supplementary capital	250,733	161,563
Net profit for the period	56,482	89,170
Accumulated other comprehensive income - cash flow hedges	169,578	134,421
Accumulated other comprehensive income - financial assets measured at fair value through other comprehensive income	5,021	3,569
<b>Equity</b>	<b>2,093,114</b>	<b>2,000,023</b>
<b>Equity adjustments</b>	<b>(211,676)</b>	<b>(179,243)</b>
Net profit for the period	(56,482)	(89,170)
Current profit, included by permission from the PFSA	-	30,629
Accumulated other comprehensive income - cash flow hedges	(169,578)	(134,421)
Intangible assets	(1,340)	(2,395)
Adjustment to assets measured at fair value (AVA)	(1,931)	(1,360)
Adjustment relating to the transitional period for IFRS 9 implementation	17,655	17,474
<b>Own funds</b>	<b>1,881,438</b>	<b>1,820,780</b>

As at 30 September 2020 the Bank's own funds, the Common Equity Tier I and Tier I capital would amount to PLN 1,863,783 thousand without taking into account the transitional solutions, whereas as at 31 December 2019 they would amount to PLN 1,803,306 thousand.

### 36.2 FINANCIAL LEVERAGE

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

LEVERAGE	30.09.2020	31.12.2019
Leverage ratio (LR)	7.1%	6.7%

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

As at 30 September 2020, the leverage ratio without taking into account the transitional solutions following from the implementation of IFRS 9 would amount to 7.0%, and as at 31 December 2019 it would amount to 6.6%.

### 36.3 REQUIREMENTS RELATING TO OWN FUNDS (PILLAR I)

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

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

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

OWN FUNDS REQUIREMENTS	30.09.2020	31.12.2019
Credit risk	820,079	854,550
Operational risk	35,171	22,695
<b>Total own funds requirement</b>	<b>855,250</b>	<b>877,245</b>
Common Equity Tier 1 capital ratio (CET1)	17.6%	16.6%
Tier 1 capital ratio (T1)	17.6%	16.6%
<b>Total capital ratio (TCR)</b>	<b>17.6%</b>	<b>16.6%</b>



## EVENTS AFTER THE END OF THE REPORTING PERIOD

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

Not applicable.

Signatures of all Members of the Bank's Management Board

02.11.2020	Paulina Strugała	President of the Management Board	<i>Signed on Polish original</i> ..... (signature)
02.11.2020	Daniel Goska	Vice-President of the Management Board	<i>Signed on Polish original</i> ..... (signature)
02.11.2020	Piotr Kochanek	Vice-President of the Management Board	<i>Signed on Polish original</i> ..... (signature)

Signature of the person in charge of maintaining the accounting records

02.11.2020

Tomasz Rynkowski  
Director, the Bank's Chief Accountant

*Signed on Polish original*

.....  
(signature)