

Directors' Commentary
to the financial results
of PKO Bank Hipoteczny SA
for the nine-month period
ended 30 September 2019

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

DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF PKO BANK HIPOTECZNY SA FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

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1. SUMMARY OF THE THIRD QUARTER OF 2019

1.1. THE MOST IMPORTANT EVENTS IN THE THIRD QUARTER OF 2019

PKO Bank Hipoteczny SA (Bank) specializes in granting residential mortgage loans to individual customers and purchasing receivables in respect of such loans. The Bank acquires loans for its portfolio based on its strategic cooperation with PKO Bank Polski SA.

PKO Bank Hipoteczny SA is the leader of the Polish mortgage bank market in terms of total assets and the balance of residential mortgage loans. The Bank is Poland's largest regular issuer of covered bonds on Polish and international markets. It was the only Bank in Poland to carry out benchmark issues of EUR-denominated covered bonds, five issues in total as at 30 September 2019. The outstanding covered bonds issued by the Bank account for more than two-thirds of the total value of outstanding covered bonds issued by Polish mortgage banks.

LOAN PORTFOLIO

The Bank's fast growth was made possible by granting both new residential mortgage loans and the purchase of such loans from PKO Bank Polski SA. In the third quarter of 2019, the Bank's total assets exceeded PLN 27 billion, of which over PLN 25.4 billion were a high quality portfolio of residential mortgage loans. This means that there was a 23% increase in total assets compared with the end of 2018, while at the same time maintaining the stability and safety of operations.

In the first half of 2019, the Bank changed its offer by replacing the WIBOR 3M reference rate with WIBOR 6M based on which interest rates are determined for residential mortgage loans. In the third quarter of 2019, the Bank introduced a special offer consisting of lowering the loan margin for Customers who present an energy performance certificate which meets the criteria set out by the Bank.

ISSUE OF MORTGAGE BONDS

In the first three quarters of 2019 the bank conducted four issues of covered bonds, including the first issue of green covered bonds in Poland. At the end of September 2019 the Bank was the leader of the Polish mortgage bank market in terms of total assets, the balance of residential mortgage loans, as well as the balances of mortgage covered bonds in trading.

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2. EXTERNAL OPERATING CONDITIONS

Macroeconomic environment Residential real estate market Home loan market Covered bond market Regulatory and legal environment Factors which will influence future financial performance

2.1. MACROECONOMIC ENVIRONMENT

The macroeconomic factors affecting the Polish economy in Q3 2019:

GROSS DOMESTIC PRODUCT

The GDP growth rate affects both the residential real estate market and the mortgage loan market. A sufficiently high GDP growth rate translates into new jobs and higher wages, and, consequently, into consumers' purchasing power and creditworthiness. The data published by the Central Statistical Office of Poland (GUS) in August 2019 show that Poland's GDP grew by 4.4 % in Q2 2019 compared with Q2 2018. The European Commission's forecast published in July 2019 assumes that Poland's GDP will grow by 4.4% in 2019, and by another 3.6% in 2020. The high GDP growth rate may have a favourable impact on the employment level and consumers' wages. As a result, it may contribute to generating an increased demand for housing loans granted by banks to finance residential real estate purchases.

UNEMPLOYMENT AND WAGES

Based on the data published by GUS, the number of unemployed registered with unemployment offices in Poland stood at 865.5 thousand at the end of August 2019, down 93.1 thousand, i.e. 9.7%, compared with the end of August 2018. The unemployment rate at the end of August 2019 was 5.2%, compared with 5.8% at the end of August 2018. The number of people employed at the end of Q2 2019 was 16,344 thousand, down 0.5% y/y, according to GUS's Labour Force Survey (BAEL). Whereas, the average monthly wage in the enterprise sector in Q3 2019 was PLN 5,130.8, up 6.9% y/y, based on GUS data. The increase wage level contributes to the development of the residential real estate market, and thus increases demand for housing loans.

INFLATION

Price changes affect consumers' purchasing power and the level of interest rates. The low inflation rate has a favourable effect on banking customers' creditworthiness, which in turn affects the value of residential mortgage loans granted. Based on GUS data, the Consumer Price Index (CPI) for September 2019 was 2.6% y/y.

INTEREST RATES

Low interest rates translate into reduced credit costs and increased consumer creditworthiness. As at 30 September 2019, the National Bank of Poland's (NBP) reference rate was 1.5%, the lowest on record. Maintaining interest rates at the current level may contribute to a further increase in the Bank's lending. It should also favourably influence the meeting of payment obligations by borrowers as and when they fall due.

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2.2. RESIDENTIAL REAL ESTATE MARKET

In Q3 2019, the transaction price growth remained at a high level of 10% per year.

According to JLL REAS data, in the six urban areas with the largest scale of trading the residential real estate prices on the primary market increased by 10% in Q3 2019 compared with the corresponding quarter of the previous year (the same price growth rate was recorded for apartments put on offer, sold and remaining on offer as at the end of the quarter).

According to the PKO Bank Polski SA Group's own data, on the secondary market residential real estate prices increased in Q3 2019, compared with the corresponding quarter of the previous year, by 12% in Warsaw, by 16% in six large cities, by 15% in 10 medium-sized cities, by 15% in other urban administrative districts, and by 10% in rural administrative districts. A similar price growth rate was observed in Q1 and Q2 of the current year.

The activity of investors on the residential real estate market has been growing since 2014. The data published by the Central Statistical Office of Poland (GUS) for the eight months of the current year show that the upward trend is continuing. In the period from January to August, permits were issued (or pre-construction notifications were filed) to build 176.4 thousand apartments (up 1.6% y/y), the construction of 156.9 thousand apartments was commenced (up 1.5% y/y) and 127.8 thousand apartments were commissioned for use (up 10.4% y/y). Each of the above-mentioned values was a record one compared with the first eight months of the consecutive years in the 2005-2019 period.

According to the available data, in the six urban areas with the largest scale of trading developers put 14.5 thousand apartments on sale in Q3 2019, which represents a drop of 2.5% compared with the previous quarter and a drop of 6.3% compared with the corresponding quarter of the previous year. In total, during the nine-month period of the current year developers put 46.3 thousand apartments on sale, which was similar to the corresponding period of the previous year and 11% lower than in the record year 2017. In the Q3 of the current year, sales of apartments increased by 6.6% compared with the previous quarter and by 13.4% compared with the corresponding quarter of the previous year and amounted to 16.1 thousand. In total, during the nine-month period of the current year developers sold 47.7 thousand apartments, which is 1% lower than in the corresponding period of the previous year and 11% lower than in the record year 2017. As at the end of September in the current year, the size of the offer is 50.2 thousand apartments, i.e. it is almost equal to the volume of sales made over the nine-month period. The absence of problems with the sale of apartments by developers is evidenced by the fact that the share of completed apartments in the offer is only 7%.

On the residential real estate market, the demand continues to be strong and is further strengthened by the persistently low interest rates, the favourable situation on the labour market (low unemployment, high salary growth rate). In addition, consumer sentiment is excellent – both the current and the anticipative consumer confidence indices recorded record values in Q3 of the current year (9.1 and 5.6 respectively).

2.3. HOUSING LOAN MARKET

Based on NBP data, banks' receivables from housing loans in Poland were PLN 440.1 billion as at 31 August 2019, up 6.9% y/y. Loans denominated in Polish zloty were PLN 312.9 billion as at 31 August 2019 (71.1% of the Bank's total receivables from housing loans in Poland), up 11.8% y/y.

The total balance of housing loans in relation to gross domestic product expressed at market prices stood at 19.6% at the end of Q2 2019. That is significantly lower than the average for the European Union, which, according to 2018 data, was nearly 46.4%. This indicates a great potential for further growth of the housing loan market in Poland.

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2.4. COVERED BOND MARKET

As at 30 September 2019, four mortgage banks were operating in Poland:

- PKO Bank Hipoteczny SA
- mBank Hipoteczny SA
- Pekao Bank Hipoteczny SA.
- ING Bank Hipoteczny SA

The Polish covered bond market is relatively small and moderately liquid. At the end of September 2019, the total value of outstanding covered bonds issued by Polish mortgage banks amounted to PLN 24.7 billion, i.e. PLN 3.6 billion more than at 30 September 2018. As at 30 September 2019, covered bonds issued by Polish banks corresponded to 5.6% of the amount of home loans granted by banks. For comparison, in 2018 this ratio was around 16.1% in Germany and around 31.3% in the Czech Republic.

PKO Bank Hipoteczny SA is the largest issuer of mortgage covered bonds in Poland. As at 30 September 2019, the value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA amounted to PLN 16.3 billion, which accounted for approx. 66% of the total value of outstanding covered bonds issued by Polish mortgage banks. The value of mortgage covered bonds issued by PKO Bank Hipoteczny SA in the first six months of 2019 accounted for 91% of the value of mortgage covered bonds issued by Polish mortgage banks in that period.

2.5. REGULATORY AND LEGAL ENVIRONMENT

In Q3 2019, legal and regulatory solutions affecting the operations of PKO Bank Hipoteczny SA came into force, including:

BOND ISSUE	The Act of 9 November 2018 on amending certain laws in connection with strengthening supervision over the financial market and investor protection on that market – in a major part effective from 1 July 2019 – the act introduces significant changes in the bond issue process.
TRADING IN AGRICULTURAL PROPERTIES	The Act of 26 April 2019 on amending the Act on the shaping of the agricultural system and certain other acts – the Act partially deregulated the restrictions on trading in agricultural properties and the rules on managing them, introduced by the Act on suspending the sale of the properties of the Agricultural Property Stock of the State Treasury and on amending certain laws.
CIVIL PROCEDURE	The Act of 4 July 2019 on amendments to the Act – the Code of Civil Procedure and certain other laws – the extensive amendments to the civil procedure affect the process and costs of recovery of receivables in respect of loans granted through the court.
PUBLIC OFFERING OR ADMITTING SECURITIES TO PUBLIC TRADING	As from 21 July 2019, Regulation (EU) 2017/1129 of the European Parliament and of the Council on the prospectus to be published when securities are offered to the public or admitted to trading came into effect, which is aimed at standardizing the rules of conducting public offerings based on a prospectus in the EU. The Regulation introduces an obligation to publish a prospectus for the relevant thresholds for the value of offerings (the approval and publication of a prospectus) and new types of prospectuses, the summary placed in a prospectus is abridged.

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2.6. FACTORS WHICH WILL INFLUENCE FUTURE FINANCIAL PERFORMANCE

Among the significant factors and threats which may affect the Bank's results over the next quarter of 2019 the following should be mentioned:

- the anticipated moderate slowdown in the global economy;
- the development of the residential market in Poland;
- the development of the housing loans market in Poland;
- pending legislative processes, including a draft amendment to Recommendation S, amendments to the BRRD;
- the possibility and timing of further transfers to the Bank of portions of the portfolio of mortgage loans granted by PKO Bank Polski SA;
- the situation of the domestic and foreign mortgage bonds markets;
- investor demand for mortgage bonds issued by the Bank.

In the first three quarters of 2019 there were no unusual events significantly affecting the Bank's operations.

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3. FINANCIAL PERFORMANCE OF THE BANK

Key financial ratios of PKO Bank Hipoteczny
Balance sheet of PKO Bank Hipoteczny SA
Income statement of PKO Bank Hipoteczny SA

3.1. KEY FINANCIAL RATIOS OF PKO BANK HIPOTECZNY

	30.09.2019	31.12.2018	Change
Total assets (in PLN millions)	27,094.4	22,103.1	4,991.3
ROA ¹	0.4%	0.4%	0.0 p.p.
ROE ²	5.0%	6.6%	-1.6 p.p.
Total capital ratio;	16.4%	15.2%	1.2 p.p.
Leverage ratio (LR)	6.8%	6.3%	0.5 p.p.
Cost to income ratio (C/I) ³	25.0%	21.5%	3.5 p.p.

3.2. STATEMENT OF FINANCIAL POSITION OF PKO BANK HIPOTECZNY SA

in PLN millions	30.09.2019	31.12.2018
Cash and balances with the Central Bank	0.0	0.0
Amounts due from banks	0.0	0.0
Derivative hedging instruments	503.3	168.3
Securities	1,184.2	843.0
Loans and advances to customers	25,384.5	21,070.5
Other assets ⁴	22.4	21.3
TOTAL ASSETS	27,094.4	22,103.1

in PLN millions	30.09.2019	31.12.2018
Amounts due to banks	4,738.6	4,292.3
Derivative hedging instruments	0.5	15.3
Mortgage covered bond issued	16,297.7	12,841.5
Unsecured bonds issued	3,918.8	3,311.1
Other liabilities and provisions ⁵	114.6	155.0
Equity	2,024.2	1,487.9
TOTAL LIABILITIES AND EQUITY	27,094.4	22,103.1

¹ Annualized ratio expressed as the quotient of the net profit (loss) for the given period and the average level of assets at the beginning and end of the reporting period and of the interim monthly periods

² Annualized ratio calculated by dividing the net profit (loss) for the given period by the average level of equity at the beginning and end of the reporting period and of the interim monthly periods

³ Annualized ratio excluding tax on certain financial institutions

⁴ Includes the following items of the statement of financial position, intangible assets, property, plant and equipment, and other assets

⁵ Includes the following items of the statement of financial position: amounts due to customers, other liabilities, current tax liabilities, deferred tax liabilities and provisions.

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As at 30 September 2019, the total assets of PKO Bank Hipoteczny SA were PLN 27,094.4 million, up 23% compared with the end of 2018. Residential mortgage loans were the key component of the Bank's assets. Their carrying amount, taking into account write-downs for expected credit losses recognized as at 30 September 2019, amounted to PLN 25,384.5 million, of which new loans amounted to PLN 11,288.6 million, whereas loans purchased from PKO Bank Polski SA amounted to PLN 14,095.9 million.

On the liabilities side, the share of covered bonds constituted 60% of the total assets/liabilities and equity as at the end of September 2019. In the first three quarters of 2019, PKO Bank Hipoteczny SA carried out:

- one benchmark issue of euro-denominated covered bonds of EUR 500 million;
- two TAP issues of euro-denominated covered bonds with a total value of EUR 200 million;
- one issue of PLN-denominated green covered bonds of PLN 250 million;

As at 30 September 2019, the total assets of PKO Bank Hipoteczny SA were PLN 16,297.7 million, up 27% compared with the end of 2018.

As at 30 September 2019, financial liabilities to PKO Bank Polski SA constituted a significant item of the Bank's equity and liabilities. These were liabilities in respect of lines of credit, overdraft facilities, liabilities in respect of the purchase of receivables, liabilities in respect of covered bonds and unsecured bonds acquired by PKO Bank Polski SA, liabilities in respect of hedging derivatives and other liabilities to PKO Bank Polski SA. Their total balance was PLN 4,560.2 million. Short-term bonds issued by the Bank were also a significant source of funding the Bank's operations. As at 30 September 2019, the total assets of PKO Bank Hipoteczny SA were PLN 3,918.9 million, up 18% compared with the end of 2018.

3.3. INCOME STATEMENT OF PKO BANK HIPOTECZNY SA

in PLN millions	01.01.2019 – 30.09.2019	01.01.2018 – 30.09.2018	Change y/y (in PLN millions)
Net interest income	233.4	182.6	50.8
Net fee and commission income	(3.9)	(3.6)	(0.3)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	0.0	0.0	0.0
Foreign exchange gains/ (losses)	3.4	(2.5)	5.9
Net gain / loss on modification	0.4	(0.3)	0.7
Net credit losses	(10.0)	(6.7)	(3.3)
Net other operating income and expenses	0.0	0.0	0.0
Administrative expenses	(37.9)	(33.3)	(4.6)
Net regulatory charges	(24.6)	(6.3)	(18.3)
Tax on certain financial institutions	(60.9)	(43.6)	(17.3)
Operating profit	99.9	86.3	13.6
Profit before income tax	99.9	86.3	13.6
Income tax expense	(34.7)	(25.8)	(8.9)
Net profit	65.2	60.5	4.7

In the first three quarters of 2019 PKO Bank Hipoteczny SA generated a net profit of PLN 65.2 million, up PLN 4.7 million compared with the corresponding period of 2018.

In the same period, the Bank generated interest income of PLN 631.2 million, comprising primarily income from residential mortgage loans of PLN 614.8 million, and income from debt securities. In the same period, the Bank

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incurred interest expense of PLN 397.9 million. Interest expense resulted mainly from covered bonds issued (including costs of hedging transactions). The related interest expense was PLN 278.6 million. The Bank also incurred, among other things, interest expense of PLN 30.9 million on loans and overdrafts received, interest expense of PLN 28.7 million on the liability for the deferred payment for receivables purchased from PKO Bank Polski SA, and interest expense of PLN 59.5 million on bonds issued.

The Bank's turnover in the first three quarters of 2019 (understood as the total value of interest income and fee and commission income) amounted to PLN 643.1 million. The realized turnover was generated entirely from the Bank's operations in Poland.

In the first three quarters of 2019, the Bank also incurred regulatory expenses totalling PLN 24.6 million. The main item of such expenses was the contribution to the resolution fund of the Bank Guarantee Fund of PLN 22.1 million which is an increase of PLN 17.5 million compared to 2018. The increase in the regulatory expenses adversely affected the Bank's profitability ratios.

In the first three quarters of 2019, the Bank incurred general administrative expenses of PLN 37.9 million. Non-personnel expenses of PLN 22.6 million, including costs related to services rendered by PKO Bank Polski SA in the amount of PLN 17.5 million under an outsourcing agreement, were a significant component of administrative expenses. Costs of employee benefits, which amounted to PLN 12.9 million during the reporting period were also a significant component of administrative expenses. The increase in administrative expenses compared with the corresponding period of 2018 was mainly caused by an increase in costs of services provided by PKO Bank Polski SA (up PLN 3.5 million), which resulted from an increase in the number of loans in the Bank's balance sheet.

Tax on certain financial institutions, which amounted to PLN 60.9 million in the reporting period, was a significant cost of the Bank's activities.

The Bank's net additions to credit losses amounted to PLN 10.0 million in the first three quarters of 2019.

In Q3 2019 there were no unusual events significantly affecting the Bank's operations.

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4. BUSINESS OF PKO BANK HIPOTECZNY SA

Sales of mortgage housing loans under the agency model
Acquisition of receivables under mortgage housing loans
Covered bonds

4.1. SALES OF MORTGAGE HOUSING LOANS UNDER THE AGENCY MODEL

PKO Bank Hipoteczny SA has been granting residential mortgage loans in Polish zlotys since 1 April 2015. New residential mortgage loans are sold under the agency model, through Poland's largest network of branches, agents and intermediaries, organized by PKO Bank Polski SA. The Bank accepts apartments and single-family homes as collateral.

In Q3 2019, the Bank granted PLN 1,048.7 million worth of residential mortgage loans, which is a small decrease of 1.1% compared with Q3 2018.

In compliance with Recommendation S of the Polish Financial Supervision Authority (PFSA), the Bank only grants loans whose value in relation to the mortgage lending value of the real estate does not exceed 80%. Where a low down payment insurance policy was used, the Bank approved loans for which this ratio was not higher than 90%. Moreover, in compliance with the Polish Act on Covered Bonds and Mortgage Banks, the Bank only grants loans whose value in relation to the mortgage lending value of the real estate does not exceed 100%.

The following table shows the main criteria applied by PKO Bank Hipoteczny SA in the process of granting loans secured by mortgages.

CRITERIA	AGENCY MODEL
Loan amount/market value of the real estate	Max 80% ⁶
Loan amount/mortgage lending value of the property	Max 100%
Legal title to real estate	Ownership or perpetual usufruct
Loan collateral	Mortgage recorded as the first in Section IV of the Land and Mortgage Register
Currency	PLN
Purpose	Residential

In the first half of 2019, the Bank changed its offer by replacing the WIBOR 3M reference rate with WIBOR 6M based on which interest rates are determined for residential mortgage loans. In Q3 2019, the Bank introduced a special offer consisting of lowering the loan margin for Customers who present an energy performance certificate which meets the criteria set out by the Bank.

4.2. ACQUISITION OF RECEIVABLES UNDER MORTGAGE HOUSING LOANS

Purchase of receivables, i.e. residential mortgage loans, on the basis of a framework agreement signed in 2015 with PKO Bank Polski SA is an important element of the business of PKO Bank Hipoteczny SA.

⁶ Where a low down payment insurance policy was used, the Bank approved loans for which this ratio was not higher than 90%

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In Q3 2019, PKO Bank Hipoteczny SA acquired from PKO Bank Polski SA a portfolio of receivables for residential loans secured by mortgages totalling PLN 225.9 million. The following table shows the main criteria applied by PKO Bank Hipoteczny SA in the process of acquiring mortgage loans.

CRITERIA	POOLING MODEL
Loan amount/mortgage lending value of the property	Max 100%
Legal title to real estate	Ownership or perpetual usufruct
Loan collateral	Mortgage recorded as the first in Section IV of the Land and Mortgage Register
Currency	PLN
Days past due or impairment indicators	None
Purpose	Residential

4.3. COVERED BONDS

The key objective of PKO Bank Hipoteczny SA concerning funding is issuing covered bonds which are the main source of long-term financing for loans secured with real estate.

POLISH ISSUES OF COVERED BONDS

On 10 June 2019, PKO Bank Hipoteczny SA carried out an issue of series 12 PLN-denominated covered bonds, which was yet another issue carried out under the firm commitment underwriting procedure.⁷ It was the first issue of green covered bonds secured exclusively with PLN-denominated high-quality housing loans carried out in Poland. The Bank offered securities of PLN 250 million to institutional investors. During the book-building process, the spread on the Series 12 covered bonds was set at 0.60% above WIBOR 3M. The period from the date of issue to redemption of the covered bonds was set at 5 years, 3 months and 20 days, and the maturity date was set at 30 September 2024.

The series 12 covered bonds of PKO Bank Hipoteczny SA were placed on the Warsaw Stock Exchange's parallel market and on the BondSpot OTC market on 24 June 2019; they have also been admitted to repo transactions by the National Bank of Poland.

Chart: Purchasers of domestic issues of PKO Banku Hipoteczny SA's covered bonds in the years 2015 - 2019

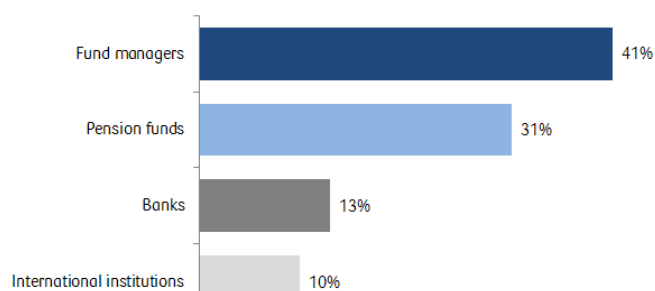
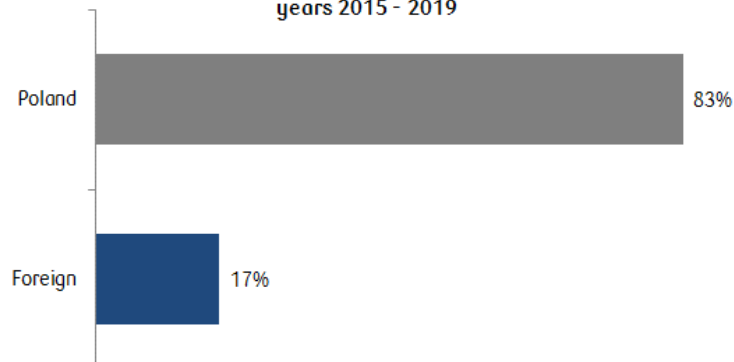


Chart: Geographical distribution of purchasers of domestic issues of PKO Bank Hipoteczny SA's covered bonds in the years 2015 - 2019



⁷ Firm commitment underwriting is a contract whereby the underwriter undertakes to purchase on its own account all or a part of securities in a given issue from the issuer or from the arranger; the securities are only offered to that entity to further sell them in a public offering.

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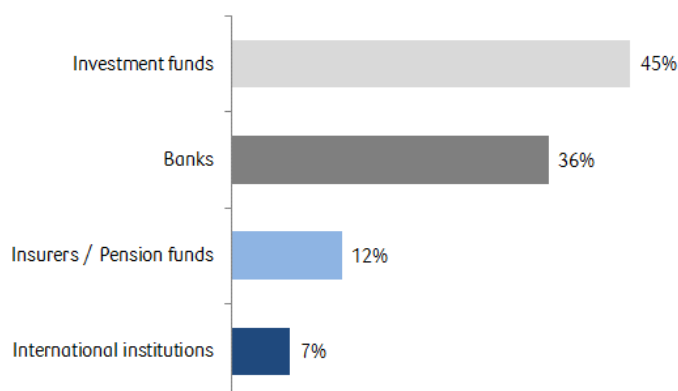
PLN-denominated issues of covered bonds of PKO Bank Hipoteczny SA carried out to 30 September 2019:

Series	Covered bond number (ISIN)	Issue date	Redemption date	Value in PLN million	Interest rate	Currency	Rating	Listing
1	PLPKOHP00017	11.12.2015	11.12.2020	30	WIBOR 3M + 0.75%	PLN	Aa3	BondSpot, WSE parallel market
2	PLPKOHP00025	27.04.2016	28.04.2021	500	WIBOR 3M + +0.65%	PLN	Aa3	BondSpot, WSE parallel market
3	PLPKOHP00033	17.06.2016	18.06.2021	500	WIBOR 3M + +0.59%	PLN	Aa3	BondSpot, WSE parallel market
4	PLPKOHP00041	28.04.2017	18.05.2022	500	WIBOR3M +0.69%	PLN	Aa3	BondSpot, WSE parallel market
5	PLPKOHP00058	22.06.2017	10.09.2021	265	2.69%	PLN	Aa3	BondSpot, WSE parallel market
6	PLPKOHP00066	27.10.2017	27.06.2023	500	WIBOR3M +0.60%	PLN	Aa3	BondSpot, WSE parallel market
7	PLPKOHP00074	27.04.2018	25.04.2024	700	WIBOR3M +0.49%	PLN	Aa3	BondSpot, WSE parallel market
8	PLPKOHP00082	18.05.2018	29.04.2022	100	WIBOR3M +0.32%	PLN	Aa3	BondSpot, WSE parallel market
9	PLPKOHP00090	27.07.2018	25.07.2025	500	WIBOR3M +0.62%	PLN	Aa3	BondSpot, WSE parallel market
10	PLPKOHP00108	24.08.2018	24.08.2028	60	3.4875%	PLN	Aa3	BondSpot, WSE parallel market
11	PLPKOHP00116	26.10.2018	28.04.2025	230	WIBOR3M +0.66%	PLN	Aa3	BondSpot, WSE parallel market
12	PLPKOHP00132	10.06.2019	30.09.2024	250	WIBOR 3M + +0.60%	PLN	Aa3	BondSpot, WSE parallel market

INTERNATIONAL ISSUES OF COVERED BONDS

On 28 January 2019, PKO Bank Hipoteczny SA carried out its fifth benchmark issue of Series 7 euro-denominated covered bonds. The Bank offered fixed-rate instruments of EUR 500 million to institutional investors. During the book-building process, the spread was set at 0.274% (and the coupon at 0.250%). In the process, investors expressed interest in purchasing securities for a total of approx. EUR 1,080 million. The period from the date of issue to redemption of the covered bonds was set at 2 years, 9 months and 26 days, and the maturity date was set at 23 November 2021.

Chart: Purchasers of domestic issues of PKO Banku Hipoteczny SA's covered bonds in the years 2015 - 2019



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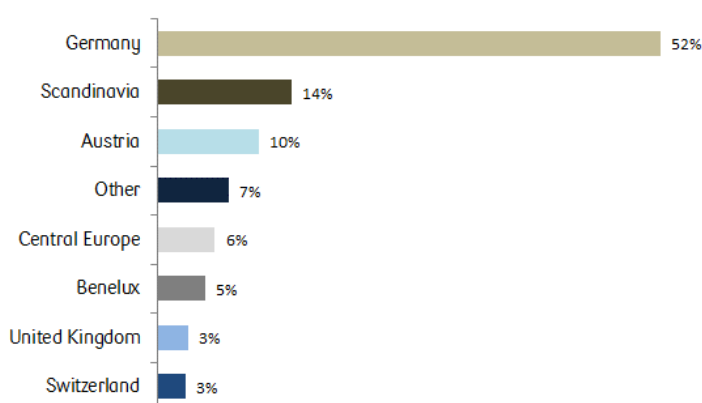
DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF PKO BANK HIPOTECZNY SA FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

Series 7 EUR-denominated covered bonds of PKO Banku Hipotecznego SA were listed on the Luxembourg Stock Exchange and the Warsaw Stock Exchange (parallel market) on 28 January 2019 and 25 February 2019 respectively. Since 28 January 2019, they have also been accepted in repo transactions by the European Central Bank.

On 1 March 2019, PKO Bank Hipoteczny SA placed the first TAP⁸ covered bonds issue for series 7 benchmark issue in the nominal amount of EUR 100 million. The yield on covered bonds of this issue was determined at 0.197%, and the coupon at 0.250%. The instruments were assimilated with series 7 covered bonds, as a result of which the nominal value of the securities quoted on the Luxembourg Stock Exchange and in the Warsaw Stock Exchange parallel market increased to a total of EUR 600 million.

On 8 March 2019, PKO Bank Hipoteczny SA placed the second TAP covered bonds issue for series 1 benchmark issue in the nominal amount of EUR 100 million. The yield on covered bonds of this issue was determined at 0.281%, and the coupon at 0.125%. The instruments were assimilated with series 1 covered bonds, as a result of which the nominal value of the securities quoted on the Luxembourg Stock Exchange and in the Warsaw Stock Exchange parallel market increased to a total of EUR 600 million.

Chart: Geographical distribution of purchasers of EUR-denominated covered bonds of PKO Bank Hipoteczny SA in years 2016 - 2019



EUR-denominated issues of covered bonds of PKO Bank Hipoteczny SA carried out to 30 September 2019:

Series	Covered bond number (ISIN)	Issue date	Redemption date	Value in PLN million	Coupon	Price	Currency	Rating	Listing
1	XS1508351357	24.10.2016	24.06.2022	500	0.125%	99.702%	EUR	Aa3	LuxSE, WSE parallel market
2	XS1559882821	02.02.2017	02.02.2024	25	0.82%	100.00%	EUR	Aa3	LuxSE
3	XS1588411188	30.03.2017	24.01.2023	500	0.625%	99.972%	EUR	Aa3	LuxSE, WSE parallel market
4	XS1690669574	27.09.2017	27.08.2024	500	0.75%	99.906%	EUR	Aa3	LuxSE, WSE parallel market
5	XS1709552696	02.11.2017	03.11.2022	54	0.467%	100.00%	EUR	Aa3	LuxSE
6	XS1795407979	22.03.2018	24.01.2024	500	0.75%	99.892%	EUR	Aa3	LuxSE, WSE parallel market
7	XS1935261013	28.01.2019	23.11.2021	500	0.250%	99.933%	EUR	Aa3	LuxSE, WSE parallel market

⁸ TAP – a procedure allowing issuers to offer bonds or debt securities from previous issues by increasing their nominal value

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7 tranche 2	XS1935261013	01.03.2019	23.11.2021	100	0.250%	100.145 %	EUR	Aa3	LuxSE, WSE parallel market
1 tranche 2	XS1508351357	08.03.2019	24.06.2022	100	0.125%	99.489%	EUR	Aa3	LuxSE, WSE parallel market

The funds raised from the issues of covered bonds have been used by PKO Bank Hipoteczny SA to grant residential mortgage loans and to acquire receivables for such loans from PKO Bank Polski SA.

BONDS – NON-PUBLIC PROGRAMME

On 30 September 2015, PKO Bank Hipoteczny SA established a non-public short-term bond issue programme. In 2019, the Bank issued a total of PLN 4,906.1 million worth of bonds under the programme. The balance of issued bonds was PLN 3,322.2 million as at 30 September 2019. The Bank intends to continue seeking short-term financing in the form of short-term bond issues.

BONDS – PUBLIC PROGRAMME

On 11 April 2019, PKO Bank Hipoteczny SA established a public bond issue programme. On 31 May 2019 the PFSA approved the Base Bond Issue Prospectus of PKO Bank Hipoteczny SA.

As part of this programme, bonds with a total nominal value of PLN 256.5 million were subscribed for by 30 September 2019. Moreover, as at 30 September 2019 4-series bonds were subscribed, with a nominal value of PLN 40 million.

The 1- and 2-series bonds were admitted and introduced to trading on the WSE regulated market (the parallel market) in July 2019, whereas the 3-series bonds – in September 2019. The 4-series bonds are to be introduced to trading on the regulated market (the parallel market) in October 2019. The Bank intends to continue seeking financing under this programme.

Series	Covered bond number (ISIN)	Issue date	Redemption date	Value in PLN million	Coupon	Currency	Rating	Listing
1	PLPKOHP00140	11.07.2019	12.07.2021	50	WIBOR3M +0.60%	PLN	None	WSE parallel market
2	PLPKOHP00157	10.07.2019	10.01.2020	161.5	WIBOR6M +0.30%	PLN	None	WSE parallel market
3	PLPKOHP00165	28.08.2019	30.08.2021	45	WIBOR3M +0.60%	PLN	None	WSE parallel market

BOND ISSUES – OTHER

On 18 December 2018, 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 350.0 million and redemption date on 21 February 2020.

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5. OTHER INFORMATION

LIST OF DIRECT OR INDIRECT HOLDERS OF SIGNIFICANT BLOCKS OF SHARES WITH AN INDICATION OF THE NUMBER OF SHARES HELD AND THE NUMBER OF VOTES CARRIED BY THESE SHARES

As at 30 September 2019 the share capital of PKO Bank Hipoteczny SA amounted to PLN 1,611,300,000 and comprised 1,611,300,000 shares with PLN 1 nominal value. The shares are paid up in full. The share capital increased PLN 316,300,000 in relation to the end of 2018. The PKO Bank Hipoteczny SA shares are non-preference shares. The holders of PKO Bank Hipoteczny SA shares do not have any control rights due to holding such shares. 100% of the shares of PKO Bank Hipoteczny SA are held by Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

Structure of the share capital of PKO Bank Polski SA

Series	Type of shares	Number of shares	Nominal value per share	Number of votes at the GSM	Amount paid in for shares
A	Ordinary registered shares	300,000,000	PLN 1	300,000,000	PLN 300,000,000.00
B	Ordinary registered shares	200,000,000	PLN 1	200,000,000	PLN 200,000,000.00
C	Ordinary registered shares	200,000,000	PLN 1	200,000,000	PLN 200,000,000.00
D	Ordinary registered shares	100,000,000	PLN 1	100,000,000	PLN 100,000,000.00
E	Ordinary registered shares	150,000,000	PLN 1	150,000,000	PLN 150,000,000.00
F	Ordinary registered shares	150,000,000	PLN 1	150,000,000	PLN 150,000,000.00
G	Ordinary registered shares	100,000,000	PLN 1	100,000,000	PLN 100,000,000.00
H	Ordinary registered shares	95,000,000	PLN 1	95,000,000	PLN 95,000,000.00
I	Ordinary registered shares	100,000,000	PLN 1	100,000,000	PLN 100,000,000.00
J	Ordinary registered shares	131,500,000	PLN 1	131,500,000	PLN 131,500,000.00
K	Ordinary registered shares	84,800,000	PLN 1	84,800,000	PLN 84,800,000.00
	TOTAL	1,611,300,000		1,611,300,000	PLN 300,000.00

Shareholder	30.09.2019		31.12.2018	
	Number of shares	Percentage of votes at the GSM	Number of shares	Percentage of votes at the GSM
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna	1,611,300,000	100%	1,295,000,000	100%

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DIRECTORS' COMMENTARY TO THE FINANCIAL RESULTS OF PKO BANK HIPOTECZNY SA FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

IDENTIFICATION OF PENDING PROCEEDINGS BEFORE COURTS, ARBITRATION BODIES OR PUBLIC-ADMINISTRATION AUTHORITIES

As at 30 September 2019, no proceedings were under way before courts, arbitration bodies or public administration bodies concerning liabilities or receivables whose value constituted at least 10% of PKO Bank Hipoteczny SA's equity.

INFORMATION ON LOAN GUARANTEES OR OTHER GUARANTEES ISSUED BY THE BANK OR ITS SUBSIDIARY – IN AGGREGATE TO A SINGLE ENTITY OR ITS SUBSIDIARY, IF THE TOTAL AMOUNT OF THE EXISTING GUARANTEES IS EQUIVALENT TO AT LEAST 10% OF THE ISSUER'S EQUITY

In first three quarters of 2019 and in 2018, PKO Bank Hipoteczny SA did not grant any loan or credit guarantees to a single entity or a subsidiary of such an entity with a total value equivalent to at least 10% of the Bank's equity.