



Bank Polski



# Report of the PKO Bank Polski SA Group for the third quarter of 2019



SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 30.09.2019	period from 01.01.2018 to 30.09.2018	period from 01.01.2019 to 30.09.2019	period from 01.01.2018 to 30.09.2018
Net interest income/(expense)	7,655	6,865	1,777	1,615
Net fee and commission income/(expense)	2,276	2,242	528	528
Operating profit/(loss)	4,609	3,686	1,070	867
<b>Profit before tax</b>	<b>4,632</b>	<b>3,708</b>	<b>1,075</b>	<b>872</b>
<b>Net profit (including non-controlling shareholders)</b>	<b>3,308</b>	<b>2,734</b>	<b>768</b>	<b>643</b>
<b>Net profit attributable to equity holders of the parent company</b>	<b>3,308</b>	<b>2,732</b>	<b>768</b>	<b>643</b>
Earnings per share for the period - basic (in PLN/EUR)	2.65	2.19	0.61	0.51
Earnings per share for the period - diluted (in PLN/EUR)	2.65	2.19	0.61	0.51
Total net comprehensive income	3,707	2,792	860	657
Net cash from/used in operating activities	(1,521)	(4,480)	(353)	(1,054)
Net cash from/used in investing activities	(9,608)	1,449	(2,230)	341
Net cash generated from/used in financing activities	(2,325)	1,089	(540)	256
<b>Total net cash flows</b>	<b>(13,454)</b>	<b>(1,942)</b>	<b>(3,123)</b>	<b>(457)</b>

SELECTED CONSOLIDATED FINANCIAL DATA	PLN million		EUR million	
	as at 30.09.2019	as at 31.12.2018	as at 30.09.2019	as at 31.12.2018
Total assets	341,551	324,255	78,094	75,408
Total equity	41,035	39,101	9,382	9,093
Capital and reserves attributable to equity holders of the parent company	41,045	39,111	9,385	9,096
Share capital	1,250	1,250	286	291
Number of shares (in million)	1,250	1,250	1,250	1,250
Book value per share (in PLN/EUR)	32.83	31.28	7.51	7.27
Diluted number of shares (in million)	1,250	1,250	1,250	1,250
Diluted book value per share (in PLN/EUR)	32.83	31.28	7.51	7.27
Total capital adequacy ratio	18.01%	18.88%	18.01%	18.88%
Tier 1	35,748	35,150	8,174	8,174
Tier 2	2,700	2,700	617	628

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	period from 01.01.2019 to 30.09.2019	period from 01.01.2018 to 30.09.2018	period from 01.01.2019 to 30.09.2019	period from 01.01.2018 to 30.09.2018
Net interest income/(expense)	6 936	6 289	1 610	1 480
Net fee and commission income/(expense)	1 846	1 865	428	439
Operating profit/(loss)	4 388	3 346	1 018	787
<b>Profit before tax</b>	<b>4 388</b>	<b>3 346</b>	<b>1 018</b>	<b>787</b>
<b>Net profit for the year</b>	<b>3 231</b>	<b>2 510</b>	<b>750</b>	<b>591</b>
Earnings per share for the period - basic (in PLN/EUR)	2.58	2.01	0.60	0.47
Earnings per share for the period - diluted (in PLN/EUR)	2.58	2.01	0.60	0.47
Total net comprehensive income	3 443	2 647	799	623
Net cash from/used in operating activities	862	(1 231)	200	(290)
Net cash from/used in investing activities	(8 873)	1 719	(2 059)	404
Net cash from/used in financing activities	(5 529)	(2 684)	(1 283)	(632)
<b>Total net cash flows</b>	<b>(13 540)</b>	<b>(2 196)</b>	<b>(3 143)</b>	<b>(517)</b>

SELECTED STAND-ALONE FINANCIAL DATA	PLN million		EUR million	
	as at 30.09.2019	as at 31.12.2018	as at 30.09.2019	as at 31.12.2018
Total assets	311 444	300 413	71 210	69 863
Total equity	40 030	38 360	9 153	8 921
Share capital	1 250	1 250	286	291
Number of shares (in million)	1 250	1 250	1 250	1 250
Book value per share (in PLN/EUR)	32.02	30.69	7.32	7.14
Diluted number of shares (in million)	1 250	1 250	1 250	1 250
Diluted book value per share (in PLN/EUR)	32.02	30.69	7.32	7.14
Total capital adequacy ratio	20.90%	21.33%	20.90%	21.33%
Tier 1	36 152	35 070	8 266	8 156
Tier 2	2 700	2 700	617	628

SELECTED CONSOLIDATED FINANCIAL STATEMENT ITEMS HAVE BEEN TRANSLATED INTO EUR AT THE FOLLOWING RATES	30.09.2019	31.12.2018	30.09.2018
average of NBP exchange rates at the end of monthly periods (income statement, statement of comprehensive income and cash flow statement items)	4.3086	4.2669	4.2501
mid NBP exchange rates at the date (statement of financial position items)	4.3736	4.3000	4.2414



Bank Polski



Directors' Commentary  
to the financial results  
of the PKO Bank Polski SA Group  
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

The Powszechna Kasa Oszczędności Bank Polski SA Group (the PKO Bank Polski SA Group or the Bank's Group) is one of the largest financial institutions in Poland, and one of the largest financial groups in Central and Eastern Europe. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (PKO Bank Polski SA or the Bank), the Bank's Group's parent company, is the largest commercial bank in Poland and the leader in the Polish market in terms of the scale of its operations, equity, loans, deposits, number of Customers, and the size of its distribution network. The Bank's Group stands out in the Polish market due to its high financial results, which ensure its stable and safe growth.



PKO Bank Polski SA is celebrating its centenary in 2019. The Bank's history began on 7 February 1919 when the Chief of State Józef Piłsudski, Prime Minister Ignacy Paderewski and the Minister of Post and Telegraphs Hubert Linde signed a decree based on which Poczтовая Kasa Oszczędnościowa was established. Since then the Bank has been the trendsetter in the Polish financial institutions market, introducing attractive products and services, investing in groundbreaking technologies and implementing innovative solutions.

#### PKO BANK POLSKI SA IS THE LARGEST CIT PAYER

According to the list of corporate income tax payers published by the Ministry of Finance, whose revenues exceeded EUR 50 million in 2018, PKO Bank Polski SA is the biggest CIT payer in Poland. Only on account of this tax, the Bank contributed over PLN 1.3 billion to the State Budget for the prior year.

#### OPERATOR CHMURY KRAJOWEJ SP. Z O.O. EXPANDS ITS OPERATIONS

In the third quarter of 2019, Operator Chmury Krajowej sp. z o.o. announced its strategic partnership with Google, a global technology partner. The purpose of the business partnership is to support Polish companies in the implementation and use of advanced cloud computing technologies in business. Google Cloud Platform products will be incorporated into the company's product range, and Google will open a Google Cloud region in Warsaw – a hub of infrastructure and software for Customers from Poland and Central Europe.

The Bank has a 50% share in the share capital of the company. Since 5 September this year, there has been a second shareholder, i.e. Polski Fundusz Rozwoju SA.

#### PKO BANK POLSKI SA IS THE TITLE SPONSOR OF THE POLISH PREMIER LEAGUE (EKSTRAKLASA)

Since 1 July 2019, for two seasons, the highest football class in Poland has been renamed PKO Bank Polski Ekstraklasa. As the title sponsor, the Bank has a brand presence at all the 296 matches of the 37 rounds. Under the signed agreement, PKO Bank Polski SA is the Official Ekstraklasa Bank and continues the projects started in the previous season, such as the Official Ekstraklasa Card, Football Fan's Seats, and the selection of the U21 of the Month. In the third quarter of 2019, the Bank also launched the Partnership Programme for Ekstraklasa clubs. The new initiative makes it possible for clubs to obtain additional funding by promoting the Bank's products among fans.

#### RECORD-BREAKING 5TH PKO CHARITY RUN

In September, for the fifth time already, PKO Charity Run took place. More than nine thousand people in 12 cities in Poland took part. More than 1,200 relay teams made a total of 44,862 laps, i.e. nearly 18 thousand kilometres, which was the best result in the history of the Run. The charity purpose of the run was to provide extra-curricular education to children from care and education centres.

#### THE BANK'S GROUP EXPANDS ITS RANGE OF PRODUCTS AND SERVICES

The Bank's Group provides state-of-the-art and comprehensive solutions for individuals and business Customers, taking into account their size, industry, and development stage. It provides its Customers with professional tools which facilitate control over finances and doing business.

In the third quarter of 2019, the PKO Bank Polski SA Group:

- launched a new eWindykacja (eCollection) service, which allows companies to monitor payments on their own, select debt collection scenarios tailored to specific debtors, effectively recover amounts due under unpaid invoices, and contract debt collection from a law firm via the platform;
- implemented the Safe Plan life insurance product as part of its personal banking service – financial security for relatives in the event of the insured's death;
- introduced the option of purchasing public transport tickets using the IKO mobile application (a service provided by moBilet available in most cities in Poland);
- complied with the recommendations of the PSD2 – made changes for Customers in iPKO and Inteligo services, IKO mobile application and payment card service, e.g. by introducing additional authentication of certain operations, masking one-time passwords or shortening the session in the service.

#### GREEN PRODUCTS

The Bank's Group:

- added the “green mortgage” option to its product range, which allows Customers to obtain a lower mortgage loan margin on the basis of an energy performance certificate for the property;
- was a member of the consortium of five banks, which provided financing to the Energa SA Group in the form of a revolving ESG-linked loan of PLN 2 billion. For the first time in Poland, a mechanism of lending linked to the achievement of sustainable growth objectives was used. The Energa SA Group will apply the funds thus obtained to, among other things, the development of its renewable energy source generation capacity and further upgrades of power lines. Every year, the Energa SA Group will be assessed in ESG terms by an external rating agency, and the rating obtained will be used to adjust the loan margin in the given year;
- introduced new Treasury products for corporate Customers: CO<sub>2</sub> emission allowance transactions – Commodity Swap and Commodity Forward. The instruments are intended for the Bank's Customers who, in accordance with the EU ETS system regulations are required to surrender these allowances annually. Customers may trade in these transactions and hedge against changes in the prices of emission allowances.

#### THE BANK IMPROVES ITS POSITION IN ESG RATINGS

- The MSCI rating was upgraded from BB to BBB;
- The ESG risk rating score by Sustainalytics was lowered from 32.9 to 24.0 (on a scale from 0 to 100), which means a decline of the risk from high to medium.

The ESG rating from Sustainalytics is used as one of the elements of adjustment of the Bank's share in the WIG-ESG index launched on 3 September 2019. The Bank's share in the index is at the highest possible level and stands at 10%.

## 1.2. SELECTED FINANCIAL DATA

The activities in which the PKO Bank Polski SA Group engaged in the third quarter of 2019 allowed it to achieve very good financial results and consolidate its leading position among the largest financial institutions in Poland.

Table 1. Key financial data of the PKO Bank Polski SA Group (in PLN million)

	3 quarters of 2019	3 quarters of 2018	Change (y/y)
Net profit	3,308	2,732	+21.1%
Net interest income	7,655	6,865	+11.5%
Net fee and commission income	2,276	2,242	+1.5%
Result on business activities	10,918	9,873	+10.6%
Administrative expenses	-4,597	-4,450	+3.3%
Tax on certain financial institutions	-764	-699	9.3%
Net write-downs and impairment allowance	-948	-1,038	-8.7%
Total assets	341,551	306,082	+11.6%
Equity	41,035	37,713	+8.8%
ROA net	1.3%	1.2%	+0.1 pp
ROE net	10.9%	9.7%	+1.2 pp
ROTE netto	11.9%	10.6%	+1.3 pp
C/I (cost to income ratio)	42.0%	45.1%	-3.1 pp
Net interest margin	3.44%	3.40%	+0.04 pp
Share of impaired loans	4.3%	4.9%	-0.6 pp
Cost of risk	-0.51%	-0.63%	+0.12 pp
Capital adequacy ratio	18.01%	18.41%	-0.40 pp
Tier 1 capital ratio	16.74%	17.07%	-0.33 pp

The net profit generated by the PKO Bank Polski SA Group in the first three quarters of 2019 amounted to PLN 3,308 million, which was 21.1% more than in the corresponding period of the prior year. The more than double-digit net profit growth was attributable to:

- 1) an improved result on business activities, which reached PLN 10,918 million (+10.6% y/y), mainly as a result of an increase in net interest income by 11.5% y/y, achieved thanks to increased volumes and interest margin;
- 2) an increase in operating expenses by 3.3% y/y, mainly employee benefits and depreciation;
- 3) an improvement in net write-downs and impairment by PLN 90 million, combined with a decrease in the cost of risk to 0.51%.

As a result of the steps taken also in 2019, the scale of the Group's operations increased significantly y/y:

- its total assets exceeded PLN 341 billion (+PLN 35 billion y/y);
- financing granted to Customers increased to more than PLN 244 billion (+PLN 19 billion y/y);
- Customer deposits increased to PLN 249 billion (+PLN 27 billion y/y).

In the first three quarters of 2019, the Bank's Group:

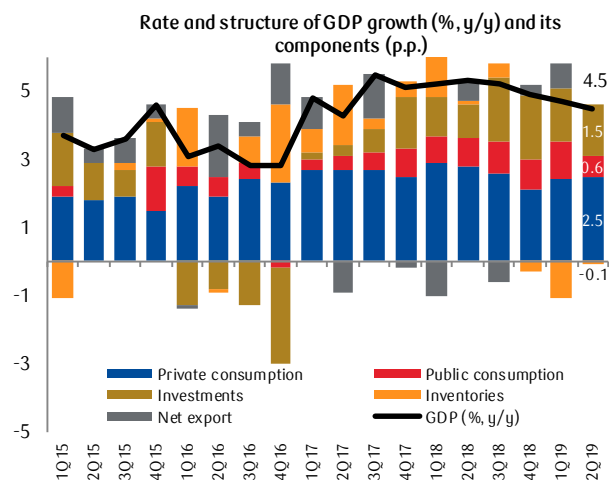
- maintained a high share of the loans and savings market at 17.7% and 17.9%, respectively;
- maintained its leading position in the market for investment funds of individuals with a market share of 20.7%.



## 2. EXTERNAL BUSINESS CONDITIONS

### 2.1. MACROECONOMIC ENVIRONMENT

Macroeconomic factors affecting the national economy in the third quarter of 2019:

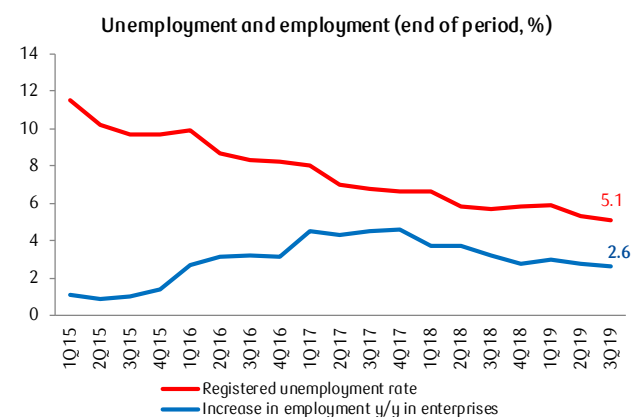


- **MODERATE SLOWDOWN OF ECONOMIC GROWTH**

The rate of GDP growth in the third quarter of 2019 (estimated based on the monthly data for July-September) fell to approx. 4.2% y/y (compared with 4.5% y/y in the second quarter and 4.7% in the first quarter).

Private consumption, helped by the highest consumer optimism ever and high income growth (including income from new social benefits), remained the key driver of economic growth in the third quarter of 2019. Capital expenditure probably grew slower than in the first half of the year, with a slowdown in the public sector and still high expenditure of enterprises, especially those with foreign shareholding. The slowdown in economic growth in 2019, as a reaction to a significant deterioration of conditions in the external environment of the Polish economy, including

Germany, is mitigated by the fiscal package, which increases the disposable income of the population. Despite the likely recession in Germany, domestic exports still perform relatively well, which results from, among other things, a significant inflow of foreign direct investments to Poland in recent years, growing diversification and a favourable structure of Polish exports.



- **FURTHER IMPROVEMENT OF LABOUR MARKET CONDITIONS**

The registered unemployment rate was 5.1% in September 2019 (a stable annual fall of -0.6 pp). In the third quarter of the year, the number of registered unemployed fell to 850 thousand. Supply limitations on the labour market are still very strong, but there are also some signs of the weakening of demand for labour. The BAEL<sup>1</sup> unemployment rate decreased to 3.2% in the second quarter of 2019, from 3.9% in the first quarter of 2019, and the number of the unemployed fell more markedly than the number of jobs, limited by demographic factors (by -11.2% y/y and -0.5% y/y, respectively). Despite a drop in the rate of growth of demand for labour, as suggested – among other things – by a GUS survey on job creation, wages and salaries are still growing. In the third quarter, the average remuneration in

the enterprise sector grew by 6.9% y/y, following an increase of 6.7% in the second quarter. Research of the economic conditions indicates that remuneration growth may be accompanied by a reduction in employment in the coming quarters (an attempt at stabilizing total employment costs). In the coming years, the labour market will be influenced by regulatory changes stimulating the growth rate of wages and salaries – in 2020, the minimum wage will be raised to PLN 2,600 from PLN 2,250 in 2019, and as announced by the government, to PLN 4,000 in subsequent years (in 2024).

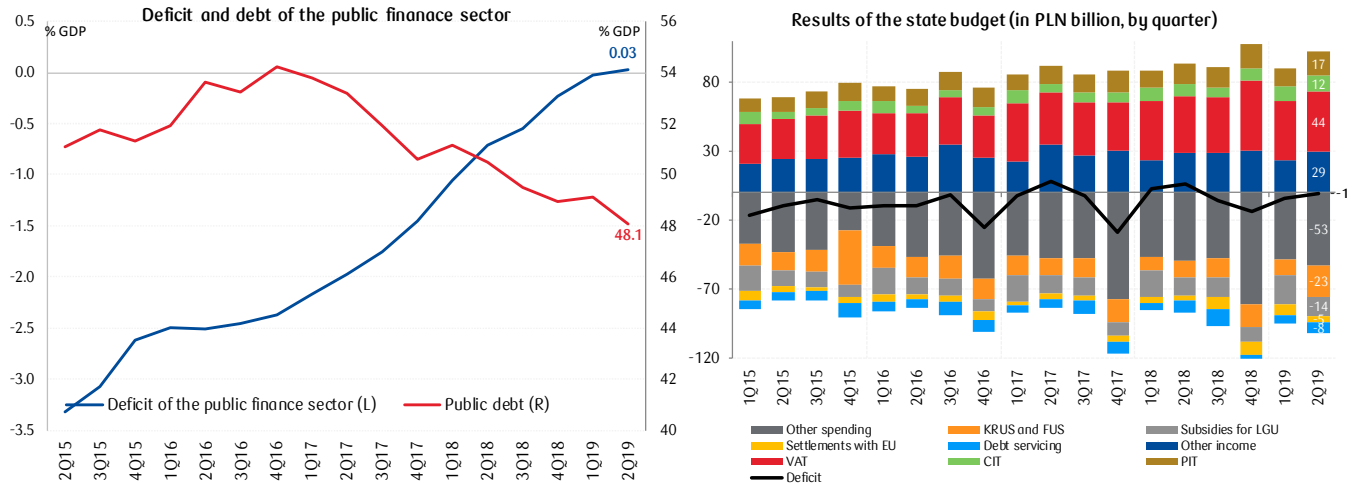
- **INFLATION ABOVE THE NBP TARGET**

The CPI inflation has been above the target set by the National Bank of Poland (NBP) since June 2019. Consumer prices increased by 2.6% y/y in September, just like in June. The acceleration of inflation in the last couple of months has been the effect of a faster growth in food prices and a higher core inflation. The increase to a large extent involved prices of services. They are more sensitive to increased labour costs than prices of goods. In the coming months, the CPI inflation will likely rise, and, at the beginning of the next year, it may temporarily exceed the ceiling for acceptable deviations from the NBP's inflation rate target (3.5%).

<sup>1</sup> BAEL – Survey of Economic Activity of the Population

• **RECORD-HIGH PERFORMANCE OF THE PUBLIC FINANCE SECTOR**

The state budget remains in a very good condition, with a small deficit of PLN 2 billion reported at the end of August 2019, despite the start of implementation of the new fiscal package (payment of an additional pension amounting to approx. PLN 10 billion and the start of payment of Family 500+ benefits for the first child). For the first time in history, the draft budget for 2020 envisages a balance between spending and revenues.



• **STABLE PARAMETERS OF THE MONETARY POLICY**

**NBP's interest rates:**

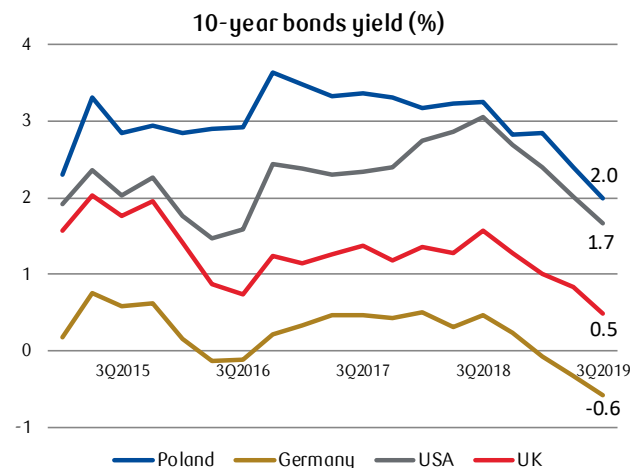
- reference 1.50%
- bills of exchange rediscount 1.75%
- lombard 2.50%
- deposit 0.50%

For over four years now, the Monetary Policy Council (MPC) has been keeping the NBP interest rates at a record low level, with the reference rate of 1.50%. The expectations that the rates will be held steady at their current levels until the end of the current MPC term are fairly widespread. The forecast CPI inflation increase, even above the ceiling for acceptable deviations around the target (3.5%), will, in the Council's opinion, be short-lived, and the continuing slowdown in economic growth is an argument against interest rate hikes. In recent months, there were motions both to raise and to cut interest rates at MPC meetings. Both motions were rejected.

**2.2. SITUATION ON THE FINANCIAL MARKET**

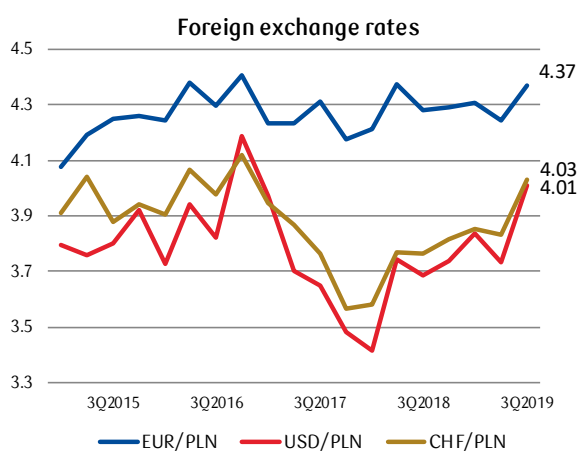
• **INTEREST RATE MARKET**

The third quarter of 2019 saw a plunge in bond yields for all maturities on the Polish Treasury bond market: for 2-year bonds by 11 bps to 1.50%, for 5-year bonds by 20 bps to 1.77%, and for 10-year bonds by 38 bps to 2.00%.



The reasons for such a marked increase in demand can be attributed to both local and global factors. What drove the valuation of securities up locally was mainly news of the anticipated limitation of supply of Treasury securities by the Ministry of Finance on account of the good condition of the state budget, giving rise to its lower credit needs. Whereas globally, disappointing macroeconomic data forced the largest central banks to ease the monetary policy. The ECB cut the deposit rate to -0.5% and resumed the asset purchase programme in the euro zone at EUR 20 billion a month, while in the US the Fed cut the rate by 50 bps to 2%, which pulled the yields of German and American bonds down and indirectly aided Polish bonds. Domestic bonds were additionally aided by slightly weaker data from the economy, which gave some investors hope for a reduction in the cost of money by the Monetary Policy Council.

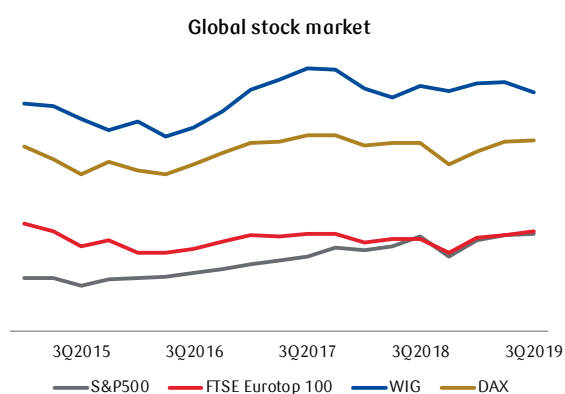
• CURRENCY MARKET



In the third quarter of 2019, exchange rates were highly volatile. The EUR/USD exchange rate moved between 1.09 and 1.14, and the EUR/PLN exchange rate moved between 4.24 and 4.39. The US dollar steadily strengthened against the euro. The US dollar was helped by the uncertainty as to the outcome of the trade dispute between the United States and China, the easing of the monetary policy by the ECB (a cut in the deposit rate, the resumption of the bond purchase programme), as well as the cautious attitude of the Fed, which despite cutting the interest rates twice (in July and September) stressed that further cuts were not a foregone conclusion. The Polish zloty opened the quarter at EUR 4.24. The combination of external factors (growing concerns about the scale and persistence of the economic slowdown in Europe, escalation of the trade dispute between the US and China, the growing risk of a hard Brexit on 31 October this year) and internal factors (investors' concerns about the judgement of the Court of Justice of the European Union (CJEU) on mortgage loans indexed to foreign currencies scheduled for 3 October this year) contributed to greater volatility of the PLN/EUR exchange rate.

As a result, in mid-August the EUR/PLN exchange rate went up to 4.39, then fell to 4.33, and returned to 4.39 in the second half of September. As at the end of the quarter, the euro was worth PLN 4.37.

• STOCK MARKET



The third quarter of 2019 was unfavourable to investors on the Warsaw Stock Exchange. Neither global nor local factors aided stocks. The main Polish stock exchange index, WIG, fell by 4.8%, and the large caps WIG20 index lost 6.6%. The reasons for the downturn were many. The weakening economic data in most regions of the world, in particular in the euro zone, which is important for Poland, in the first instance Germany, were concerning. While domestic economic performance remained robust, concerns about the impact of the external environment on the economic outlook were growing. Moreover, in the summer months, the trade conflict between the United States and China escalated unexpectedly. These facts worried investors so much that even the actions of the central banks

did not save stocks from falling – the Fed and the ECB made interest rate cuts, and the ECB additionally resumed the asset purchase programme. An additional adverse factor was the uncertainty regarding foreign currency loans due to the judgement of the CJEU. Investors were concerned that the judgement might significantly worsen the condition of individual banks and the entire Polish financial sector, which has the largest share of the indices of the Warsaw Stock Exchange.

2.3. STANDING OF THE POLISH BANKING SECTOR

NET PROFIT AND PROFITABILITY<sup>2</sup>

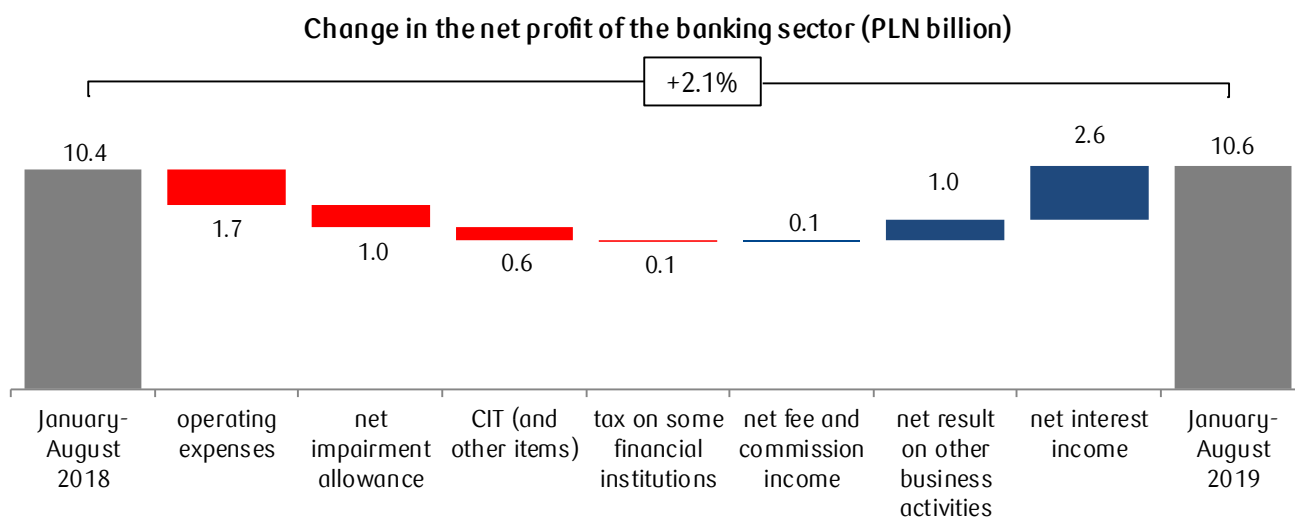
Between January and August 2019, banks operated in the environment of a steadily developing economy, with a high regulatory burden at the same time.

<b>PLN 10.6 billion</b>	<b>2.1% y/y</b>	<b>6.5% (-0.9 pp y/y)</b>
net profit of the banking sector in the period from January to August 2019	change in the net profit of the banking sector in the period from January to August 2019	return on equity of the banking sector as at the end of August 2019

During the period, the banking sector generated a net profit of PLN 10.6 billion, i.e. 2.1% more than in the corresponding period of 2018. Net interest income was the key contributor<sup>3</sup> to net profit. Net fee and commission

<sup>2</sup> Based on the latest available PFSA data; calculations of PKO Bank Polski SA

income reversed the downward trend, but its growth was nominal. An increase in operating expenses, driven mainly by a strong growth in the amount of payments due to the Bank Guarantee Fund (BGF), had the greatest adverse effect on net profit. In addition to the increase in operating expenses, net profit was adversely affected by a deterioration in net impairment allowance as a result of the expansion of the loan portfolio, an increase in the share of higher-risk products (mainly consumer loans) in the loan portfolio, as well as a deterioration in the condition of selected significant borrowers in the corporate segment.



As at the end of August 2019, return on equity (ROE) of the banking sector was still lower y/y, which was also attributable to poor performance by individual banks. ROE fell to 6.5%, as compared with 7.3% as at the end of August 2018, however it was higher than in 2018 (6.4%).

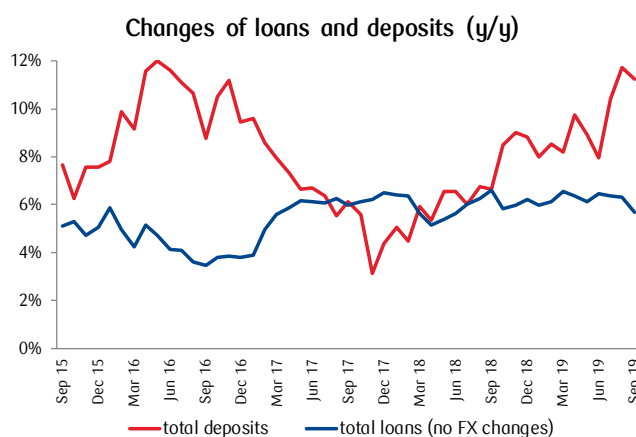
#### LOAN AND DEPOSIT MARKET<sup>4</sup>

In the period from January to September 2019, the banking sector remained stable, which was aided by the continued high economic growth rate, the fact that the labour market was in good shape (the registered unemployment rate fell to 5.1% in September 2019, from 5.8% in December 2018; the average wage in the enterprise sector grew by 6.6% y/y in September 2019), and consumer optimism.

As at the end of September 2019, the annual growth rate of total loans (without taking into account changes in exchange rates) was lower than at the end of 2018 (5.7% and 6.2%, respectively). In the case of deposits, the growth rate picked up (11.2% compared with 8.8% at the end of 2018), being influenced, among other things, by the acceleration of the growth rate of public sector deposits.

The good financial standing of households, aided by an increase in wages and salaries, and low unemployment, helped keep up a high rate of growth of consumer loans (9.2% y/y, without taking into account changes in exchange rates) and housing loans (12.1% y/y). Own funds remain the main source of financing of capital expenditure projects of enterprises. Given such conditions, the rate of growth of corporate loans (without taking into account changes in foreign exchange rates) slowed down to 3.4% y/y as at the end of September 2019 (7.4% as at the end of December 2018).

The good standing of households and social transfers had a favourable impact on the growth rate of deposits of individuals (11.2% y/y at the end of September, compared with 9.9% at the end of 2018). Current deposits grew by

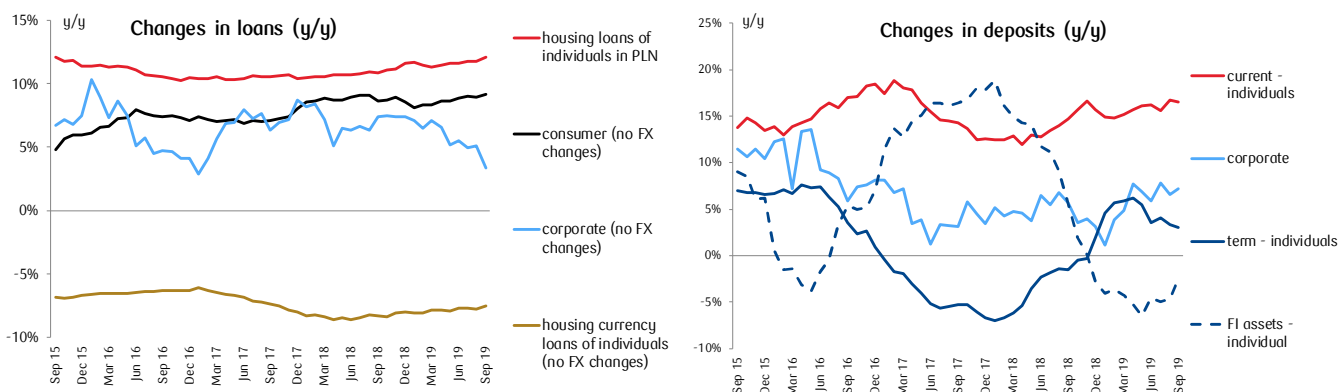


<sup>3</sup> The increase in result on other business activities results from the presentation of dividend income from companies accounted for using the equity method. It is included in "Result on other business activities" and with the opposite sign in "Income tax (and similar amounts)". This results in an increase in "Result on other business activities" and a decrease in "Income tax (and similar amounts)".

<sup>4</sup> Based on the NBP data, the Analityz Online website

16.6% y/y and term deposits only by 3.0% y/y. Since June 2019 there has been an improvement in 12-month rates of return on investment funds, which may weaken the inflow of individual customers' deposits to the banking sector in subsequent periods. In the context of growing investments of enterprises (financed mainly from own funds), the annual growth rate of enterprise deposits accelerated to 7.2% (3.1% at the end of 2018).

The liquidity position of the banking sector remained good; the ratio of loans to deposits went down to 94.7% as at the end of September 2019 (-2.2 pp compared with the end of 2018).

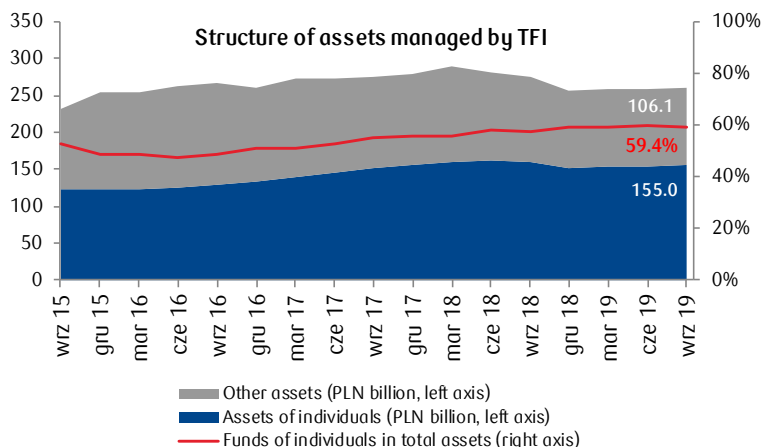


## 2.4. STANDING OF THE POLISH NON-BANKING SECTOR

### INVESTMENT FUND MARKET

In the three quarters of 2019, the investment fund market saw an increase in the average annual rates of return in the main market segments. At the end of the analysed period, the average annual rates of return on safe funds with a large exposure to the debt market were significantly higher than the average interest rate of new term deposits of households.

Improved rates of return contributed to reversing the trend of outflow of funds of individuals in the first six months of 2019. In the period from January to September 2019, the balance of payments made by individuals on the investment fund market and redemptions of their funds was PLN 0.01 billion, compared with PLN 5.7 billion in the period from January to September 2018. The total net assets of TFIs increased by PLN 4.1 billion to PLN 261.1 billion in the first three quarters of 2019, including an increase in the investment fund assets held by individuals by PLN 3.7 billion (+2.4%); the investment fund assets held by institutional entities increased by PLN 0.4 billion (+0.4%).



### FACTORING MARKET

In the first three quarters of 2019, the demand for factoring services remained high. The total turnover of firms associated in the Polish Factors Association went up by approx. 21% (adjusted by conducted mergers), reaching PLN 206 billion. The number of businesses using the services of factoring firms rose to 16.7 thousand (17.6% y/y). Non-recourse factoring continued to be the most popular with businesses, and its share in the total turnover of factoring firms exceeded 50%. The share of the second largest market segment, i.e. recourse factoring, was 32%. Manufacturing and distribution firms continued to use factoring services most frequently.

## 2.5. UKRAINIAN MARKET

### ECONOMIC CONDITIONS

After a weaker first quarter of 2019, the second quarter saw a marked acceleration of the Ukrainian GDP growth rate to 4.6% y/y (compared with 2.5% y/y in the first quarter of 2019 and 3.5% y/y in the fourth quarter of 2018). The

monthly data for July and August indicate that the GDP growth rate in the third quarter slowed down to the level seen towards the end of the prior year. The Ukrainian economy continues to be driven by consumption, aided in particular by rising wages and salaries (8.8% y/y in real terms and 18.5% y/y in nominal terms in July–August, against 9.9% y/y and 19.8% y/y in the first half of the year, and 9.7% y/y and 20.5% y/y in 2018).

Rising wages and salaries make it possible to maintain a solid and stable (slightly exceeding 20% y/y) growth in PIT inflows, while VAT and CIT inflows are lower than last year. However, the sealing of other sources of inflows translates into an improved budgetary situation. The debt-to-GDP ratio of the public finance sector fell to 55.4% in August from 55.7% in June and 60.9% in December of the previous year.

Inflation continued a downward trend (7.5% y/y in September vs. 9.0% y/y in June and 9.8% y/y in December 2018), which was also true about core inflation (6.5% y/y in September, the lowest since May 2017). This, in combination with the appreciation of the hryvnia (to 24.08 UAH/USD as at the end of September 2019 vs. 26.17 UAH/USD as at the end of June 2019, and 27.69 UAH/USD as the end of 2018), encouraged the central bank to cut the interest rates twice (on 18 July and 5 September, each time by 50 bps, to 16.50%).

## UKRAINIAN BANKING SECTOR

Based on the data from the National Bank of Ukraine (NBU), the number of banks operating in Ukraine was slightly lower in August 2019 than as at the end of the prior year (76 vs. 77).

The total assets of the Ukrainian banking system increased to UAH 1,380.0 billion as at the end of August 2019 vs. UAH 1,357.3 billion as at the end of June 2019 and UAH 1,360.8 billion as at the end of December 2018. The corresponding increase in equity to UAH 181.1 billion (compared to UAH 155.7 billion at the end of December 2018) translated into an improvement in the simple leverage ratio to 13.1% from 11.4% at the end of the prior year. The capital adequacy ratio increased in August 2019 to 18.0% compared to 16.2% at the end of December 2018 (and 10% required by the regulator).

As of 31 August 2019, the volume of loans amounted to UAH 1,062.3 billion (down UAH 61.7 billion since the beginning of the year). This decrease resulted from a decrease in the value of foreign currency loans granted to residents (mainly corporate entities), which was associated with the appreciation of the hryvnia. The balance of deposits at banks increased in the period (+UAH 41.3 billion), with an increase in foreign currency deposits by UAH 17.2 billion (mainly enterprises). The loan to deposit ratio (LtD) continued its downward trend and amounted to 106.5% as at the end of August 2019 vs. 117.6% in December 2018 and 119.7% a year before.

The banks are continuing to improve their profitability. ROA rose to 4.91% as at the end of August 2019 (compared with 1.65% in 2018), whereas ROE amounted to 39.9% (compared with 14.26% in 2018).

## 2.6. REGULATORY AND LEGAL ENVIRONMENT

New legal and regulatory solutions, which took effect in the third quarter of 2019, had an impact on the financial and organizational position of the PKO Bank Polski SA Group and financial sector entities, including:

SOLUTION	IMPACT
<b>INVESTMENT FUNDS</b>	
Act on Employee Capital Schemes of October 4, 2018 (Journal of Laws of 2018, item 2215), which, effective from 1 July 2019, introduced an additional, voluntary system of long-term pension savings on the market.	Increase in revenues and costs of investment fund companies
<b>ISSUANCE OF MORTGAGE-COVERED BONDS AND BONDS</b>	
Act of 9 November 2018 on Amendments to Certain Acts in Connection with Reinforcement of Supervision over the Financial Market and Protection of Investors on that Market (Journal of Laws of 2018, item 2243), which introduced, effective from 1 July 2019, changes in respect of, among other things, dematerialization of mortgage covered bonds and bonds, and registration of such securities	Change in the structure of business volumes
<b>TAX CHANGES</b>	
Act of 26 September 2019 Amending the Personal Income Tax Act and Certain Other Acts modifies, effective from 1 October 2019, the taxation of, among other things, revenues from the civil service relationship, employment relationship, by reducing the tax rate, increasing the tax deductible costs and changing the tax-deductible amount	More operating procedures

Act of 4 July 2019 Amending the Personal Income Tax Act, the Act on Family Benefits and the Act on Healthcare Benefits Financed from Public Funds exempts from taxation income received by a taxpayer until the age of 26 (amount limit) under, among other things, the employment relationship and freelance contracts.

More operating procedures

In the third quarter of 2019 new legal solutions implemented in Ukraine (where, among other things, the subsidiary KREDOBANK SA operates) had an impact on the operations and results of the PKO Bank Polski SA Group, including:

SOLUTION	IMPACT
<b>BASE INTEREST RATES</b>	
Decisions of the Board of the Ukrainian Central Bank (NBU):	Impact on banks' net interest income and profitability
- No. 493/2019 of 18 July 2019, whereby the discount rate was cut to 17%;	
- No. 645/2019 of 5 September 2019, whereby the discount rate was cut to 16.5%.	

## 2.7. FACTORS WITH AN IMPACT ON THE FINANCIAL RESULTS OF THE BANK'S GROUP AT LEAST IN THE SUBSEQUENT QUARTER

The operations of the Bank's Group in the last quarter of 2019 and at the beginning of 2020 will be affected by the following external factors:

### IN THE GLOBAL ECONOMY

- protracted slowdown in the rate of growth of the global economy, including in particular the German industry (and the weak consumer sector);
- easing of the monetary policy by central banks all around the world (including the Fed and the ECB);
- potential escalation of tension in the area of trade policy (conflict between the US and China and possible increase of tension between the US and the European Union);
- uncertainty as to the ultimate form and date of Brexit;
- effects of the easing of economic policy in China;
- possible further escalation of geopolitical tensions (tensions in the Middle East);
- political and economic situation in Ukraine (also after the presidential election).

### IN THE POLISH ECONOMY

- fiscal impulse which boosts the consumption growth rate and stabilizes the slowing down GDP;
- good consumer sentiment and further growth in real disposable income of households;
- easing of tensions on the labour market: supply limitations (demographic factors, lowering of the retirement age) may be accompanied by a slightly lower demand for labour in the service sector;
- increase in the minimum wage (positive for the household sector, negative for the corporate sector);
- possible increase in CPI inflation above 3.0% in the fourth quarter of 2019 and up to approx. 4.0% y/y in the first quarter of 2020;
- high likelihood of holding NBP interest rates steady at least until the end of 2020;
- continued high interest in deposit (by households) and loan products (in the first instance in the retail segment, including housing).

### NEW REGULATORY SOLUTIONS

- Regulation of the European Parliament and of the Council amending Regulation (EC) No 924/2009 to regulate, effective from 15 December 2019, certain charges on cross-border payments in the EU and currency conversion charges;
- draft act amending certain acts to counter usury;
- potential statutory solutions concerning the transfer of funds accumulated in OFE to IKE or ZUS.

#### TAX CHANGES

- The Act of 12 April 2019 on Amendments to the Value-Added Tax Act and Certain Other Acts imposes an obligation on taxpayers to verify, effective from 1 January 2020, whether the bank accounts to which they make payments for transactions in excess of PLN 15 thousand are specified in the register kept by the Head of KAS (National Fiscal Administration). Payments made to accounts not included in the register may not constitute a cost of earning revenues and, in addition to that, may give rise to a risk of joint and several liability with the supplier of goods or services for their VAT arrears.
- The Act of 13 September 2019 Amending the Value Added Tax Act and Certain Other Acts introduces the following effective from 1 November 2019: obligation to apply the split payment mechanism when making payments for goods and services listed in Annex 15 and documented by an invoice with a total amount due of at least PLN 15 thousand.
- Act of 4 July 2019 Amending the Value Added Tax Act and Certain Other Acts which introduces the following effective from:
  - o 1 January 2020: individual tax accounts for taxpayers and payers, through which payments of PIT, CIT, VAT and non-tax budget dues will be made;
  - o 1 April 2020: modifies the manner in which VAT returns and tax information are submitted (in the first instance, the obligation to file tax returns is replaced by the obligation to file a converted JPK\_VAT file).
- The Act of 4 July 2019 Amending the Act on Support for Borrowers in Financial Difficulty Who Have Taken Out a Housing Loan and Certain Other Acts adds to the list of costs, which are not costs of earning revenues payments to the Borrowers' Support Fund and amounts of support or loans for repayment of debt within the meaning of Article 8a(7) of the Act on Support for Borrowers Who Have Taken Out a Housing Loan and are in Financial Difficulty. The Act takes effect on 1 January 2020.

## 3. FINANCIAL POSITION OF THE BANK'S GROUP

### 3.1. KEY FINANCIAL INDICATORS

The results achieved by the PKO Bank Polski SA Group are reflected in the key financial performance indicators, which are presented in the table below.

Table 2. Key financial indicators of the PKO Bank Polski SA Group

	30.09.2019	30.09.2018	Change
ROA net (net profit/average total assets)	1.3%	1.2%	+0.1 pp
ROE net (net profit/average total equity)	10.9%	9.7%	+1.2 pp
ROTE net (net profit/average equity less intangible assets)	11.9%	10.6%	+1.3 pp
C/I (cost to income ratio)	42.0%	45.1%	-3.1 pp
Net interest margin (net interest income/average interest-bearing assets)	3.44%	3.40%	+0.04 pp
Share of impaired loans	4.3%	4.9%	-0.6 pp
Cost of risk	-0.51%	-0.63%	+0.12 pp
Capital adequacy ratio	18.01%	18.41%	-0.40 pp
Tier 1 ratio	16.74%	17.07%	-0.33 pp

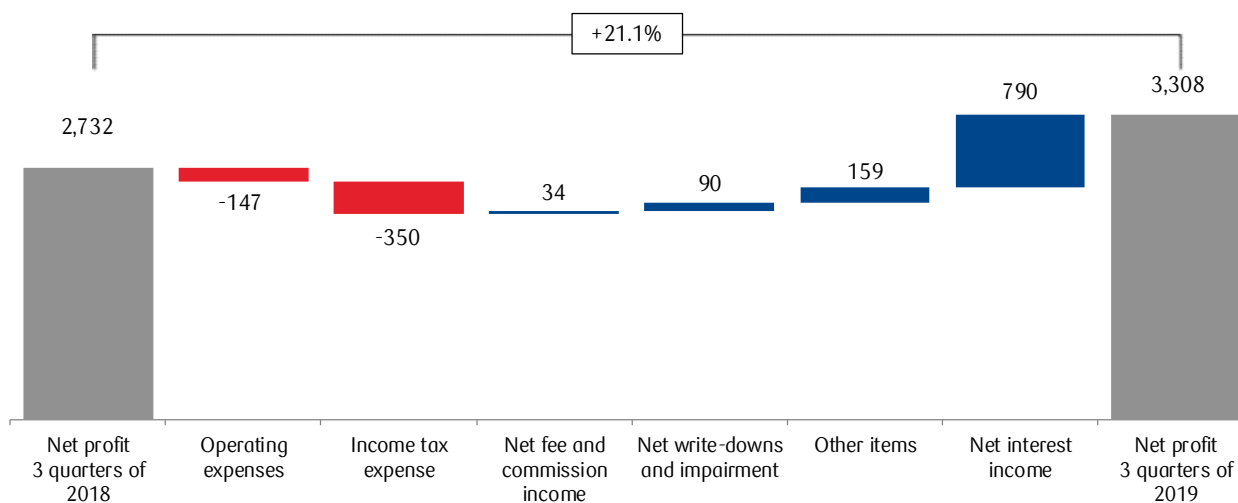
### 3.2. CONSOLIDATED INCOME STATEMENT

Net interest income
Net fee and commission income
Net other income
Operating expenses
Net write-downs and impairment

The consolidated net profit of the PKO Bank Polski SA Group generated in the first three quarters of 2019 amounted to PLN 3,308 million and was PLN 576 million (+21.1%) higher than in the corresponding period of 2018.



### Change in the net profit of the PKO Bank Polski SA Group (in PLN million)



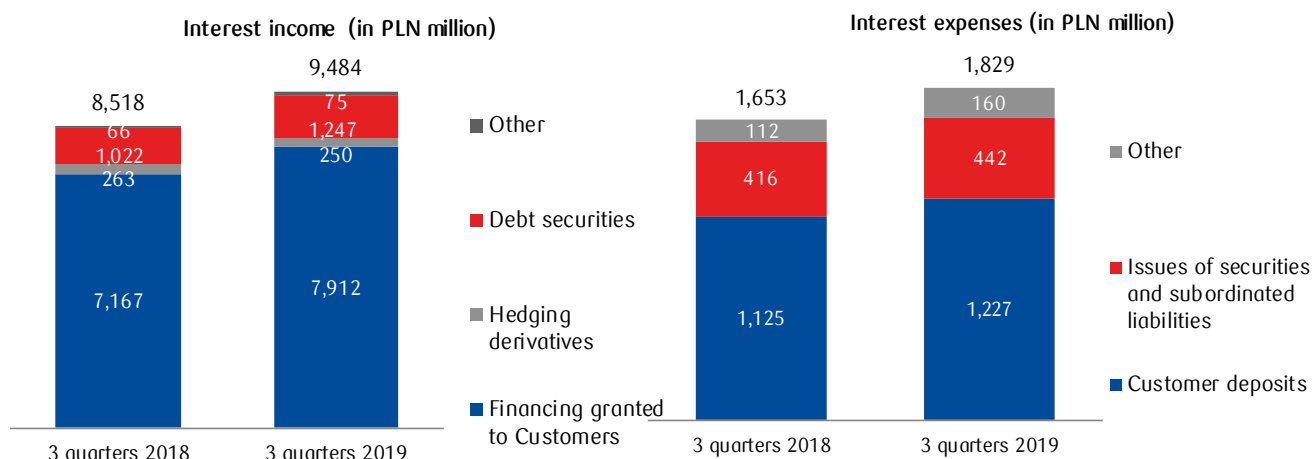
The result of the PKO Bank Polski SA Group on business activities amounted to PLN 10,918 million for the first three quarters of 2019 and was PLN 1,045 million, i.e. 10.6% y/y, higher, mainly as a result of an increase in net interest income.

Table 3. Income statement of the PKO Bank Polski SA Group (in PLN million)

	01.01-30.09.2019	01.01-30.09.2018	Change (in PLN million)	Change (in %)
<b>Net interest income</b>	7,655	6,865	790	11.5%
<b>Net fee and commission income</b>	2,276	2,242	34	1.5%
<b>Net other income</b>	987	766	221	28.9%
Dividend income	13	12	1	8.3%
Result on financial transactions	192	178	14	7.9%
Net foreign exchange gains/(losses)	360	345	15	4.3%
Net other operating income and expense	422	231	191	82.7%
<b>Result on business activities</b>	<b>10,918</b>	<b>9,873</b>	<b>1,045</b>	<b>10.6%</b>
Operating expenses	-4,597	-4,450	-147	3.3%
Tax on certain financial institutions	-764	-699	-65	9.3%
<b>Net operating result</b>	<b>5,557</b>	<b>4,724</b>	<b>833</b>	<b>17.6%</b>
Net write-downs and impairment	-948	-1,038	90	-8.7%
Share in profits and losses of associates and joint ventures	23	22	1	4.5%
<b>Profit before tax</b>	<b>4,632</b>	<b>3,708</b>	<b>924</b>	<b>24.9%</b>
Income tax expense	-1,324	-974	-350	35.9%
<b>Net profit (including non-controlling shareholders)</b>	<b>3,308</b>	<b>2,734</b>	<b>574</b>	<b>21.0%</b>
Profit (loss) attributable to non-controlling shareholders	0	2	-2	x
<b>Net profit</b>	<b>3,308</b>	<b>2,732</b>	<b>576</b>	<b>21.1%</b>

## NET INTEREST INCOME

In the first three quarters of 2019 the net interest income amounted to PLN 7,655 million, i.e. PLN 790 million more than in the corresponding prior year period. The higher net interest income y/y was attributable to increased volumes and a higher interest margin.

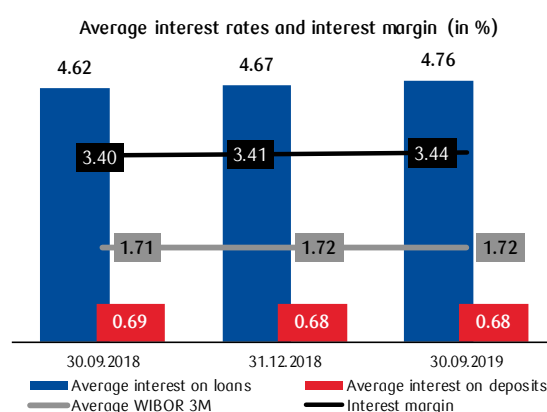


The interest income amounted to PLN 9,484 million and was PLN 966 million higher than in the corresponding period of 2018, mainly as a result of:

- an increase in the income from financing granted to Customers by PLN 745 million y/y – attributable to an increase in loan and lease receivables by more than PLN 15 billion and an increase in the average interest rate resulting from a change in their composition (an increase in the share of consumer loans and lease receivables at the expense of housing loans in foreign currencies), while the market levels of interest rates for PLN, CHF and EUR remained stable;
- a higher income from securities (+PLN 225 million y/y), mainly as a result of an increase by PLN 13 billion of the average volume of Treasury bonds;

Interest expenses amounted to PLN 1,829 million and was PLN 176 million higher than in the corresponding period of 2018. This was mainly the result of an increase in the costs of the deposit base by PLN 121 million y/y, brought about by an increase in the average volume of deposits by PLN 23 billion compared with the corresponding prior year period, with the cost of external financing being higher by PLN 37 million and the cost of premium on securities being higher by PLN 22 million.

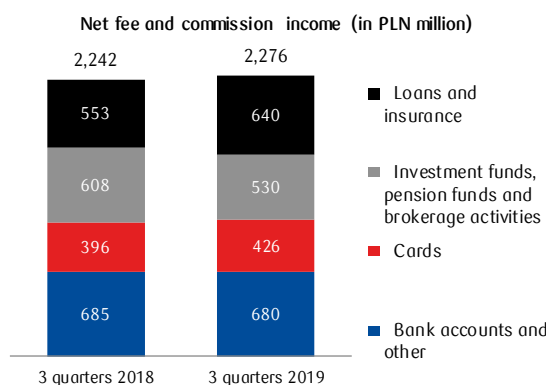
The interest margin rose by 0.04 pp y/y to 3.44% as at the end of the third quarter of 2019. The average interest rate of loan receivables of the PKO Bank Polski SA Group was 4.76% as at the end of the third quarter of 2019, and the average interest rate of all the deposits was 0.68%, compared with, respectively, 4.62% and 0.69% as at the end of the third quarter of 2018.



## NET FEE AND COMMISSION INCOME

In the first three quarters of 2019, the net interest income amounted to PLN 2,276 million, i.e. PLN 34 million more than in the corresponding prior year period. The amount was attributable to, among other things:

- a higher net income on loans and insurance (+PLN 87 million y/y), mainly due to an increase in commissions on business and housing loans and the fact of selling insurance products linked to housing loans;
- a higher net income on cards (+PLN 30 million y/y), as a result of a higher number of cards and a higher volume of cashless transactions;
- a lower net income on servicing bank accounts and other net income (-PLN 5 million y/y), attributable, among other things, to a change in the composition of accounts of Customers, who choose less expensive accounts;

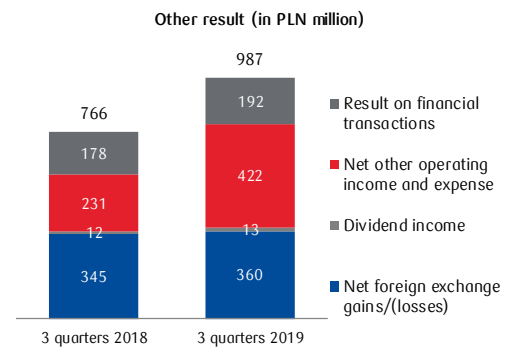


- a lower net income on investment and pension funds, and brokerage activities (-PLN 78 million y/y), mainly due to a decrease in fund sales and a change of their composition, and a reduction in the fund management commission.

## NET OTHER INCOME

The net other income for the first three quarters of 2019 amounted to PLN 987 million, i.e. PLN 221 million more than in the corresponding prior year period, due to, among other things:

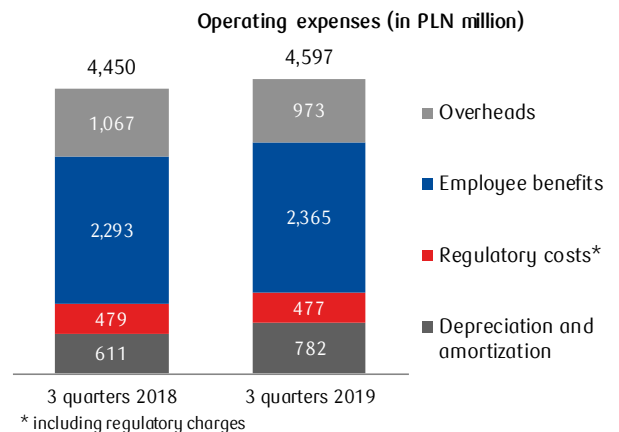
- the net other operating income/expense higher by PLN 191 million y/y, attributable to, among other things:
  - a partial release in June 2019 of the provision for proceedings before the President of the Office for Competition and Consumer Protection concerning practices which violate the collective interests of consumers<sup>5</sup> (PLN 58 million);
  - the recognition in June 2019 of a gain on the bargain purchase of Prime Car Management SA in the amount of PLN 80 million and the recognition of the result of that company in 2019 (PLN 72 million);
  - the recognition in the third quarter of 2019 of a provision for the reimbursement of costs to a Customer due to the early repayment of a consumer credit in the amount of PLN 68.5 million.<sup>6</sup>
- a higher result on financial transactions (+PLN 14 million y/y) – mainly as a result of a higher result on sales of Treasury securities at the Bank and the result on embedded derivatives;
- higher net foreign exchange gains/losses (+PLN 15 million y/y) – among other things, due to a higher net income from customer activities.



## OPERATING EXPENSES

In the first three quarters of 2019, the operating expenses amounted to PLN 4,597 million and were 3.3% higher y/y. Their level was mainly driven by:

- an increase in employee benefits by PLN 72 million, i.e. 3.1%;
- a decrease in overheads by PLN 94 million, i.e. 8.8%, mainly due to a lower expenditure on:
  - costs of maintenance and lease of non-current assets (by PLN 142 million, mainly due to lower costs of real estate services after the implementation of IFRS 16 regulations effective from January 2019), with, at the same time, a higher expenditure on:
    - marketing (by PLN 32 million);
    - IT (by PLN 17 million).
- an increase of PLN 105 million, i.e. 28.9%, in contributions to the BGF – BGF expenses amounted to PLN 468 million, of which PLN 348 million was the contribution to the fund for forced resolution of banks. In the corresponding prior year period, BGF expenses amounted to PLN 363 million, of which PLN 167 million was the contribution to the forced resolution fund;
- an increase of PLN 13 million, i.e. 48.1%, in payments to the Polish Financial Supervision Authority, mainly involving payments towards bank supervision expenses;
- an increase of PLN 171 million, i.e. 28.0%, in depreciation, mainly due to the implementation of IFRS 16 in respect of the lease of properties and cars, and the recognition of the costs of the acquired company Prime Car Management SA in the amount of PLN 53 million, as combined with a decrease of amortization attributable to extending the period of use of the Integrated IT System (ZSI) from the end of 2023 to the end of 2030.



<sup>5</sup> The information on setting up the provision was published on 27 June 2018 in the current report no 24/2018

<sup>6</sup> The provision for reported and potential complaints in connection with the published judgement of the CJEU

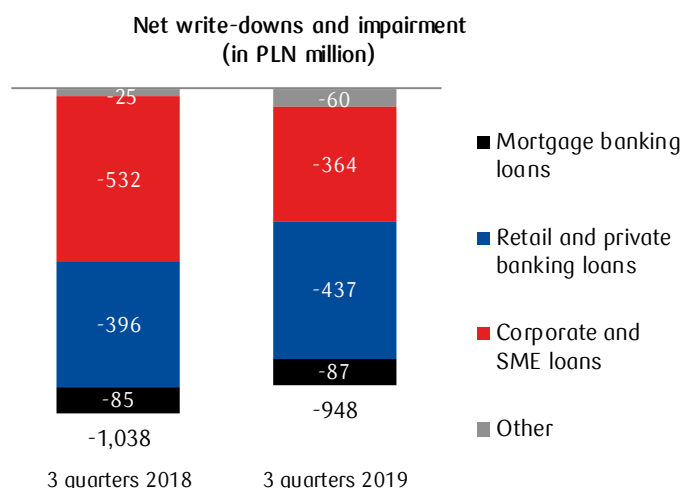
As a result of the implementation of IFRS 16, lease payments of PLN 166 million were not recognized in overheads. The cost of lease payments was recognized in depreciation at approx. PLN 155 million and in interest expense at PLN 19 million.

The operating efficiency of the PKO Bank Polski SA Group, as measured with the C/I ratio on an annual basis amounted to 42.0%, which was an improvement of 3.1 pp y/y, attributable to the improved result on business activities (+10.6% y/y), as combined with an increase in operating expenses (+3.3 y/y).

### NET WRITE-DOWNS AND IMPAIRMENT

In the first three quarters of 2019, net write-downs and impairment amounted to PLN (-)948 million, which was an improvement on the amount reported for the corresponding prior year period of PLN (+)90 million. The improvement in respect of corporate loans was offset by a deterioration in respect of retail and other loans.

As at the end of the third quarter of 2019, the proportion of credit-impaired exposures was 4.3% (down 0.6 pp compared with the third quarter of 2018). In the third quarter of 2019, a part of the consumer loan portfolio measured at amortized cost (approx. PLN 9 billion) was reclassified to the portfolio measured at fair value through profit or loss, which resulted in a decrease in the percentage of credit-impaired exposures by 0.2 pp.



The cost of risk as at the end of the third quarter of 2019 amounted to 0.51%, i.e. it improved by 0.12 pp in relation to the corresponding prior year period.

The improvement in the risk ratios, combined with an increase in the gross amount of financing granted to Customers of approx. 5% y/y, is a result of the continuation of the conservative credit risk management policy of the Bank's Group and close monitoring of the portfolio of receivables.

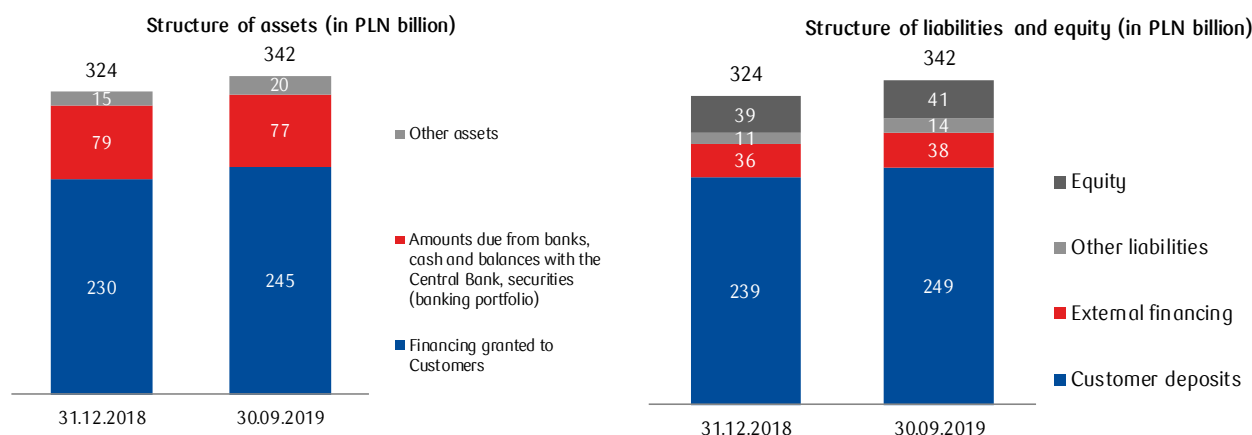
### 3.3. STATEMENT OF FINANCIAL POSITION

Main items of the statement of financial position  
Financing granted to Customers  
Customer deposits  
External financing

#### MAIN ITEMS OF THE STATEMENT OF FINANCIAL POSITION

As at the end of the third quarter of 2019, the total assets of the PKO Bank Polski SA Group amounted to nearly PLN 342 billion, an increase of approx. PLN 17 billion from the beginning of the year. As a result, the PKO Bank Polski SA Group consolidated its position in the Polish banking sector.

On the assets side, the Bank's Group reported an increase in financing granted to Customers. As far as the sources of financing are concerned, Customer deposits (mainly those of individuals) and external financing in the form of issues of securities increased since the beginning of the year.



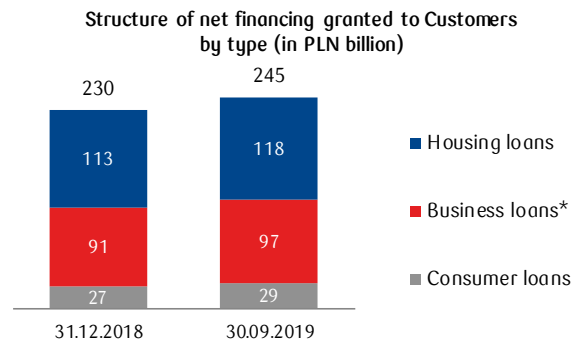
## FINANCING GRANTED TO CUSTOMERS

As at the end of the third quarter of 2019, the amount of financing granted to Customers of the Bank's Group exceeded PLN 244.6 billion and was nearly PLN 14.1 billion higher than as at the beginning of the year.

The main components of the net financing granted were housing and business loans, accounting for 48.3% and 39.7% thereof as at the end of September 2019, respectively.

In the first three quarters of 2019, an increase in financing granted to corporate Customers of PLN 6.0 billion and in housing loans of PLN 5.4 billion was reported.

In terms of maturities, financing granted to Customers mainly comprises long-term loans, which is mainly due to the high share of housing loans.

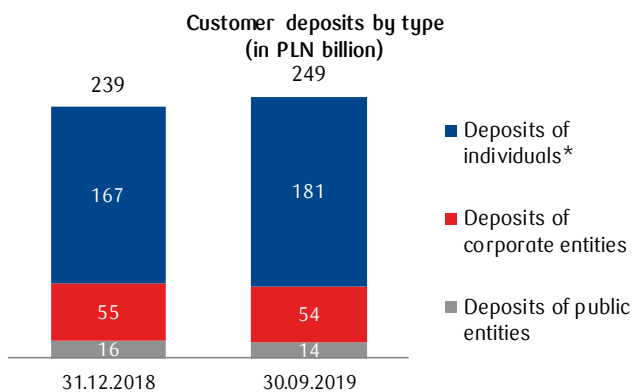


\*including finance leases and non-Treasury bonds (other than held for trading)

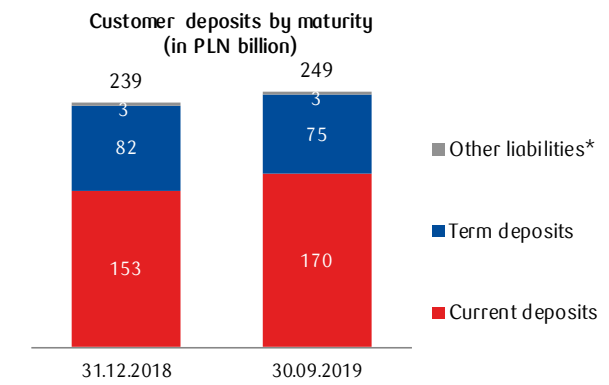
## CUSTOMER DEPOSITS

Customer deposits are the basic source of financing the Bank's Group's assets. As at the end of the third quarter of 2019, they amounted to PLN 249.0 billion, i.e. PLN 10.3 billion more than at the beginning of the year. The increase in the deposit base was mainly attributable to an increase in deposits of individuals (+PLN 13.8 billion), as combined with a decrease in deposits of business entities (-PLN 1.2 billion) and deposits of public sector entities (-PLN 2.3 billion).

The main component of Customer deposits are deposits of individuals (73% as at the end of September 2019). Deposits of business entities (22% as at the end of September 2019) are the second largest category.



\*including liabilities in respect of insurance products



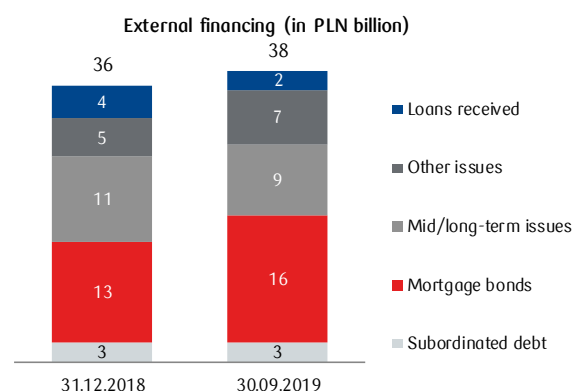
\*including liabilities in respect of insurance products

The share of current deposits in total deposits increased and amounted to 68% (+4 pp compared with the end of 2018).

## EXTERNAL FINANCING

The PKO Bank Polski SA Group is an active player in the market for issues of debt securities, both domestic and foreign. Such activity is intended to diversify the sources of financing and bring them in line with the regulatory requirements.

As at the end of September 2019, the long-term sources of financing amounted to approx. PLN 38 billion, an increase of PLN 1.8 billion since the beginning of the year. The following had an impact on the level of external financing:



- continued issuance of covered bonds by PKO Bank Hipoteczny SA (with a nominal value of EUR 700 million and PLN 250 million);
- redemption of bonds issued by PKO Finance AB of EUR 500 million in January 2019;
- issue in September 2019, as part of the securitization of lease receivables of PKO Leasing SA, of bonds with a nominal value of PLN 1.8 billion acquired by external investors;
- repayment of loans received from international financial institutions.

### 3.4. EQUITY AND CAPITAL ADEQUACY MEASURES

In the third quarter of 2019, the capital adequacy of the PKO Bank Polski SA Group was maintained significantly above the regulatory limits. As at 30 September 2019, the capital adequacy measures of the PKO Bank Polski SA Group were calculated in accordance with the CRR, taking into account prudential consolidation.

As at the end of the third quarter of 2019, the total capital adequacy ratio of the PKO Bank Polski SA Group amounted to 18.01%, and the Tier 1 capital ratio amounted to 16.74% (down 0.87 pp and 0.80 pp since the end of 2018, respectively).

The decrease in capital ratios in the first three quarters of 2019 compared with the end of 2018 is mainly the effect of an increase in the requirements with respect to own funds of approx. PLN (+)1.0 billion as a result of an increase in the portfolio of business and consumer loans and the rising exchange rates, partly offset by an increase in own funds by about PLN (+)0.6 billion, which was mainly attributable to the accumulation of the profits of the Bank's Group's companies of PLN (+)0.4 billion.

## 4. OPERATIONS OF THE PKO BANK POLSKI SA GROUP

### 4.1. OPERATING SEGMENTS OF THE BANK'S GROUP

Retail segment Corporate and investment segment
--

The PKO Bank Polski SA Group conducts business activities within segments offering products and services addressed to specific groups of Customers. The manner in which the business segments are divided ensures consistency with the sales management model and offers the Customers a comprehensive product mix comprising both traditional banking products and more complex investment products. The Bank's Group currently conducts its business activities in two segments: the retail segment and the corporate and investment segment.

## RETAIL SEGMENT

The retail segment offers a full range of banking products and services to individuals using retail and private banking. It also comprises transactions with firms and enterprises, developers, cooperatives and property managers. The products and services offered to the Customers in this segment comprise: current and savings accounts, term deposits, private banking services, insurance and combined investment and insurance products, credit and debit cards, electronic and mobile banking services, consumer and housing loans, business loans, leasing and factoring.



NUMBER OF CUSTOMERS: 10.9 MILLION  
FINANCING GRANTED: PLN 178 BILLION  
SAVINGS VOLUME: PLN 253 BILLION

## CORPORATE AND INVESTMENT SEGMENT

The corporate and investment segment comprises transactions with corporate Customers, local government entities and financial institutions. The products and services offered to the Customers comprise: transactional banking (including maintaining bank accounts), deposit products and other products used for liquidity management purposes, trade finance, treasury products, and credit products for the financing of both current and investment needs (including leasing and factoring). The segment also comprises brokerage activities and own activities, i.e. the management of the Bank's liquidity and investment activities.



NUMBER OF CUSTOMERS: 15.7 THOUSAND  
FINANCING GRANTED: PLN 74 BILLION  
DEPOSITS VOLUME: PLN 51 BILLION

### 4.2. RETAIL SEGMENT

The segment's Customers  
Business volumes  
Actions taken in the third quarter of 2019

In the third quarter of 2019, the PKO Bank Polski SA Group continued building strong, long-term relations with Customers in the retail segment. The Group focused on adjusting the products to the Customers' needs and developing access tools and channels, allowing Customers to manage their finances conveniently at any place or time.

#### THE SEGMENT'S CUSTOMERS

As at the end of September 2019, the Retail Segment served nearly 10.9 million Customers,<sup>7</sup> including:

- 10.4 million individuals;
- 0.5 million firms and enterprises.

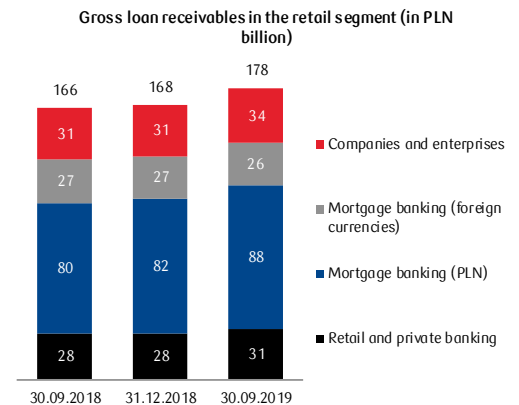
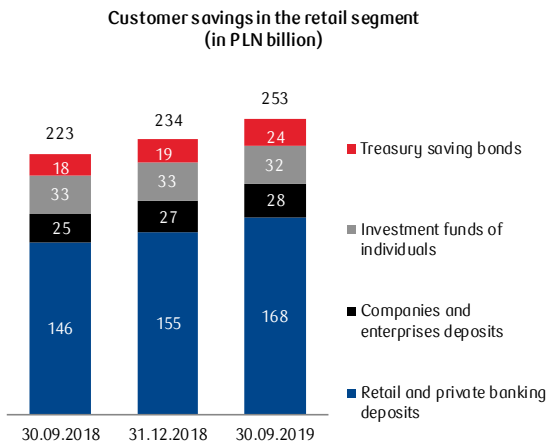
Since the beginning of 2019, the number of Customers served in the segment increased by more than 230 thousand.

<sup>7</sup> In 2019, the Group changed the presentation of the number of the segment's Customers. The former approach was based on the product perspective and the perspective of the individual business lines, whereas the new methodology is focused on being customer-centred and on the Bank's potential.

## BUSINESS VOLUMES

As at the end of September 2019, the total financing provided to the retail segment Customers amounted to PLN 178 billion and it was more PLN 10 billion (i.e. 6.2%) higher than as at the beginning of the year.

It was mainly due to the increases in the portfolios of mortgage loans in PLN (PLN +5.9 billion), retail and private banking loans (PLN +2.3 billion) and loans granted to firms and enterprises (PLN +2.5 billion), accompanied by a decrease in the portfolio of mortgage loans in foreign currencies (PLN -0.3 billion) due to loan repayments.



As at 30 September 2019, the savings in the retail segment amounted to PLN 253 billion and since the beginning of the year the balance increased by PLN 18.4 billion (i.e. 7.8%).

This increase was mainly due to an increase in the amount of retail and private banking deposits, mainly current deposits. The Group also recorded an increase in the level of savings deposited in retail bonds and corporate and SME deposits, which was accompanied by a decrease in cash accumulated in investment funds of individuals.

## ACTIONS TAKEN IN THE THIRD QUARTER OF 2019

In the third quarter of 2019, the PKO Bank Polski SA Group took the following actions:

- on the housing loans market:
  - it granted loans to individuals totalling PLN 4.2 billion, which enabled it to maintain the first position on the market with a market share of 26.5% in the entire third quarter of 2019;
  - it made available a “green mortgage” option in its offer, thanks to which the Customers may obtain a lower margin, based on the energy performance certificate for the real estate which constitutes collateral for the loan;
- on the consumer loans market:
  - it conducted a marketing campaign of a cash loan, addressed to new Customers based on an offer with lower APR of 7.22%;
  - it introduced a possibility of documenting income based on account history or a bank statement, instead of a certificate from an employer – this option was made available for selected sources of income, up to PLN 200 thousand loan exposure at the Bank;
- with respect to supporting the operations and financing of corporations and firms and enterprises:
  - it made available a new service called eWindykacja, which enables companies to monitor payments, to select a recovery scenario adapted to the counterparty’s needs, to effectively recover receivables from outstanding invoices and to assign the task of debt recovery to the relevant office through the platform;
  - it allowed sending by e-mail a document generated through the internet banking at PUE ZUS, confirming that the company is not overdue with payments of social insurance contributions;
- with respect to transactions and savings:
  - it strengthened its leading position on the market in terms of the number of current accounts maintained, which amounted to nearly 8 million<sup>8</sup> and increased by over 0.3 million during the year;
  - it extended the time limit for concluding foreign exchange transactions via iPKO dealer for the Corporate Customers of PKO Bank Polski SA – the currency exchange bureau is available 24 hours from Monday to Friday;

<sup>8</sup> From the third quarter of 2019, the Bank has changed classification rules of checking and savings accounts (ROR). According to the new, more simple criteria, the Bank reports all active accounts, that have the potential for development of cooperation with the Client.



- in the area of the insurance offer it made available the “Bezpieczny Plan” Life insurance – constituting financial security for close relatives in the event of the death of the insured person, unrelated to the banking product, dedicated to personal banking Customers;
- it launched a Partnership Programme dedicated to Top-League Clubs under which the clubs are involved in promoting the banking products (personal accounts, cash loans, mortgage loans) in return for which the clubs would receive a fee from PKO Bank Polski SA for each product purchased via this route.

### 4.3. CORPORATE AND INVESTMENT SEGMENT

The segment's Customers  
Business volumes  
Actions taken in the third quarter of 2019

Due to the implementation of new management standards in the corporate sales network, the PKO Bank Polski SA Group consistently developed its cooperation with the Customers and extended its scope based on a wide range of products offered.

The Bank's Customers interested in the operations on international markets may use a wide range of products and services, such as: transactional banking products (including international cash pooling), e-banking, treasury products, trade finance and corporate loans, which are offered by the Bank' branches abroad.

#### THE SEGMENT'S CUSTOMERS

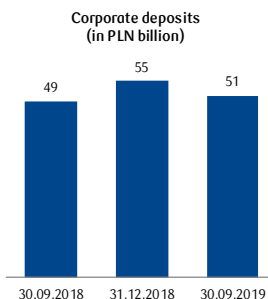
As at the end of September 2019, the Corporate and Investment Segment provided services to 15.7 thousand Customers, including:

- 8.4 thousand Corporate Customers;
- 1.2 thousand Strategic Customers;
- 4.9 thousand local government entities and central government institutions, including other public entities and related entities;
- 0.8 thousand Foreign Customers;
- 0.4 thousand Financial Customers.

Since the beginning of 2019, the number of the segment's Customers has increased slightly.

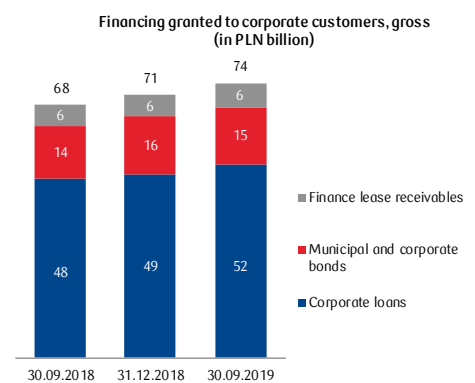
#### BUSINESS VOLUMES

As at the end of September 2019, the total financing of corporate Customers (including loans, bonds issued and lease receivables) amounted to PLN 74 billion and was more than PLN 3 billion (i.e. 4.6%) higher than at the beginning of the year. This was due to an increase in financing in the form of corporate loans and finance leases, accompanied by a decrease in the level of bonds.



The balance of deposits of corporate Customers amounted to nearly PLN 51 billion as at the end of September 2019 and it was over PLN 4 billion (i.e. 8%) lower than as at the end of 2018. The decrease in deposits is related to a high reference base from the end of 2018.

In relation to the same period of the previous year, corporate deposits increased by nearly PLN 2 billion (i.e. 3.3%).



#### ACTIONS TAKEN IN THE THIRD QUARTER OF 2019

In the third quarter of 2019, the PKO Bank Polski SA Group took the following actions:

- with respect to Customer service and transaction banking:
  - it extended the offer of treasury products by including transactions on the market of greenhouse gas emission allowances – the product is of particular importance to firms which emit high quantities of carbon dioxide in the context of the recent increase in prices of greenhouse gas emission allowances;

- it concluded another agreement with the Social Insurance Institution (ZUS) for opening and maintaining consolidated FUS, FEP and ZUS accounts and the execution of mass payments;
- with respect to the financing of corporate Customers by consortia of banks and organization of bond issues, the Group concluded:
  - 8 agreements in the form of a bank consortium totalling PLN 7.9 billion, and the share of PKO Bank Polski SA in these transactions was PLN 1.4 billion;
  - 4 corporate bond issue agreements for an amount of PLN 27 million;
- with respect to brokerage activities (Biuro Maklerskie PKO Banku Polskiego):
  - it achieved turnover exceeding the PLN 7 billion on the secondary share market, which represented approx. 7% of the market turnover and gave Biuro Maklerskie PKO Banku Polskiego 3rd place in the ranking of brokerage houses;
  - it participated in a call to and execution of a forced buyout of shares of PFLEIDERER GROUP SA, on behalf of Volantis Bidco B.V. – the transaction value is PLN 535 million;
  - it carried out a transaction of a treasury bonds buy up by Benefit Systems SA with a value of PLN 57 million;
  - it maintained nearly 124 thousand securities accounts and cash accounts, and more than 212 thousand register accounts.

#### 4.4. MARKET POSITION OF THE PKO BANK POLSKI SA GROUP

The PKO Bank Polski SA Group has the leading shares in the Polish market of bank loans and savings, the Polish lease market and the Polish retail investment fund market.

As a result of the actions taken in the third quarter of 2019, the Bank's Group:

- maintained a high share in the loan market, both in terms of volume and in terms of sales of selected products;
- maintained its position on the market of retail savings.

Table 4. Market shares

	30.09.2019	31.12.2018	30.09.2018	Change since:	
				31.12.2018	30.09.2018
<b>Loans for:</b>	17.7%	17.6%	17.5%	0.1 pp	0.2 pp
individuals, of which:	22.9%	22.9%	22.9%	0.0 pp	0.0 pp
housing	25.9%	26.1%	26.0%	-0.2 pp	-0.1 pp
PLN	27.9%	28.3%	28.3%	-0.4 pp	-0.4 pp
foreign currency	21.0%	21.0%	21.1%	0.0 pp	-0.1 pp
consumer and other	16.2%	15.8%	16.0%	0.4 pp	0.2 pp
in current account	32.0%	32.1%	31.8%	-0.1 pp	0.2 pp
institutional entities	12.9%	12.7%	12.6%	0.2 pp	0.3 pp
<b>Non-Treasury debt securities (indebtedness)</b>	31.9%	32.4%	32.0%	-0.5 pp	-0.1 pp
<b>Mortgage loans (sales)</b>	26.5%	28.9%	28.9%	-2.4 pp	-2.4 pp
<b>Total savings*</b>	17.9%	18.4%	17.4%	-0.5 pp	0.5 pp
<b>savings of individuals**</b>	22.4%	22.1%	21.5%	0.3 pp	0.9 pp
<b>Deposits for:</b>	17.4%	18.1%	17.3%	-0.7 pp	0.1 pp
individuals	20.5%	20.2%	19.7%	0.3 pp	0.8 pp
institutional entities	13.2%	15.2%	13.9%	-2.0 pp	-0.7 pp
<b>TFI assets - funds of individuals</b>	20.7%	22.1%	20.8%	-1.4 pp	-0.1 pp
<b>Brokerage activities - transactions on secondary market</b>	7.6%	7.7%	7.9%	-0.1 pp	-0.3 pp

Source: NBP, WSE, Polish Leasing Association, PBA, Analityz Online

\* Total savings include total deposits, TFI assets and saving Treasuries bonds.

\*\* Savings of individuals include deposits of individuals, funds of individuals and saving Treasury bonds.

## 4.5. DISTRIBUTION NETWORK AND ACCESS CHANNELS

IKO mobile banking  
Electronic banking  
Network of branches and agencies

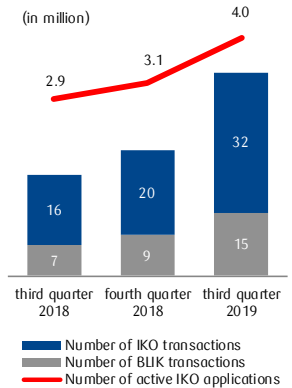
### IKO MOBILE BANKING



IKO is the most popular and most highly appreciated mobile payment application in the world. It combines the banking function with the payment function. As at the end of the third quarter of 2019, the total number of active IKO applications reached 4 million.

New functionalities are constantly added to the IKO mobile application. In the third quarter of 2019, the application was extended by the possibility of buying public transport tickets (moBilet) and motor insurance, and adapting to the requirements of PSD2 within the scope of RTS. Moreover, the

Customers obtained the possibility of insight into unrealized transactions on credit cards.



### ELECTRONIC BANKING

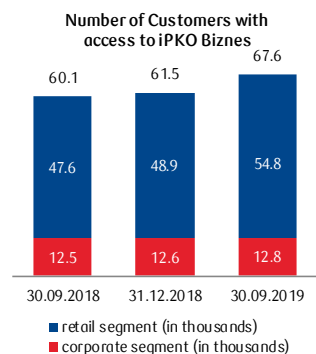
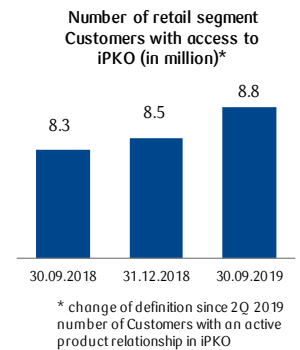
As part of the electronic banking services, the Bank's Customers may avail themselves of iPKO and iPKO Biznes services. These services provide the Customers with access to information about accounts and products, and enables them to carry out transactions through the Internet, self-service terminals and telephone.

The Bank constantly promotes remote use of Internet bank accounts, self-management of accounts and banking products in the transaction service, which allows Customers to access their products faster and easier, and to reduce the costs of using banking services.

As at the end of the third quarter of 2019, 8.8 million Customers had access to iPKO, and nearly 68 thousand Customers used iPKO Biznes.

The Bank added the following new products and services to its e-banking offer in the third quarter of 2019:

- it introduced a new look of the logging page to iPKO and the Płace z iPKO (Interpay and PayByNet) service – a modern, refreshed and responsive (RWD) graphic design of the logging page;
- it enabled the acquisition of motor insurance (third party insurance, AC, accident insurance and Car Assistance);
- it extended the availability of the currency exchange bureau iPKO dealer for corporate Customers of PKO Bank Polski SA to 24 hours;
- it implemented the regulatory changes in iPKO and Inteligo services arising from the PSD2 – AIS, PIS, CAF, RTS directive;
- it introduced the virtualisation of Funds in iPKO.



### NETWORK OF BRANCHES AND AGENCIES

PKO Bank Polski SA provides its Customers with a wide network of retail branches and agencies, private banking offices, corporate branches, as well as branches located abroad.

As at 30 September 2019, the PKO Bank Polski SA retail network consisted of 1,068 branches and offices organized into 11 regional branches. Compared to the end of 2018, the total number of retail branches decreased by 34.

The corporate segment's sales network consists of 33 Regional Corporate Centres organized into seven Regional Corporate Branches, as well as the branches located in the Federal Republic of Germany and the Czech Republic.

The branch and ATM network is complemented by the agency network. As at the end of September 2019, PKO Bank Polski SA collaborated with 530 agencies.

Table 5. Operating data of the segments

	30.09.2017	31.12.2018	30.09.2018	Change since:	
				31.12.2018	30.09.2018
<b>Number of branches in the retail segment</b>	<b>1,079</b>	<b>1,113</b>	<b>1,132</b>	<b>-34</b>	<b>-53</b>
regional retail branches	11	11	11	0	0
retail branches	1,049	1,083	1,102	-34	-53
private banking branches	8	8	8	0	0
corporate banking branches	11	11	11	0	0
<b>Number of branches in the corporate and investment segment:</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>0</b>	<b>0</b>
regional corporate branches	7	7	7	0	0
regional corporate centres	33	33	33	0	0
foreign branches	2	2	2	0	0
<b>Number of ATMs</b>	<b>3,089</b>	<b>3,133</b>	<b>3,146</b>	<b>-44</b>	<b>-57</b>
<b>Number of agencies</b>	<b>530</b>	<b>577</b>	<b>590</b>	<b>-47</b>	<b>-60</b>

#### 4.6. OPERATIONS OF OTHER PKO BANK POLSKI SA GROUP COMPANIES

##### PKO BANK HIPOTECZNY SA

PKO Bank Hipoteczny SA is the leader on the Polish market of mortgage banks in terms of total assets and the portfolio of mortgage loans. The company is also the biggest and most active issuer of mortgage-covered bonds in Poland.

PKO Bank Hipoteczny SA specializes in granting housing mortgage loans to retail Customers. It also purchases receivables under such loans from PKO Bank Polski SA. The Company issues mortgage-covered bonds (in PLN and foreign currencies), which are one of the main sources of long-term financing of loans secured with real estate in the PKO Bank Polski SA Group.

During the three quarters of 2019, under the Framework Agreement for the Sale of Receivables signed in 2015 with PKO Bank Polski SA, PKO Bank Hipoteczny SA acquired housing loan portfolios secured with mortgages totalling PLN 2.7 billion, including PLN 0.2 billion in the third quarter of 2019. The total value of the gross loan portfolio of PKO Bank Hipoteczny SA as at 30 September 2019 amounted to PLN 25.4 billion, including housing loans secured with mortgages acquired from PKO Bank Polski SA amounting to PLN 14.1 billion.

In the third quarter of 2019, the company did not conduct any new issues of mortgage-covered bonds. The total value of mortgage-covered bonds issued by PKO Bank Hipoteczny SA and outstanding (at the nominal value) as at the end of September 2019 amounted to PLN 16.3 billion.

##### PKO TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SA

The company's core activities include creating and managing investment funds. The company also offers specialized investment programs and conducts employee pension plans.

The net asset value of the funds managed by the company as at the end of September 2019 was PLN 34.2 billion, which represents a 4.0% decrease in assets compared with the end of 2018 (and a 1.9% decrease in the third quarter of 2019). The decrease is a result of a negative balance of net sales.

PKO Towarzystwo Funduszy Inwestycyjnych SA ranks second in terms of net asset value, with a 13.1% share in the market of investment funds, and first in terms of assets of individuals under management with a market share of 20.7%\*.

As of 30 September 2019, PKO TFI SA managed 63 investment funds and sub-funds.

In the third quarter of 2019, the company introduced a new fund PKO EMERYTURA to its offer, which is a specialist open investment fund with separate sub-funds.

PKO TFI SA conducts activities in respect of seeking companies for Employee Capital Schemes (PPK). The company launched in its online service function for signing agreements electronically. By 25 October 2019, it had signed 1,541 management agreements, including 1,299 agreements with firms employing 250 or more employees.

\* Source: *Analizy Online*.

##### PKO BP BANKOWY PTE SA

The company manages PKO BP Bankowy Otwarty Fundusz Emerytalny and PKO Dobrowolny Fundusz Emerytalny, within which Individual Pension Account (*Indywidualne Konto Emerytalne - IKE*) and Individual Pension Security Account (*Indywidualne Konto Zabezpieczenia Emerytalnego - IKZE*) are offered.

##### Results of operations of the Open Pension Fund (OFE):

As at the end of September 2019, the net asset value of PKO BP Bankowy OFE managed by PKO BP BANKOWY PTE SA amounted to PLN 6.8 billion, representing a 3.1% decrease in relation to the balance as at the end of 2018 (and a 6.6% decrease in the third quarter of 2019). The decrease is

a result, among other things, of the situation on the Warsaw Stock Exchange.

The number of members of PKO BP Bankowy OFE in the third quarter of 2019 went down from 906.6 thousand as at the end of June 2019 to 903.8 thousand as at the end of September 2019.

PKO BP Bankowy OFE is ranked 9th on the pension fund market in terms of the net asset value of the OFE, and 9th in terms of the number of OFE participants\*.

\* Source: [www.knf.gov.pl](http://www.knf.gov.pl)

#### PKO LEASING SA GROUP

The PKO Leasing SA Group (i.e. PKO Leasing SA and its subsidiaries) offers financial services within the scope of lease, factoring and insurance and provides fleet management and vehicle rental services.

In 2019, PKO Leasing SA acquired Prime Car Management SA (PCM), and thus the PKO Leasing SA Group<sup>9</sup> was increased to include the above-mentioned company and its subsidiaries (i.e. Futura Leasing SA, Masterlease sp. z o.o. and MasterRent24 sp. z o.o.). The Group was also joined by Polish Lease Prime 1 DAC – a company formed for the purpose of securitization of lease receivables, and moreover, a business combination took place between Qualia Development sp. z o.o. as the target company and PKO Leasing SA as the acquirer.

In September 2019, PKO Leasing SA conducted securitization of its assets. The company sold the portfolio of high class lease receivables with a total value of PLN 2.5 billion to the special purpose entity Polish Lease Prime 1 DAC, which conducted a private issue of securities and placed them on the market. The programme was the first to obtain the prestigious STS (simple, transparent, standardised) status on the Polish market, which is awarded to ABS (asset-backed securities) programmes.

As at the end of September 2019, the carrying value of amounts due from Customers for financing of fixed assets (both due and not yet due) and the carrying value of fixed assets leased by the PKO Leasing SA Group under operating lease agreements was PLN 20.2 billion, including those of the PCM Group companies of PLN 1.8 billion.

According to the data of the Polish Leasing Association, as of 30 June 2019, the PKO Leasing SA Group (without the PCM Group) held a 13.0% share in the lease market in terms of value of fixed assets provided to the Customers.<sup>10</sup>

During the three quarters of 2019, the value of the factoring transactions was PLN 14.9 billion, including PLN 5.5 billion in the third quarter of 2019 (in the similar period of 2018 these amounts were: PLN 13.1 billion and PLN 4.8 billion, respectively).

As at 30 September 2019, PKO Faktoring SA was ranked 7th (in terms of turnover) among factoring firms belonging to the Polish Factors Association, with a market share of 7.2%.

#### PKO ŻYCIE TOWARZYSTWO UBEZPIECZEŃ SA GROUP

The scope of activities of PKO Życie Towarzystwo Ubezpieczeń SA comprises insurance activities in the area of the first category of insurance – life insurance. The company's offer includes both separate products and products supplementing the banking products offered by PKO Bank Polski SA.

In the third quarter of 2019, the company introduced Ubezpieczenie Bezpieczny Plan (*Safe Plan Insurance*) to its offer – which is a life insurance with an insurance sum of PLN 1 million, which may ensure payment of the benefit to close relatives in the event of the death of the insured. The Safe Plan is a response to the needs of Customers who find the ability to provide security to their families of key importance.

Gross written premiums from insurance contracts signed by the company in the three quarters of 2019 amounted to PLN 406.8 million, including PLN 138.6 million in the third quarter of 2019 (in the similar period of 2018 these amounts were: PLN 381.7 million and PLN 128.0 million, respectively).

The number of insured in the third quarter of 2019 went up from 931 thousand as at the end of June 2019 to 978 thousand as at the end of September 2019. The number of insured as at the end of 2018 was 847 thousand.

#### PKO TOWARZYSTWO UBEZPIECZEŃ SA

The business activities of PKO Towarzystwo Ubezpieczeń SA consists of insurance activities in respect of insurance sector II – other personal insurance and property insurance. The Company focuses on insuring the risk of loss of income, personal accidents and sickness, and on insuring

<sup>9</sup> The Group per the International Financial Reporting Standards

<sup>10</sup> The most recent data published by the Polish Leasing Association; starting from 2019, the data does not show the results of the individual lease companies and thus does not allow to indicate the market position of the individual companies.

properties for borrowers and mortgage borrowers.

In the first half of 2019, the Polish Financial Supervision Authority approved a change in the scope of the company's activities by extending it to comprise insurance activities in group 3 (accident and theft insurance in respect of land vehicles) and 10 (third-party liability of owners of mechanical vehicles, including shipper's liability) in Section II.

In 2019, the company introduced in its offer Truck Assistance and Car Assistance for Customers of the PKO Leasing SA Group.

Gross written premiums from insurance contracts signed by the company in the three quarters of 2019 amounted to PLN 511.7 million, including PLN 179.0 million in the third quarter of 2019 (in the similar period of 2018 these amounts were: PLN 422.2 million and PLN 140.5 million, respectively).

The number of insured in the third quarter of 2019 went up from 908.5 thousand as at the end of June 2019 to 962 thousand as at the end of September 2019. The number of insured as at the end of 2018 was 804 thousand.

**KREDOBANK SA GROUP**  
(DATA ACCORDING TO THE IFRS  
APPLIED BY THE PKO BANK  
POLSKI SA GROUP)

KREDOBANK SA is a universal bank focused on services for retail Customers and companies and enterprises, which operate mainly in the western part of Ukraine and in Kiev. At the same time the company strives to attract corporate Customers with high creditworthiness.

The loan portfolio of the KREDOBANK SA Group (gross) increased by UAH 1,520 million, i.e. 14.7% in the three quarters of 2019 and amounted to UAH 11,849 million (the gross loan portfolio expressed in PLN amounted to PLN 1,961 million). The increase in the loan portfolio in UAH is mainly due to the sales of new loans. The change in the third quarter of 2019 was +2.4%.

Term deposits of Customers of the KREDOBANK SA Group increased by UAH 322 million, i.e. 5.7%, in the three quarters of 2019, and amounted to UAH 5,944 million (term deposits expressed in PLN amounted to PLN 984 million). The level of UAH-denominated deposits results from the level of credibility and ranking of KREDOBANK SA on the banking market in the Ukraine. In the third quarter of 2019, there was a slight decrease in value (-3.4%).

As of 30 September 2019, the network of KREDOBANK SA branches comprised the Head Office in Lviv and 86 branches in 22 out of 24 Ukrainian districts. In the third quarter of 2019, two new branches were opened.

**PKO BP FINAT SP. Z O.O.**

PKO BP Finat sp. z o.o. provides comprehensive services to companies in the financial sector, i.e. in respect of providing technological solutions, transfer agent, fund and company accounting and outsourcing skilled IT specialists, project teams and IT processes.

On 1 July 2019, the company and Polski Fundusz Rozwoju SA launched the Registry System of the Employee Capital Schemes (PPK). The platform is integrated with all entities handling PPK so as to enable registration of information about PPK contributions from the entire market. Eventually, the system may comprise data of 11.5 million of the employed persons.

At the request of Polski Fundusz Rozwoju SA, PKO BP Finat sp. z o.o. maintains and handles the operating side of PPK records.

**OPERATOR CHMURY KRAJOWEJ  
SP. Z O.O.**

The company was established in November 2018 and registered in the National Court Register in February 2019.

Until September 2019, PKO Bank Polski SA was the sole shareholder of the company. On 5 September 2019, a capital increase of the company of PLN 60 million was registered in the National Court Register. The capital increase was taken up by Polski Fundusz Rozwoju SA, and the company's Articles of Association were amended. PKO Bank Polski SA changed the classification of the company from a subsidiary to a joint venture.

The objective of the company's operations is to provide comprehensive storage and remote processing services in the Multi-Cloud model, both using own infrastructure and in the form of selling partners' services.

In September 2019, Google Cloud became the company's strategic partner. As part of the strategic partnership agreement, the company will offer Google Cloud services, comprising both infrastructure (IaaS) and software (PaaS and SaaS), thus ensuring access to advanced services to Polish companies. The partnership will help Google launch the so-called Google Cloud Region in Warsaw, which would serve the entire Central Europe Region.

At the end of March 2019, the company achieved operational capability to provide cloud services based on its own infrastructure and started servicing its first Customer, namely PKO Bank Polski SA. The Bank uses the services for outsourcing the test environment based on the IaaS and PaaS (Infrastructure as a Service, and Platform as a Service) model. In 2019, the company also began cooperation with various firms to support its Customer service, including customers' digital

transformation and technological partnership.

#### 4.7. PRIZES AND AWARDS

In the third quarter of 2019, the PKO Bank Polski SA Group received numerous prizes and awards, the most important of which are the following:

##### Dynamic development and excellent financial results

**Firm of the year in the Central and Eastern Europe** – a prize granted during the 29th Economic Forum in Krynica. The justification emphasized, inter alia, the Bank's involvement in investments that are of key significance to Poland.

**The leader in the “banks” category** in Poland in the “Book of Lists” ranking prepared by the *Warsaw Business Journal*. PKO Leasing SA and Biuro Maklerskie were also winners in their categories.

##### The best specialists on the market

**Zbigniew Jagiełło**, the President of the Management Board of PKO Bank Polski SA won the title of the Personality of the Year in the 6th edition of Złoty Laur “Super Biznesu” competition. The chapter appreciated the prize winner's knowledge and competences, successes of the Bank under his management and achievements for the society's digitalization and the Polish economy.

##### The best products and services

PKO Bank Polski SA became the vice-leader in the Mortgage Banking category and came 4th in the Bank dla Kowalskiego category in *Newsweek's* Friendly Bank ranking. The Bank was ranked 3rd in the best bank ranking by *Forbes*. The Bank was appreciated for the quality of Customer service, knowledge, commitment and competences of the consultants, their pro-activeness in sales and competitive offer.

The *Newsweek* and *Forbes* rankings are based on the research performed by Kantar Polska using the mystery shopper method.

##### Model communication with the market

**The Best Contact Center** in the 19th edition of the “Survey of the Customer service quality in the banks' helplines and by email”, both in the category of telephone and email/www contact. High rates were awarded mainly to availability of the bank's helpline, the length of the waiting time, the system for selecting consultation topics and the consultants' commitment, professionalism and knowledge of the products.

The survey is organized by ARC Rynek i Opinia.

## 5. GLOSSARY

**Interest-earning assets** – amounts due from banks, securities and loans and advances to Customers;

**CPI** – consumer price index;

**Customer deposits** – amounts due to Customers, excluding repo transactions and loans and advances received;

**Financing granted to Customers** – loans and advances to Customers (including finance lease receivables) less receivables in respect of reverse repo agreements and municipal and corporate bonds presented in securities (excluding bonds held for trading);

**External financing** – subordinated liabilities, own issues of securities measured at amortized cost, loans and advances received presented in amounts due to banks and loans and advances received presented in amounts due to Customers;

**Other liabilities** – hedging derivatives, other derivatives, liabilities in respect of insurance activities, other liabilities, current income tax liabilities, deferred income tax provisions, provisions, repo transactions recorded as amounts due to banks and Customers, amounts due to the Central Bank and other liabilities to banks (other than loans received);

**Operating expenses** – general operating expenses and net regulatory charges;

**Regulatory costs** – net regulatory charges and taxes and fees from general operating expenses;

**Capital Adequacy Ratio** – ratio of own funds to the total capital requirement multiplied by 12.5;

**Securities (banking portfolio)** – securities less municipal and corporate bonds (excluding bonds held for trading);

**Other assets** – hedging derivatives, other derivatives, investments in associates and joint ventures, non-current assets held for sale, intangible assets, property, plant and equipment, current corporate income tax receivables, deferred tax asset, other assets and sell-back transactions presented in loans and advances to Customers;

**Risk-free rate** – annual average of returns on 10-year Treasury bonds;

**Average interest on loans** – interest income on loans and advances to customers on an annual basis/ average balance of loans and advances to customers from the last 5 quarters;

**Average interest on deposits** – interest expense on amounts due to Customers on an annual basis/ average balance of amounts due to Customers from the last 5 quarters;

**C/I ratio (cost to income ratio)** – general operating expenses and net regulatory charges to the result on business activities on annual basis;

**Financing granted to Customers to deposits** – financing granted to Customers (loans and advances to Customers (including amounts due in respect of finance leases) less reverse repo transactions and municipal and corporate bonds presented in securities, excluding securities held for trading) to amounts due to Customers;

**Financing granted to Customers to stable sources of financing** – financing granted to Customers (loans and advances granted to Customers (including amounts due in respect of finance leases) less reverse repo transactions and municipal and corporate bonds presented in securities, excluding securities held for trading) to stable sources of finance (amounts due to Customers and external financing);

**Tier 1 capital ratio** – the ratio of Tier 1 capital to the total capital requirement multiplied by 12.5;

**Cost of risk ratio** – net credit loss allowances for the last 12 months divided by the gross average balance of loans and advances to Customers, at the beginning and at the end of the reporting period, and interim quarterly periods;

**Net interest margin** – net interest income on an annual basis to average balance of interest-earning assets (including amounts due from banks, securities and loans and advances to customers) from the last 5 quarters;

**Net ROA** – net profit for the year to average balance of assets from the last 5 quarters;

**Net ROE** – net profit for the year to average balance of equity from the last 5 quarters;

**Share of impaired loans** – portfolio with recognized impairment on the exposures portfolio measured at amortized cost and on the portfolio of loans measured at fair value divided by other comprehensive income;

**Result on business activities** – operating profit, excluding general operating expenses, net regulatory charges, tax on certain financial institutions, net write-downs of loans and net impairment of non-financial assets;

**Net operating result** – result on operating activities excluding net write-downs of loans and net impairment of non-financial assets;

**Other income** – dividend income, result on financial instruments measured at fair value through profit or loss, foreign exchange result, gains or losses on derecognition of financial assets or liabilities not measured at fair value through profit or loss and other net operating income/expenses;

**Result on financial transactions** – result on financial instruments measured at fair value through profit or loss and result on derecognition of financial instruments not measured at fair value through profit or loss;

**Net write-downs and impairment** – net write-downs of loans and net impairment of non-financial assets;

**Net profit** – net profit in the consolidated statement of profit or loss understood as net profit attributable to the shareholders of the parent company.





Bank Polski



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

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## CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	Note	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Interest income	7	3 285	9 484	2 933	8 518
Interest expenses and similar charges	7	(623)	(1 829)	(567)	(1 653)
<b>Net interest income/(expense)</b>		<b>2 662</b>	<b>7 655</b>	<b>2 366</b>	<b>6 865</b>
Fee and commission income	8	1 049	3 070	1 021	3 003
Fee and commission expense	8	(279)	(794)	(261)	(761)
<b>Net fee and commission income/(expense)</b>		<b>770</b>	<b>2 276</b>	<b>760</b>	<b>2 242</b>
Dividend income		1	13	1	12
Net gain/(loss) on financial instruments measured at fair value through profit or loss		(8)	49	34	49
Foreign exchange gains/ (losses)		115	360	98	345
Net gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss		57	143	35	129
measured at fair value through other comprehensive income		56	142	35	121
measured at amortized cost		1	1	-	8
Gain/(loss) on allowance for credit losses	9	(273)	(917)	(336)	(1 023)
Impairment of non-financial assets		(21)	(31)	8	(15)
Other operating income	10	234	669	148	465
Other operating expenses	10	(146)	(247)	(50)	(234)
<b>Net other operating income and expense</b>		<b>88</b>	<b>422</b>	<b>98</b>	<b>231</b>
Administrative expenses	11	(1 411)	(4 120)	(1 340)	(3 971)
Net regulatory charges	12	(59)	(477)	(101)	(479)
Tax on certain financial institutions		(261)	(764)	(238)	(699)
<b>Operating profit/(loss)</b>		<b>1 660</b>	<b>4 609</b>	<b>1 385</b>	<b>3 686</b>
Share in profits and losses of associates and joint ventures		9	23	8	22
<b>Profit before tax</b>		<b>1 669</b>	<b>4 632</b>	<b>1 393</b>	<b>3 708</b>
Income tax expense	13	(440)	(1 324)	(348)	(974)
<b>Net profit (including non-controlling shareholders)</b>		<b>1 229</b>	<b>3 308</b>	<b>1 045</b>	<b>2 734</b>
Profit (loss) attributable to non-controlling shareholders		-	-	3	2
<b>Net profit attributable to equity holders of the parent company</b>		<b>1 229</b>	<b>3 308</b>	<b>1 042</b>	<b>2 732</b>
<b>Earnings per share</b>					
- basic earnings per share for the period (PLN)		0,98	2,65	0,83	2,19
- diluted earnings per share for the period (PLN)		0,98	2,65	0,83	2,19
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

In the nine-month period ended 30 September 2019 and 30 September 2018, the PKO Bank Polski SA Group did not conduct any discontinued operations.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	Note	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
<b>Net profit (including non-controlling shareholders)</b>		1 229	3 308	1 045	2 734
<b>Other comprehensive income</b>		182	399	(108)	58
<b>Items which may be reclassified to profit or loss</b>		182	399	(108)	58
Cash flow hedges (gross)	16	93	422	(55)	(44)
Deferred income tax	13	(18)	(80)	10	9
Cash flow hedges (net)	16	75	342	(45)	(35)
Remeasurement of fair value of financial assets measured at fair value through other comprehensive income (gross)		126	132	5	247
Gains / losses transferred to the profit or loss (on disposal)		(56)	(142)	(35)	(121)
Deferred income tax	13	(14)	3	5	(25)
Fair value of financial assets measured at fair value through other comprehensive income (net)		56	(7)	(25)	101
Foreign exchange differences on translation of foreign branches		53	64	(23)	5
Share in other comprehensive income of associates and joint ventures		(2)	-	(15)	(13)
<b>Total net comprehensive income</b>		1 411	3 707	937	2 792
Total net comprehensive income, of which attributable to:		1 411	3 707	937	2 792
shareholders of the Parent Company		1 411	3 707	934	2 790
non-controlling shareholders		-	-	3	2

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30.09.2019	31.12.2018
<b>ASSETS</b>			
Cash and balances with the Central Bank	14	13 252	22 925
Amounts due from banks	15	3 859	7 661
Hedging derivatives	16	784	658
Other derivative financial instruments	17	3 111	1 907
Securities	18	75 682	64 114
- held for trading		891	235
- not held for trading, measured at fair value through profit or loss		2 108	2 848
- measured at fair value through other comprehensive income		59 234	52 558
- measured at amortized cost		13 449	8 473
Loans and advances to customers	19	230 573	214 912
- not held for trading, measured at fair value through profit or loss		9 181	1 106
- measured at fair value through other comprehensive income		1	-
- measured at amortized cost		221 391	213 806
Investments in associates and joint ventures		383	344
Non-current assets held for sale		16	15
Intangible assets		3 119	3 195
Property, plant and equipment	21	4 392	2 931
Current income tax receivable		2	4
Deferred income tax assets		2 070	2 135
Other assets		4 308	3 454
<b>TOTAL ASSETS</b>		<b>341 551</b>	<b>324 255</b>

	Note	30.09.2019	31.12.2018
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to the Central Bank		7	7
Amounts due to banks	22	2 113	2 001
- measured at fair value through profit or loss		10	-
- measured at amortized cost		2 103	2 001
Hedging derivatives	16	644	471
Other derivative financial instruments	17	3 408	2 655
Amounts due to customers	23	251 267	242 816
- measured at fair value through profit or loss		25	-
- measured at amortized cost		251 242	242 816
Liabilities in respect of insurance activities		1 566	1 292
Liabilities in respect of securities in issue	25	32 347	28 627
Subordinated liabilities		2 708	2 731
Other liabilities	26	5 468	3 685
Current income tax liabilities		401	371
Deferred income tax provision		99	52
Provisions	27	488	446
<b>TOTAL LIABILITIES</b>		<b>300 516</b>	<b>285 154</b>
<b>Equity</b>			
Share capital		1 250	1 250
Other capital		34 386	34 505
Retained earnings		2 101	(385)
Net profit or loss for the year		3 308	3 741
Capital attributable to equity holders of the parent company		41 045	39 111
Non-controlling interests		(10)	(10)
<b>TOTAL EQUITY</b>		<b>41 035</b>	<b>39 101</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>341 551</b>	<b>324 255</b>
Total capital adequacy ratio	46	18,01%	18,88%
Book value (in PLN million)		41 035	39 101
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		32,83	31,28
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		32,83	31,28

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019	Share capital	Other capital			Accumulated other comprehensive income	Total other capital	Retained earnings	Net profit or loss for the year	Total capital attributable to equity holders of the parent company	Total non- controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
31 December 2018	1 250	29 354	1 070	3 831	250	34 505	(385)	3 741	39 111	(10)	39 101
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)	-	(111)
1 January 2019 (restated)	1 250	29 354	1 070	3 831	250	34 505	(496)	3 741	39 000	(10)	38 990
Transfer of retained earnings	-	-	-	-	-	-	3 741	(3 741)	-	-	-
Dividend paid	-	-	-	-	-	-	(1 662)	-	(1 662)	-	(1 662)
<b>Total comprehensive income, of which:</b>	-	-	-	-	399	399	-	3 308	3 707	-	3 707
Net profit for the year	-	-	-	-	-	-	-	3 308	3 308	-	3 308
Other comprehensive income	-	-	-	-	399	399	-	-	399	-	399
Covering of prior year loss <sup>1</sup>	-	-	-	(606)	-	(606)	606	-	-	-	-
Transfer from retained earnings to equity	-	75	-	13	-	88	(88)	-	-	-	-
30 September 2019	1 250	29 429	1 070	3 238	649	34 386	2 101	3 308	41 045	(10)	41 035

<sup>1</sup> The item includes offset of prior years' losses of PLN 535 million that arose as a result of the changes in accounting policies resulting from the first-time application of IFRS 9.

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019	Accumulated other comprehensive income					Total
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	
1 January 2019	(13)	492	22	(10)	(241)	250
<b>Total comprehensive income, of which:</b>	-	(7)	342	-	64	399
Other comprehensive income	-	(7)	342	-	64	399
30 September 2019	(13)	485	364	(10)	(177)	649



FOR 9 MONTHS ENDED 30 SEPTEMBER 2018	Share capital	Other capital Reserves			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit or loss for the year	Capital and reserves attributable to equity holders of the parent company	Total non-controlling interests	Total equity
		Supplementary capital	General banking risk fund	Other reserves							
31 December 2017	1 250	27 374	1 070	3 645	(110)	31 979	(66)	3 104	36 267	(11)	36 256
Changes due to IFRS 9 implementation	-	-	-	-	(78)	(78)	(567)	-	(645)	-	(645)
1 January 2018 (restated)	1 250	27 374	1 070	3 645	(188)	31 901	(633)	3 104	35 622	(11)	35 611
Transfer of retained earnings	-	-	-	-	-	-	3 104	(3 104)	-	-	-
Dividend paid	-	-	-	-	-	-	(688)	-	(688)	-	(688)
<b>Total comprehensive income, of which:</b>	-	-	-	-	58	58	-	2 732	2 790	2	2 792
Net profit for the year	-	-	-	-	-	-	-	2 732	2 732	2	2 734
Other comprehensive income	-	-	-	-	58	58	-	-	58	-	58
Transfer from retained earnings to equity	-	2 101	-	65	-	2 166	(2 166)	-	-	-	-
Transfer within other reserves	-	(121)	-	121	-	-	-	-	-	-	-
Mandatory buy-out of shares from non-controlling shareholders	-	-	-	-	-	-	(2)	-	(2)	-	(2)
30 September 2018	1 250	29 354	1 070	3 831	(130)	34 125	(385)	2 732	37 722	(9)	37 713

FOR 9 MONTHS ENDED 30 SEPTEMBER 2018	Accumulated other comprehensive income					
	Share in other comprehensive income of associates and joint ventures	Fair value of financial assets measured at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Foreign exchange differences on translation of foreign branches	Total
31 December 2017	-	272	(116)	(9)	(257)	(110)
Changes due to IFRS 9 implementation	-	(78)	-	-	-	(78)
As at 1 January 2018 (restated)	-	194	(116)	(9)	(257)	(188)
<b>Total comprehensive income, of which:</b>	(13)	101	(35)	-	5	58
Other comprehensive income	(13)	101	(35)	-	5	58
30 September 2018	(13)	295	(151)	(9)	(252)	(130)

## CONSOLIDATED STATEMENT OF CASH FLOWS

	01.01- 30.09.2019	01.01- 30.09.2018
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>4 632</b>	<b>3 708</b>
<b>Total adjustments:</b>	<b>(6 153)</b>	<b>(8 188)</b>
Depreciation and amortization	782	611
(Gains)/losses on investing activities	(16)	(27)
Interest and dividends	(593)	(365)
Change in:		
amounts due from banks	24	(496)
hedging derivatives	47	679
other derivative instruments	(451)	161
securities	(1 574)	(1 040)
- held for trading	(656)	(1 568)
- not held for trading, measured at fair value through profit or loss	740	1 667
- measured at fair value through other comprehensive income	(1 396)	(643)
- measured at amortized cost	(262)	(496)
loans and advances to customers	(14 152)	(8 889)
- not held for trading, mandatorily measured at fair value through profit or loss	(8 075)	136
- measured at fair value through other comprehensive income	(1)	-
- measured at amortized cost	(6 076)	(9 025)
non-current assets held for sale	-	(28)
other assets	(787)	(534)
accumulated allowances for credit losses	(434)	(2 248)
accumulated allowances on non-financial assets and other provisions	36	40
amounts due to banks	(49)	(33)
- measured at fair value through profit or loss	10	-
- measured at amortized cost	(59)	(33)
amounts due to customers	10 319	4 990
- measured at fair value through profit or loss	25	-
- measured at amortized cost	10 294	4 990
liabilities in respect of insurance activities	274	303
liabilities in respect of debt securities in issue	465	133
subordinated liabilities	(23)	(13)
other liabilities	883	26
Income tax paid	(1 179)	(1 497)
Other adjustments	275	39
<b>Net cash from/used in operating activities</b>	<b>(1 521)</b>	<b>(4 480)</b>

	01.01- 30.09.2019	01.01- 30.09.2018
<b>Cash flows from investing activities</b>		
<b>Inflows from investing activities</b>	<b>185 056</b>	<b>197 568</b>
Proceeds from sale of subsidiaries	-	23
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income	178 868	196 909
Redemption of and interest on securities measured at amortized cost	6 009	475
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale	142	132
Other inflows from investing activities (dividends)	37	29
<b>Outflows from investing activities</b>	<b>(194 664)</b>	<b>(196 119)</b>
Purchase of shares in subsidiaries, net of cash acquired	(279)	(2)
Purchase of securities measured at fair value through other comprehensive income	(183 270)	(194 751)
Purchase of securities measured at amortized cost	(10 549)	(811)
Purchase of intangible assets and property, plant and equipment	(566)	(555)
<b>Net cash from/used in investing activities</b>	<b>(9 608)</b>	<b>1 449</b>

	01.01- 30.09.2019	01.01- 30.09.2018
<b>Cash flows from financing activities</b>		
Proceeds from debt securities in issue	10 436	9 654
Redemption of debt securities	(7 431)	(5 506)
Proceeds from issue of subordinated bonds	-	1 000
Dividend paid to shareholders	(1 662)	(688)
Taking up loans and advances	153	168
Repayment of loans and advances	(3 164)	(3 060)
Payment of lease liabilities	(166)	-
Repayment of interest on long-term liabilities	(491)	(479)
<b>Net cash from/used in financing activities</b>	<b>(2 325)</b>	<b>1 089</b>
<b>Total net cash flows</b>	<b>(13 454)</b>	<b>(1 942)</b>
of which foreign exchange differences on cash and cash equivalents	93	157
Cash equivalents at the beginning of the period	30 526	23 000
Cash equivalents at the end of the period	17 072	21 058

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION ABOUT THE GROUP AND THE BANK

### ACTIVITIES OF THE GROUP AND THE BANK

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (“**PKO BANK POLSKI SA**” or **THE BANK**) was established by virtue of a decree signed on 7 February 1919 by the Head of State Józef Piłsudski, Prime Minister Ignacy Paderewski and Hubert Linde, Minister of Post and Telegraphs and also first president of Poczтовая Kasa Oszczędnościowa. In 1950, the Bank began operating as Powszechna Kasa Oszczędności Bank Państwowy (state-owned bank). Pursuant to the Decree of the Council of Ministers dated 18 January 2000, Powszechna Kasa Oszczędności (state owned bank) was transformed into a state owned joint-stock company, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna with its head office in Warsaw, ul. Puławska 15, 02-515 Warsaw in Poland.

On 12 April 2000, Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna was registered and entered into the Commercial Register maintained by the District Court for the City of Warsaw, Commercial Court, 16th Registration Department. At present, the court competent for the Bank’s affairs is the District Court in Warsaw, 13th Business Department of the National Court Register. The Bank was registered under the number KRS 0000026438 and was assigned the statistical number REGON 016298263.

According to the Bulletin of the Warsaw Stock Exchange (Cedula Giełdowa), the Bank is classified under the macro-sector “Finance”, in the “Banks” sector.

The Powszechna Kasa Oszczędnościowa Bank Polski Spółka Akcyjna Group (“**THE PKO BANK POLSKI SA GROUP**”, “**THE BANK’S GROUP**”, “**THE GROUP**”) conducts its operations within the territory of the Republic of Poland and through subsidiaries in Ukraine, Sweden and Ireland; it also has branches in the Federal Republic of Germany (“the German Branch”) and in the Czech Republic (“the Czech Branch”).

PKO Bank Polski SA, as the parent company, is a universal deposit and credit bank which services both Polish and foreign individuals, legal and other entities. The Bank may hold and trade cash in foreign currencies, as well as conduct foreign exchange and foreign currency transactions, open and maintain bank accounts in banks abroad, and deposit foreign currency in those accounts.

Through its subsidiaries, the Group offers mortgage loans, provides specialized financial services related to leases, factoring, investment funds, pension funds, insurance and transfer agent services, managing car fleets, providing IT services and also outsourcing IT specialists and providing business outsourcing services, and real estate management services as well as banking and debt collection and financing services in Ukraine.

### INFORMATION ON MEMBERS OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

As at 30 September 2019, the Supervisory Board consisted of:

- Piotr Sadownik – Chairman of the Supervisory Board
- Grażyna Ciurzyńska – Vice-Chair of the Supervisory Board
- Zbigniew Hajłasz – Secretary of the Supervisory Board
- Mariusz Andrzejewski – Member of the Management Board
- Mirosław Barszcz – Member of the Supervisory Board
- Adam Budnikowski – Member of the Supervisory Board
- Dariusz Górski – Member of the Supervisory Board from 6 May 2019
- Wojciech Jasiński – Member of the Supervisory Board
- Andrzej Kisielewicz – Member of the Supervisory Board
- Elżbieta Mączyńska-Ziemacka – Member of the Supervisory Board
- Krzysztof Michalski – Member of the Supervisory Board from 17 September 2019

On 6 May 2019 due to the changes in the composition of the Supervisory Board, Janusz Ostaszewski was dismissed.

As at 30 September 2019, the Bank's Management Board consisted of:

- Zbigniew Jagiełło – President of the Management Board
- Rafał Antczak – Vice-President of the Management Board
- Rafał Kozłowski – Vice-President of the Management Board
- Maks Kraczkowski – Vice-President of the Management Board
- Mieczysław Król – Vice-President of the Management Board
- Adam Marciniak – Vice-President of the Management Board
- Piotr Mazur – Vice-President of the Management Board
- Jakub Papierski – Vice-President of the Management Board
- Jan Emeryk Rościszewski – Vice-President of the Management Board.

Changes in the number of shares held in PKO Bank Polski SA by members of the Management Board and Supervisory Board and in their rights thereto.

Name and surname	Number of shares as at 30.09.2019	Acquisition	Disposal	Number of shares as at 31.12.2018
<b>Management Board of the Bank</b>				
Zbigniew Jagiełło, President of the Bank's Management Board	11 000	0	0	11 000
Rafał Antczak, Vice-President of the Bank's Management Board	0	0	0	0
Rafał Kozłowski, Vice-President of the Bank's Management Board	0	0	0	0
Maks Kraczkowski, Vice-President of the Bank's Management Board	0	0	0	0
Mieczysław Król, Vice-President of the Bank's Management Board	5 000	0	0	5 000
Adam Marciniak, Vice-President of the Bank's Management Board	0	0	0	0
Piotr Mazur, Vice-President of the Bank's Management Board	4 500	0	0	4 500
Jakub Papierski, Vice-President of the Bank's Management Board	3 000	0	0	3 000
Jan Emeryk Rościszewski, Vice-President of the Bank's Management Board	0	0	0	0

## 2. APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

These condensed interim consolidated financial statements of the Group (hereinafter **FINANCIAL STATEMENTS**), subject to review by the Supervisory Board Audit Committee on 5 November 2019, were approved for publication by the Bank's Management Board on 5 November 2019.

## 3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The condensed interim consolidated financial statements of the Group cover the nine-month period ended 30 September 2019 and contain comparative data:

- for the nine-month period ended 30 September 2018 with regard to the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows,
- as at 31 December 2018 in respect of the consolidated statement of financial position.

The financial data is presented in Polish zloty (PLN) in millions, unless otherwise indicated. Therefore, discrepancies may occur due to the rounding of amounts to full millions.

These condensed interim consolidated financial statements of the PKO Bank Polski SA Group were prepared in accordance with the requirements of International Accounting Standard No. 34 "Interim Financial Reporting" endorsed by the European Union.

The accounting policies and calculation methods applied in the preparation of these condensed interim consolidated financial statements are consistent with the principles applied in the financial year ended 31 December 2018, except for changes resulting from the implementation of IFRS 16 "Leasing" as of 1 January 2019, described in the condensed interim consolidated financial statements of the PKO Bank Polski SA Group for the six-month period ended 30 June 2019. Other accounting policies, which have not been changed, are described in the annual consolidated financial statements of the PKO Bank Polski SA Group for 2018.

These financial statements for the nine-month period of 2019 do not comprise all the information and disclosures which may be required in annual financial statements and should be read jointly with the annual consolidated financial statements of the PKO Bank Polski SA Group for the year ended 31 December 2018 that were prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

#### STATEMENT OF THE MANAGEMENT BOARD

The Management Board hereby represents that, to the best of its knowledge, these condensed interim consolidated financial statements of the Group and the comparative data have been prepared in accordance with the applicable rules of accounting practice and give a true, fair and clear view of the Group's financial position and results of operations

#### **4. NEW STANDARDS AND INTERPRETATIONS, AS WELL AS THEIR AMENDMENTS, WHICH WERE PUBLISHED AND HAVE NOT YET BEEN APPROVED BY THE EUROPEAN UNION**

IFRS 17 "Insurance Contracts" replaces IFRS 4 "Insurance contracts" which enabled entities to continue to recognize insurance contracts according to the accounting principles in force in the national standards, which, as a result, meant the use of many different solutions. IFRS 17 introduces the requirement to recognize all insurance agreements in a consistent manner. Liabilities arising from contracts will be recognized at current prices, instead of historical cost. The new standard will be applicable for periods shorting on 1 January 2021.

The amendments to the Conceptual Framework for Financial Reporting published in March 2018 govern the following areas: recognition and elimination of assets and liabilities from the balance sheet, the basis of measurement, presentation and disclosures, as well as updating selected definitions.

The amendments to IFRS 3 narrow down and clarify the definition of a venture. They also allow for a simplified assessment of whether a set of assets and activities is a group of assets and not a venture.

The amendments to IAS 1 and IAS 8 standardize and clarify the definition of "Material" and contain guidelines to increase the consistency of application of this concept in the International Financial Reporting Standards.

The Group is in the process of estimating the impact of IFRS 17 on the consolidated financial statements. The Group does not expect the impact of amendments to IFRS 3, IAS 1, IAS 8 and the Conceptual Framework to be material.

## 5. EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

The Group made the following changes to its condensed interim consolidated financial statements to better reflect the data and presentation of economic events:

### CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT	3 quarters period from 01.01.2018 to 30.09.2018 before restatement	separate disclosure of "net regulatory charges"	3 quarters period from 01.01.2018 to 30.09.2018 restated
Interest expenses	(1 645)	(8)	(1 653)
General administrative expenses	(4 458)	487	(3 971)
Net regulatory charges	-	(479)	(479)
<b>Total</b>	<b>(6 103)</b>	<b>-</b>	<b>(6 103)</b>

CONSOLIDATED INCOME STATEMENT	third quarter period from 01.07.2018 to 30.09.2018 before restatement	separate disclosure of "net regulatory charges"	third quarter period from 01.07.2018 to 30.09.2018 restated
Interest expenses	(567)	-	(567)
General administrative expenses	(1 441)	101	(1 340)
Net regulatory charges	-	(101)	(101)
<b>Total</b>	<b>(2 008)</b>	<b>-</b>	<b>(2 008)</b>

### CONSOLIDATED STATEMENT OF CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS	3 quarters period from 01.01.2018 to 30.09.2018 before restatement	separate disclosure and reclassification to new items	3 quarters period from 01.01.2018 to 30.09.2018 restated
<b>Cash flows from operating activities</b>			
change in securities	(1 023)	(17)	(1 040)
change in provisions and allowances for credit losses	(2 265)	2 265	-
change in accumulated allowances for credit losses	-	(2 248)	(2 248)
change in accumulated allowances on non-financial assets and other provisions	-	40	40
change in non-current assets held for sale	(25)	(3)	(28)
other adjustments	76	(37)	39
<b>Total</b>	<b>(2 214)</b>	<b>-</b>	<b>(2 197)</b>

## 6. INFORMATION ON OPERATING SEGMENTS

The PKO Bank Polski SA Group conducts business activities within the retail, corporate and investment segment, as well as the transfer centre and other activities.

Information about the segments was described in the consolidated financial statements of the PKO Bank Polski SA Group for 2018.

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income/(expense)	6 191	1 183	281	7 655
Net fee and commission income/(expense)	1 832	459	(15)	2 276
Other net income	575	398	14	987
Net gain/(loss) on financial instruments measured at fair value through profit or loss	41	40	(32)	49
Net foreign exchange gains/ (losses)	182	137	41	360
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	5	138	-	143
Dividend income	-	13	-	13
Net other operating income and expense	327	90	5	422
Income/(expenses) relating to internal customers	20	(20)	-	-
Gain/(loss) on allowance for credit losses	(731)	(186)	-	(917)
Impairment of non-financial assets	(12)	(19)	-	(31)
Administrative expenses, of which:	(3 395)	(724)	(1)	(4 120)
amortization and depreciation	(646)	(136)	-	(782)
Net regulatory charges	(447)	(113)	83	(477)
Tax on certain financial institutions	(521)	(234)	(9)	(764)
Share in profits and losses of associates and joint ventures	-	-	-	23
Segment profit/(loss)	3 492	764	353	4 632
Income tax expense (tax burden)	-	-	-	(1 324)
Profit (loss) attributable to non-controlling shareholders	-	-	-	-
<b>Net profit attributable to equity holders of the parent company</b>	<b>3 492</b>	<b>764</b>	<b>353</b>	<b>3 308</b>

30 SEPTEMBER 2019	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	183 385	151 567	4 527	339 479
Unallocated assets	-	-	-	2 072
<b>Total assets</b>	<b>183 385</b>	<b>151 567</b>	<b>4 527</b>	<b>341 551</b>
Liabilities	200 822	61 749	37 445	300 016
Unallocated liabilities	-	-	-	500
<b>Total liabilities</b>	<b>200 822</b>	<b>61 749</b>	<b>37 445</b>	<b>300 516</b>



FOR 9 MONTHS ENDED 30 SEPTEMBER 2018	Continuing operations			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Net interest income/(expense)	5 484	1 108	273	6 865
Net fee and commission income/(expense)	1 885	370	(13)	2 242
Other net income	271	423	72	766
Net gain/(loss) on financial instruments measured at fair value through profit or loss	6	49	(6)	49
Net foreign exchange gains/ (losses)	117	151	77	345
Gains/(losses) on derecognition of financial assets and financial liabilities not measured at fair value through profit or loss	9	120	-	129
Dividend income	-	12	-	12
Net other operating income and expense	119	111	1	231
Income/(expenses) relating to internal customers	20	(20)	-	-
Gain/(loss) on allowance for credit losses	(765)	(258)	-	(1 023)
Impairment of non-financial assets	(18)	3	-	(15)
Administrative expenses, of which:	(3 359)	(618)	6	(3 971)
amortization and depreciation	(525)	(86)	-	(611)
Net regulatory charges	(310)	(103)	(66)	(479)
Tax on certain financial institutions	(566)	(204)	71	(699)
Share in profits and losses of associates and joint ventures	-	-	-	22
Segment profit/(loss)	2 622	721	343	3 708
Income tax expense (tax burden)	-	-	-	(974)
Profit (loss) attributable to non-controlling shareholders	-	-	-	2
<b>Net profit attributable to equity holders of the parent company</b>	<b>2 622</b>	<b>721</b>	<b>343</b>	<b>2 732</b>

31 DECEMBER 2018	Retail segment	Corporate and investment segment	Transfer centre and other	Total activity of the PKO Bank Polski SA Group
Assets	170 234	145 898	5 984	322 116
Unallocated assets	-	-	-	2 139
<b>Total assets</b>	<b>170 234</b>	<b>145 898</b>	<b>5 984</b>	<b>324 255</b>
Liabilities	184 729	64 542	35 460	284 731
Unallocated liabilities	-	-	-	423
<b>Total liabilities</b>	<b>184 729</b>	<b>64 542</b>	<b>35 460</b>	<b>285 154</b>

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 7. INTEREST INCOME AND EXPENSES

INTEREST ON:	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
loans to and other receivables from banks	26	75	22	66
hedging derivatives	81	250	86	263
debt securities	415	1 247	348	1 022
measured at amortized cost	80	223	49	142
measured at fair value through other comprehensive income	329	986	278	821
measured at fair value through profit or loss	6	38	21	59
loans and advances to customers (excluding finance lease receivables)	2 573	7 390	2 324	6 720
measured at amortized cost	1 794	6 591	2 318	6 703
measured at fair value through profit or loss	779	799	6	17
finance lease receivables	190	522	153	447
<b>Total</b>	<b>3 285</b>	<b>9 484</b>	<b>2 933</b>	<b>8 518</b>
of which: interest income on impaired financial instruments	56	194	82	230
Interest income calculated under the effective interest rate method	2 419	8 397	2 820	8 179
on financial instruments measured at amortized cost	2 090	7 411	2 542	7 358
on instruments measured at fair value through other comprehensive income	329	986	278	821
Income similar to interest income on instruments measured at fair value through profit or loss	866	1 087	113	339

INTEREST EXPENSE ON:	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
amounts due to banks (excluding loans and advances received)	(4)	(12)	(3)	(12)
deposits	(2)	(10)	(6)	(14)
loans and advances received	(15)	(37)	(4)	(28)
leases	(7)	(19)	-	-
amounts due to customers (excluding loans and advances received)	(416)	(1 227)	(377)	(1 125)
debt securities	(31)	(82)	(25)	(58)
measured at amortized cost	(5)	(6)	-	-
measured at fair value through other comprehensive income	(24)	(66)	(20)	(43)
measured at fair value through profit or loss	(2)	(10)	(5)	(15)
debt securities in issue	(126)	(375)	(129)	(354)
subordinated liabilities	(22)	(67)	(23)	(62)
<b>Total</b>	<b>(623)</b>	<b>(1 829)</b>	<b>(567)</b>	<b>(1 653)</b>

## INTEREST INCOME BY SEGMENT

INTEREST INCOME BY SEGMENT:	third quarter period from 01.07.2019 to 30.09.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	13	13	26
hedging derivatives	-	-	81	81
debt securities	4	405	6	415
loans and advances to customers (excluding finance lease receivables)	2 126	447	-	2 573
finance lease receivables	143	47	-	190
<b>Total</b>	<b>2 273</b>	<b>912</b>	<b>100</b>	<b>3 285</b>

INTEREST INCOME BY SEGMENT:	3 quarters cumulative period from 01.01.2019 to 30.09.2019			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	46	29	75
hedging derivatives	-	-	250	250
debt securities	12	1 220	15	1 247
loans and advances to customers (excluding finance lease receivables)	6 026	1 364	-	7 390
finance lease receivables	385	137	-	522
<b>Total</b>	<b>6 423</b>	<b>2 767</b>	<b>294</b>	<b>9 484</b>

INTEREST INCOME BY SEGMENT:	third quarter period from 01.07.2018 to 30.09.2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	13	9	22
hedging derivatives	-	-	86	86
debt securities	4	340	4	348
loans and advances to customers (excluding finance lease receivables)	1 914	410	-	2 324
finance lease receivables	108	45	-	153
<b>Total</b>	<b>2 026</b>	<b>808</b>	<b>99</b>	<b>2 933</b>

INTEREST INCOME BY SEGMENT:	3 quarters cumulative period from 01.01.2018 to 30.09.2018			
	Retail segment	Corporate and investment segment	Transfer centre and other	Total
loans to and other receivables from banks	-	39	27	66
hedging derivatives	-	-	263	263
debt securities	12	998	12	1 022
loans and advances to customers (excluding finance lease receivables)	5 496	1 224	-	6 720
finance lease receivables	313	134	-	447
<b>Total</b>	<b>5 821</b>	<b>2 395</b>	<b>302</b>	<b>8 518</b>

## 8. FEE AND COMMISSION INCOME AND EXPENSES

FEE AND COMMISSION INCOME	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
<b>Loans and insurance</b>	213	640	189	553
granting of loans and advances	176	526	161	468
offering insurance products	37	114	28	85
<b>Investment and pension funds and brokerage activity</b>	179	556	203	639
servicing investment funds and OFE (including management fees)	132	408	167	488
servicing and selling investment and insurance products	11	32	12	40
brokerage activities	36	116	24	111
<b>Cards</b>	362	994	326	915
<b>Bank accounts and other</b>	295	880	303	896
servicing bank accounts	209	633	210	625
cash operations	19	56	22	69
servicing foreign mass transactions	26	74	28	78
selling and distributing court fee stamps	-	-	-	1
customer orders	12	35	11	33
fiduciary services	1	4	2	5
other	28	78	30	85
<b>Total</b>	<b>1 049</b>	<b>3 070</b>	<b>1 021</b>	<b>3 003</b>

FEE AND COMMISSION EXPENSE	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
<b>Investment and pension funds and brokerage activity</b>	(6)	(26)	(10)	(31)
<b>Cards</b>	(207)	(568)	(183)	(519)
<b>Bank accounts and other</b>	(66)	(200)	(68)	(211)
commission paid to external entities for product sales	(12)	(35)	(12)	(42)
cost of construction investment supervision and property valuation	(11)	(35)	(12)	(34)
clearing services	(8)	(26)	(8)	(23)
commissions for operating services provided by banks	(2)	(7)	(4)	(10)
sending short text messages (SMS)	(9)	(25)	(6)	(19)
other	(24)	(72)	(26)	(83)
<b>Total</b>	<b>(279)</b>	<b>(794)</b>	<b>(261)</b>	<b>(761)</b>

### FEE AND COMMISSION INCOME AND EXPENSES BY SEGMENT:

FEE AND COMMISSION INCOME BY SEGMENT	third quarter period from 01.07.2019 to 30.09.2019		
	Retail segment	Corporate and investment segment	Total
<b>Loans and insurance</b>	140	73	213
loans and advances granted	106	70	176
offering insurance products	34	3	37
<b>Investment and pension funds and brokerage activity</b>	106	73	179
servicing investment funds and OFE (including management fees)	84	48	132
servicing and selling investment and insurance products	11	-	11
brokerage activities	11	25	36
<b>Cards</b>	346	16	362
<b>Bank accounts and other</b>	245	50	295
servicing bank accounts	183	26	209
cash operations	12	7	19
servicing foreign mass transactions	16	10	26
customer orders	7	5	12
fiduciary services	-	1	1
other	27	1	28
<b>Total</b>	<b>837</b>	<b>212</b>	<b>1 049</b>

FEE AND COMMISSION INCOME BY SEGMENT	3 quarters cumulative period from 01.01.2019 to 30.09.2019		
	Retail segment	Corporate and investment segment	Total
<b>Loans and insurance</b>	424	216	640
loans and advances granted	319	207	526
offering insurance products	105	9	114
<b>Investment and pension funds and brokerage activity</b>	422	134	556
servicing investment funds and OFE (including management fees)	356	52	408
servicing and selling investment and insurance products	32	-	32
brokerage activities	34	82	116
<b>Cards</b>	952	42	994
<b>Bank accounts and other</b>	720	160	880
servicing bank accounts	556	77	633
cash operations	35	21	56
servicing foreign mass transactions	48	26	74
customer orders	20	15	35
fiduciary services	-	4	4
other	61	17	78
<b>Total</b>	<b>2 518</b>	<b>552</b>	<b>3 070</b>

FEE AND COMMISSION INCOME BY SEGMENT	third quarter period from 01.07.2018 to 30.09.2018		
	Retail segment	Corporate and investment segment	Total
<b>Loans and insurance</b>	117	72	189
loans and advances granted	92	69	161
offering insurance products	25	3	28
<b>Investment and pension funds and brokerage activity</b>	184	19	203
servicing investment funds and OFE (including management fees)	165	2	167
servicing and selling investment and insurance products	12	-	12
brokerage activities	7	17	24
<b>Cards</b>	314	12	326
<b>Bank accounts and other</b>	243	60	303
servicing bank accounts	188	22	210
cash operations	14	8	22
servicing foreign mass transactions	16	12	28
selling and distributing court fee stamps	-	-	-
customer orders	6	5	11
fiduciary services	-	2	2
other	19	11	30
<b>Total</b>	<b>858</b>	<b>163</b>	<b>1 021</b>

FEE AND COMMISSION INCOME BY SEGMENT	3 quarters cumulative period from 01.01.2018 to 30.09.2018		
	Retail segment	Corporate and investment segment	Total
<b>Loans and insurance</b>	366	187	553
loans and advances granted	288	180	468
offering insurance products	78	7	85
<b>Investment and pension funds and brokerage activity</b>	550	89	639
servicing investment funds and OFE (including management fees)	481	7	488
servicing and selling investment and insurance products	40	-	40
brokerage activities	29	82	111
<b>Cards</b>	856	59	915
<b>Bank accounts and other</b>	710	186	896
servicing bank accounts	564	61	625
cash operations	47	22	69
servicing foreign mass transactions	44	34	78
selling and distributing court fee stamps	-	1	1
customer orders	19	14	33
fiduciary services	-	5	5
other	36	49	85
<b>Total</b>	<b>2 482</b>	<b>521</b>	<b>3 003</b>

## 9. NET ALLOWANCES FOR CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Amounts due from banks	(1)	(1)	-	-
measured at amortized cost	(1)	(1)	-	-
Debt securities	9	4	-	6
measured at fair value through other comprehensive income (FVOCI)	3	(6)	4	8
measured at amortized cost	6	10	(4)	(2)
Loans and advances to customers	(257)	(898)	(322)	(1 011)
measured at amortized cost	(257)	(898)	(322)	(1 011)
housing	(43)	(110)	(46)	(101)
business	(59)	(290)	(107)	(457)
consumer	(129)	(437)	(151)	(396)
finance lease receivables	(26)	(61)	(18)	(57)
Other financial assets	1	-	(1)	(1)
Provisions for financial liabilities and guarantees granted	(25)	(22)	(13)	(17)
<b>Total</b>	<b>(273)</b>	<b>(917)</b>	<b>(336)</b>	<b>(1 023)</b>

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES (BALANCE)	30.09.2019	31.12.2018
Amounts due from banks	-	1
Debt securities	22	36
measured at fair value through other comprehensive income (FVOCI)	7	10
measured at amortized cost	15	26
Loans and advances to customers	7 759	8 204
measured at amortized cost	7 759	8 204
Provisions for financial liabilities and guarantees granted	250	227
Other financial assets	100	97
<b>Total</b>	<b>8 131</b>	<b>8 565</b>

## 10. OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Net sales of finished goods and services	87	241	86	239
Income on operating leases	107	178	21	56
Gain from losing control over a subsidiary	-	-	-	11
Gains on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	18	41	10	35
Damages, compensation and penalties received and ancillary income	8	26	9	27
Recovery of receivables expired, forgiven or written off	1	4	-	4
Release of provision for potential return of fees and commission to customers	-	58	4	4
Provision for future payments	1	1	-	-
Release of provision for legal claims	-	6	3	3
Gain from a bargain purchase <sup>1</sup>	-	80	-	-
Other	12	34	15	86
<b>Total</b>	<b>234</b>	<b>669</b>	<b>148</b>	<b>465</b>

<sup>1</sup>relates to the acquisition of Prime Car Management SA (PCM) by PKO Leasing SA. Details of the transaction are described in the note "Changes to the Group Companies".

OTHER OPERATING EXPENSES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Costs of products and services sold	(6)	(18)	(8)	(26)
Losses on sale or scrapping of property, plant and equipment, intangible assets and assets held for sale	(13)	(25)	(5)	(19)
Damages, compensation and penalties paid and sundry costs	(3)	(20)	(3)	(11)
Donations made	(6)	(16)	(8)	(27)
Provision for a potential return of fees and commission to customers	(69)	(69)	-	(62)
Provision for future payments	-	(1)	-	(5)
Provisions for legal claims	(2)	(11)	(2)	(27)
Other	(47)	(87)	(24)	(57)
<b>Total</b>	<b>(146)</b>	<b>(247)</b>	<b>(50)</b>	<b>(234)</b>

## 11. GENERAL ADMINISTRATIVE EXPENSES

GENERAL ADMINISTRATIVE EXPENSES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Employee benefits	(796)	(2 365)	(773)	(2 293)
Overheads, including:	(329)	(973)	(363)	(1 067)
rent	(14)	(57)	(65)	(198)
IT	(76)	(228)	(73)	(216)
Depreciation and amortization	(286)	(782)	(204)	(611)
property, plant and equipment, of which:	(185)	(492)	(91)	(269)
IT	(31)	(93)	(28)	(85)
Right-of-use assets	(55)	(155)	-	-
intangible assets, of which:	(100)	(289)	(112)	(340)
IT	(91)	(262)	(103)	(314)
investment properties	(1)	(1)	(1)	(2)
<b>Total</b>	<b>(1 411)</b>	<b>(4 120)</b>	<b>(1 340)</b>	<b>(3 971)</b>

EMPLOYEE BENEFITS	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Wages and salaries, of which:	(669)	(1 971)	(651)	(1 914)
costs of contributions to the employee pension plan	(15)	(46)	(15)	(33)
restructuring costs	-	(23)	-	(36)
Social insurance, of which:	(106)	(329)	(102)	(319)
contributions for disability and retirement benefits	(90)	(280)	(82)	(267)
Other employee benefits	(21)	(65)	(20)	(60)
<b>Total</b>	<b>(796)</b>	<b>(2 365)</b>	<b>(773)</b>	<b>(2 293)</b>

## 12. NET REGULATORY CHARGES

NET REGULATORY CHARGES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Contributions and fees to the Bank Guarantee Fund (BGF), of which:	(40)	(468)	(65)	(363)
to the Resolution Fund	-	(348)	-	(167)
to the Banks' Guarantee Fund	(40)	(120)	(65)	(196)
Fees to PFSA	-	(40)	(4)	(27)
Flat-rate income tax, of which:	(2)	83	(15)	(34)
withheld tax (20%)	-	138	(15)	(34)
flat-rate income tax (3%)	(2)	(55)	-	-
Other taxes and fees	(17)	(52)	(17)	(55)
<b>Total</b>	<b>(59)</b>	<b>(477)</b>	<b>(101)</b>	<b>(479)</b>

#### CONTRIBUTIONS AND PAYMENTS TO THE BGF:

According to IFRIC 21 “Levies”, fees paid by the Group to the Bank Guarantee Fund are recognized in profit or loss upon the occurrence of the obligating event.

The Group makes contributions to the banks’ guarantee fund (quarterly) and the banks’ mandatory restructuring fund (annually). Contributions to the guarantee fund and the mandatory restructuring fund are not tax-deductible.

#### FLAT-RATE INCOME TAX:

The Act of 23 October 2018 on amendments to, among other things, acts on income taxes, introduced a possibility of an alternative to taxation with WHT, namely a 3% tax on certain interest paid to non-residents. Therefore, on 29 March 2019, the Bank filed with the tax office a notification on the election of the 3% taxation option in respect of:

- interest on loans which are paid by the Bank to PKO Finance AB with its registered office in Sweden (the election of the taxation, compliant with the act, relates to the years 2014–2022) and
- interest on Eurobonds issued by the Bank before 1 January 2019.

Due to the fact that the Bank collected 20% withholding tax on interest paid to PKO Finance AB for 2017–2018, on 12 February 2019, it filed a request to determine overpayment of tax together with corrected tax returns. The proceedings regarding overpayment have not yet been completed.

The correction of the 20% withholding tax by PLN 138 million in plus and recognizing the 3% tax on interest assessed for 2014–2018 (PLN 50 million) are one-off events, however the amount of tax (3%) on interest assessed in the nine-month period ended 30 September 2019 amounts to PLN 5 million.

The Group paid the tax in the mandatory statutory period, i.e. to 31 July 2019.

### 13. INCOME TAX

Pursuant to the agreement of 5 November 2018, PKO Bank Polski SA, together with PKO Bank Hipoteczny SA and PKO Leasing SA, form the Podatkowa Grupa Kapitałowa Powszechnej Kasy Oszczędności Banku Polskiego Spółki Akcyjnej (“Tax Group”, “PGK PKO Banku Polskiego SA”).

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

PGK PKO Banku Polskiego SA was established for three tax years. The first tax year began on 1 January 2019. PKO Bank Polski SA is the parent of PGK PKO Banku Polskiego SA. PKO Bank Polski SA remits corporate income tax advances due from members of PGK, and the companies transfer tax advances resulting from their activities to the Bank. In the first year of its operations, PGK remits tax advances to the tax office on a quarterly basis.

	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Current income tax expense	(420)	(1 209)	(529)	(1 254)
Deferred income tax on temporary differences	(20)	(115)	181	280
<b>Income tax expense recognized in the income statement</b>	<b>(440)</b>	<b>(1 324)</b>	<b>(348)</b>	<b>(974)</b>
Income tax expense on temporary differences recognized in other comprehensive income	(32)	(77)	15	(16)
<b>Total</b>	<b>(472)</b>	<b>(1 401)</b>	<b>(333)</b>	<b>(990)</b>



	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Profit before tax	1 669	4 632	1 393	3 708
Tax calculated using the enacted rate in force in Poland (19%)	(317)	(880)	(265)	(705)
Effect of different tax rates of foreign entities	1	-	-	-
Effect of permanent timing differences, of which:	(124)	(444)	(88)	(274)
non-deductible allowances for credit losses	-	-	(64)	(64)
contributions and payments to the BGF	(4)	(85)	(11)	(68)
tax on certain financial institutions	(45)	(141)	(43)	(131)
3% flat-rate income tax on interest for non-residents	-	(12)	-	-
other permanent differences	(75)	(206)	30	(11)
Effect of other timing differences, including new technologies tax relief and donations	-	-	5	5
<b>Income tax expense recognized in the income statement</b>	<b>(440)</b>	<b>(1 324)</b>	<b>(348)</b>	<b>(974)</b>
Effective interest rate	26,36%	28,58%	24,98%	26,27%

Tax systems of countries in which the Bank and entities in the PKO Bank Polski SA Group have their registered offices or branches are often subject to amendments to laws, among other things as a result of operations aimed at tightening the tax system, both at national and international level.

In addition, understanding the regulations of the tax law, due to their ambiguity, may in practice lead to inconsistent interpretations by the tax authorities, differing from the interpretation by the taxpayer, and respective disputes may only be resolved by national or European courts. Therefore, interpretations of the tax law by the tax authorities differing from the practices implemented by the Bank or entities of the PKO Bank Polski SA Group cannot be eliminated and may have a significant unfavourable impact on their operations and financial condition, despite the various actions aimed at mitigating this risk, which are regularly undertaken and allowed by law.

Due to the doubts relating to taxation of foreign exchange differences on loans granted to the Bank and issue commitments in the territory of Sweden, PKO Finance AB, whose reporting currency is the EUR, applied to the Swedish Council for Tax Rulings (Skatterättsnämnden) for an individual ruling. PKO Finance AB lends funds to the Bank obtained from bonds issued and at the same time recognizes receivables from the loans and liabilities relating to the issue. Changes in foreign exchange rates have a symmetrical impact on the valuation of such receivables and liabilities, because foreign exchange differences on the valuation of loans granted are matched with the opposite foreign exchange differences on the valuation of liabilities in respect of the bonds issued.

According to the ruling obtained on 14 March 2019, a company for which EUR is the reporting currency should tax the EUR/SEK exchange differences on the loans granted as at the maturity date, and at the same time it is not possible to recognize at the maturity date a tax cost related to foreign exchange differences on the company's liabilities in respect of the bond issue. The potential application of the Council's ruling to all loans granted by the company would mean recognizing a liability of EUR 30 million and a provision of EUR 38 million, as at 30 September 2019.

If the Council's ruling is upheld by the Swedish Supreme Administrative Court (Högsta förvaltningsdomstolen), it would mean that a different approach is applied in Sweden to companies reporting in EUR compared with companies reporting in SEK (which can also include foreign exchange differences on liabilities in their tax settlements), and this would increase the economic risk and hamper effective hedging of the currency risk. In the opinion of the Group, such an approach would be contrary to Art. 63 of the Treaty on the Functioning of the European Union (TFEU) related to the need to ensure free flow of capital in the EU or Art. 49 and 54 of TFEU related to the freedom of business activities. On 3 April 2019, the company appealed to the Swedish Supreme Administrative Court against the Council's ruling and on 1 July submitted extended arguments to dismiss the case. In its opinion of 23 August 2019, the Swedish Tax Authority (Skatteverket) expressed an unfavourable opinion on the company's appeal. The Company maintained its position in the response to the opinion submitted to the Swedish Supreme Administrative Court on 25 September 2019. Additionally, on 10 October 2019, the company submitted to the Swedish Supreme Administrative Court a supplement to the appeal, in which it, among other things, emphasized the importance of the outcome of the case for companies operating in Sweden and reporting in EUR.

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 14. CASH AND BALANCES WITH THE CENTRAL BANK

CASH AND BALANCES WITH THE CENTRAL BANK	30.09.2019	31.12.2018
Current account with the Central Bank	9 838	17 391
Cash in hand	3 414	5 534
<b>Total</b>	<b>13 252</b>	<b>22 925</b>

### 15. AMOUNTS DUE FROM BANKS

AMOUNTS DUE FROM BANKS	30.09.2019	31.12.2018
<b>Measured at amortized cost</b>		
Deposits with banks, of which:	2 719	6 437
restricted cash and cash equivalents	4	4
Current accounts, of which	1 093	1 174
restricted cash and cash equivalents	180	191
Loans given	41	48
Cash in transit	6	3
<b>Total, gross</b>	<b>3 859</b>	<b>7 662</b>
Allowances for credit losses	-	(1)
<b>Total</b>	<b>3 859</b>	<b>7 661</b>

### 16. HEDGE ACCOUNTING

#### TYPES OF HEDGING STRATEGIES APPLIED BY THE GROUP

In the nine-month period ended 30 September 2019, the Group implemented two new hedging strategies, i.e.

- “Hedging against fluctuations in the fair value of a fixed-interest security in a convertible currency, measured at amortized cost, resulting from the risk of fluctuations in interest rates, using IRS transactions”.
- “Hedging against fluctuations in the fair value of a fixed interest security in a convertible currency, measured at fair value through other comprehensive income, resulting from the risk of fluctuations in interest rates, using IRS transactions”.

In 2018 the Group did not introduce any new hedging strategies.

CARRYING AMOUNT OF DERIVATIVE HEDGING INSTRUMENTS	30.09.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
<b>Cash flow hedges</b>	<b>784</b>	<b>626</b>	<b>658</b>	<b>470</b>
- interest rate risk - IRS	239	-	110	5
- foreign exchange risk and interest rate risk - CIRS	545	626	548	465
<b>Fair value hedges</b>	<b>-</b>	<b>18</b>	<b>-</b>	<b>1</b>
- interest rate risk - IRS	-	18	-	1
<b>Total</b>	<b>784</b>	<b>644</b>	<b>658</b>	<b>471</b>

CHANGE IN OTHER COMPREHENSIVE INCOME RELATING TO CASH FLOW HEDGES AND AN INEFFECTIVE PORTION OF CASH FLOW HEDGES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Other comprehensive income at the beginning of the period, gross	357	28	(131)	(142)
Gains/losses recognized in other comprehensive income during the period	116	292	(190)	(335)
Amounts transferred from other comprehensive income to the income statement, of which:	(23)	130	135	291
- interest income	(81)	(250)	(86)	(263)
- net foreign exchange gains/(losses)	58	380	221	554
Accumulated other comprehensive income at the end of the period, gross	450	450	(186)	(186)
Tax effect	(86)	(86)	35	35
Accumulated other comprehensive income at the end of the period, net	364	364	(151)	(151)
Impact on other comprehensive income during the period, gross	93	422	(55)	(44)
Tax effect	(18)	(80)	10	9
Impact on other comprehensive income during the period, net	75	342	(45)	(35)
Ineffective portion of cash flow hedges recognized in the income statements, including in:	(1)	(21)	(5)	2
net foreign exchange gains/ (losses)	(2)	(22)	(5)	2
gain/(loss) on financial instruments measured at fair value	1	1	-	-

HEDGES OF INTEREST RATE RISK	30.09.2019	31.12.2018
Fair value measurement of the hedging derivative instrument - IRS	(18)	(1)
Fair value adjustment of the hedged instrument attributable to the hedged risk	14	1
Loans and advances to customers	8	1
Securities	6	-

## 17. OTHER DERIVATIVE FINANCIAL INSTRUMENTS

OTHER DERIVATIVE INSTRUMENTS - BY TYPE	30.09.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
IRS	1 837	2 298	1 178	1 832
CIRS	268	274	156	153
FX Swap	341	96	115	43
Options	349	292	262	268
Commodity swap	153	150	85	83
FRA	1	1	3	2
Forward	162	297	108	274
<b>Total</b>	<b>3 111</b>	<b>3 408</b>	<b>1 907</b>	<b>2 655</b>

## 18. SECURITIES

SECURITIES	30.09.2019	31.12.2018
Securities (excluding adjustments relating to fair value hedge accounting)	75 676	64 114
Adjustment relating to fair value hedge accounting	6	-
<b>Total</b>	<b>75 682</b>	<b>64 114</b>

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.09.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost	Total
Debt securities	871	496	59 234	13 443	74 044
NBP money market bills	-	-	-	1 500	1 500
Treasury bonds (in PLN)	742	301	49 018	5 859	55 920
Treasury bonds (in foreign currencies)	2	-	990	142	1 134
municipal bonds (in PLN)	16	-	5 321	4 526	9 863
municipal bonds (in foreign currencies)	-	-	-	-	-
corporate bonds (in PLN)	110	195	3 552	1 416	5 273
corporate bonds (in foreign currencies)	1	-	353	-	354
Equity securities	20	1 612	-	-	1 632
shares in other entities - not listed <sup>1</sup>	-	336	-	-	336
shares in other entities - listed	19	145	-	-	164
investment fund units and investment certificates, rights to shares, pre-emptive rights	1	1 131	-	-	1 132
<b>Total</b>	<b>891</b>	<b>2 108</b>	<b>59 234</b>	<b>13 443</b>	<b>75 676</b>

<sup>1</sup> The item comprises the interest in: Polski Standard Płatności sp. z o.o. of PLN 27 million and Visa Inc. of PLN 201 million.

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost	Total
Debt securities	217	1 201	52 558	8 473	62 449
NBP money market bills	-	-	2 900	-	2 900
Treasury bonds (in PLN)	94	1 034	39 970	2 234	43 332
Treasury bonds (in foreign currencies)	4	-	393	124	521
municipal bonds (in PLN)	16	-	5 301	4 007	9 324
municipal bonds (in foreign currencies)	-	37	-	-	37
corporate bonds (in PLN)	102	130	3 942	1 764	5 938
corporate bonds (in foreign currencies)	1	-	52	344	397
Equity securities	18	1 647	-	-	1 665
shares in other entities - not listed <sup>1</sup>	-	269	-	-	269
shares in other entities - listed	13	180	-	-	193
investment fund units, investment certificates, rights to shares, pre-emptive rights	5	1 198	-	-	1 203
<b>Total</b>	<b>235</b>	<b>2 848</b>	<b>52 558</b>	<b>8 473</b>	<b>64 114</b>

<sup>1</sup> The item comprises the interest in: Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 142 million.

The item "T-bonds in PLN and in foreign currencies" comprises Polish T-bonds. As at 30 September 2019 the item T-bonds in foreign currencies included Ukrainian T-bonds amounting to PLN 489 million (PLN 513 million as at 31 December 2018).

As at 30 September 2019, the impairment allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 40 million (PLN 25 million as at 31 December 2018).

## 19. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.09.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	230 565	214 911
Adjustment relating to fair value hedge accounting	8	1
<b>Total loans and advances to customers</b>	<b>230 573</b>	<b>214 912</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.09.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost			Total
			Net amount	Net amount	Gross amount	
<b>Loans</b>	9 181	1	227 771	(7 759)	220 012	229 194
mortgage banking	19	-	114 106	(1 953)	112 153	112 172
housing	19	-	114 106	(1 953)	112 153	112 172
business	102	-	58 608	(1 795)	56 813	56 915
housing	-	-	340	(27)	313	313
business	102	-	53 501	(1 687)	51 814	51 916
finance lease receivables	-	-	4 767	(81)	4 686	4 686
retail and private banking	8 976	1	21 558	(1 242)	20 316	29 293
consumer	8 976	1	21 447	(1 241)	20 206	29 183
finance lease receivables	-	-	111	(1)	110	110
SME	84	-	33 499	(2 769)	30 730	30 814
housing	-	-	5 875	(139)	5 736	5 736
business	84	-	15 689	(2 194)	13 495	13 579
finance lease receivables	-	-	11 935	(436)	11 499	11 499
Reverse repo transactions	-	-	1 371	-	1 371	1 371
<b>Total</b>	<b>9 181</b>	<b>1</b>	<b>229 142</b>	<b>(7 759)</b>	<b>221 383</b>	<b>230 565</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, measured at fair value through profit or loss	measured at amortized cost			Total
		Net amount	Gross amount	Allowances for credit losses	
<b>Loans</b>	1 106	221 958	(8 204)	213 754	214 860
mortgage banking	27	108 481	(1 829)	106 652	106 679
housing	27	108 481	(1 829)	106 652	106 679
business	121	55 096	(2 008)	53 088	53 209
housing	-	321	(55)	266	266
business	121	50 239	(1 850)	48 389	48 510
finance lease receivables	-	4 536	(103)	4 433	4 433
retail and private banking	931	27 299	(1 711)	25 588	26 519
consumer	931	27 281	(1 711)	25 570	26 501
finance lease receivables	-	18	-	18	18
SME	27	31 082	(2 656)	28 426	28 453
housing	-	5 979	(128)	5 851	5 851
business	27	14 671	(2 142)	12 529	12 556
finance lease receivables	-	10 432	(386)	10 046	10 046
Reverse repo transactions	-	51	-	51	51
<b>Total</b>	<b>1 106</b>	<b>222 009</b>	<b>(8 204)</b>	<b>213 805</b>	<b>214 911</b>

## 20. FINANCIAL ASSETS BY STAGE OF IMPAIRMENT AND ALLOWANCES FOR CREDIT LOSSES

### FINANCIAL ASSETS BROKEN DOWN BY STAGE OF IMPAIRMENT

**STAGE 1** – Assets without a significant increase in credit risk since initial recognition

**STAGE 2** – Assets with a significant increase in credit risk since initial recognition but which are not credit-impaired

**STAGE 3** – Credit-impaired assets

ACCUMULATED INFORMATION ON FINANCIAL ASSETS BY STAGE OF IMPAIRMENT	30.09.2019			31.12.2018		
	Gross amount	Allowances for credit losses	Net amount	Gross amount	Allowances for credit losses	Net amount
<b>Measured at fair value through other comprehensive income (FVOCI)</b>						
<b>Securities</b>	<b>59 241</b>	<b>(7)</b>	<b>59 234</b>	<b>52 568</b>	<b>(10)</b>	<b>52 558</b>
stage 1	58 695	-	58 695	51 709	-	51 709
stage 2	54	-	54	388	-	388
stage 3	492	(7)	485	471	(10)	461
<b>Loans and advances to customers</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
stage 3	1	-	1	-	-	-
<b>Total</b>	<b>59 242</b>	<b>(7)</b>	<b>59 235</b>	<b>52 568</b>	<b>(10)</b>	<b>52 558</b>
<b>Measured at amortized cost</b>						
<b>Amounts due from banks</b>	<b>3 859</b>	<b>-</b>	<b>3 859</b>	<b>7 662</b>	<b>(1)</b>	<b>7 661</b>
stage 1	3 859	-	3 859	7 662	(1)	7 661
<b>Securities</b>	<b>13 458</b>	<b>(15)</b>	<b>13 443</b>	<b>8 499</b>	<b>(26)</b>	<b>8 473</b>
stage 1	13 442	(11)	13 431	8 437	(15)	8 422
stage 2	12	-	12	59	(8)	51
stage 3	4	(4)	-	3	(3)	-
<b>Loans and advances to customers</b>	<b>229 142</b>	<b>(7 759)</b>	<b>221 383</b>	<b>222 009</b>	<b>(8 204)</b>	<b>213 805</b>
stage 1	203 343	(594)	202 749	194 391	(566)	193 825
stage 2	15 605	(1 169)	14 436	16 168	(1 249)	14 919
stage 3	10 194	(5 996)	4 198	11 450	(6 389)	5 061
<b>Other financial assets</b>	<b>3 688</b>	<b>(100)</b>	<b>3 588</b>	<b>2 922</b>	<b>(97)</b>	<b>2 825</b>
stage 1	3 589	(1)	3 588	2 825	-	2 825
stage 2	1	(1)	-	-	-	-
stage 3	98	(98)	-	97	(97)	-
<b>Total</b>	<b>250 147</b>	<b>(7 874)</b>	<b>242 273</b>	<b>241 092</b>	<b>(8 328)</b>	<b>232 764</b>
<b>Financial assets by stage of impairment</b>						
stage 1	282 928	(606)	282 322	265 024	(582)	264 442
stage 2	15 671	(1 169)	14 502	16 615	(1 257)	15 358
stage 3	10 789	(6 105)	4 684	12 021	(6 499)	5 522
<b>Total</b>	<b>309 389</b>	<b>(7 881)</b>	<b>301 508</b>	<b>293 660</b>	<b>(8 338)</b>	<b>285 322</b>

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 30.09.2019	Gross amount (stage 1)	Allowances for credit losses (stage 1)	Gross amount (stage 2)	Allowances for credit losses (stage 2)	Gross amount (stage 3)	Allowances for credit losses (stage 3)
<b>Measured at fair value through other comprehensive income (FVOCI)</b>						
securities	58 695	-	54	-	492	(7)
Treasury bonds	50 008	-	-	-	-	-
other	8 687	-	54	-	492	(7)
loans	-	-	-	-	1	-
consumer loans	-	-	-	-	1	-
<b>Total</b>	<b>58 695</b>	<b>-</b>	<b>54</b>	<b>-</b>	<b>493</b>	<b>(7)</b>
<b>Measured at amortized cost</b>						
amounts due from banks	3 859	-	-	-	-	-
securities	13 442	(11)	12	-	4	(4)
NBP money market bills	1 500	-	-	-	-	-
Treasury bonds	6 002	(1)	-	-	-	-
other	5 940	(10)	12	-	4	(4)
loans and advances to customers	203 343	(594)	15 605	(1 169)	10 194	(5 996)
housing	111 982	(59)	6 063	(542)	2 276	(1 518)
business	58 120	(334)	5 280	(339)	5 790	(3 208)
consumer	18 655	(153)	1 524	(198)	1 268	(890)
reverse repo transactions	1 371	-	-	-	-	-
finance lease receivables	13 215	(48)	2 738	(90)	860	(380)
other financial assets	3 589	(1)	1	(1)	98	(98)
<b>Total</b>	<b>224 233</b>	<b>(606)</b>	<b>15 618</b>	<b>(1 170)</b>	<b>10 296</b>	<b>(6 098)</b>
<b>Grand total</b>	<b>282 928</b>	<b>(606)</b>	<b>15 672</b>	<b>(1 170)</b>	<b>10 789</b>	<b>(6 105)</b>

BY MEASUREMENT MODEL (excluding adjustments relating to fair value hedge accounting) 31.12.2018	Gross amount (stage 1)	Allowances for credit losses (stage 1)	Gross amount (stage 2)	Allowances for credit losses (stage 2)	Gross amount (stage 3)	of which: impaired assets, gross	Allowances for credit losses (stage 3)
<b>Measured at fair value through other comprehensive income (FVOCI)</b>							
securities	51 709	-	388	-	471	471	(10)
NBP money market bills	2 900	-	-	-	-	-	-
Treasury bonds	40 363	-	-	-	-	-	-
other	8 446	-	388	-	471	471	(10)
<b>Total</b>	<b>51 709</b>	<b>-</b>	<b>388</b>	<b>-</b>	<b>471</b>	<b>471</b>	<b>(10)</b>
<b>Measured at amortized cost</b>							
amounts due from banks	7 662	(1)	-	-	-	-	-
securities	8 437	(15)	59	(8)	3	3	(3)
Treasury bonds	2 361	(3)	-	-	-	-	-
other	6 076	(12)	59	(8)	3	3	(3)
loans and advances to customers	194 391	(566)	16 168	(1 249)	11 450	11 111	(6 389)
housing	106 561	(54)	5 960	(538)	2 260	2 201	(1 420)
business	52 638	(318)	5 703	(320)	6 569	6 406	(3 354)
consumer	23 664	(160)	1 786	(311)	1 831	1 829	(1 240)
reverse repo transactions	51	-	-	-	-	-	-
finance lease receivables	11 477	(34)	2 719	(80)	790	675	(375)
other financial assets	2 825	-	-	-	97	97	(97)
<b>Total</b>	<b>213 315</b>	<b>(582)</b>	<b>16 227</b>	<b>(1 257)</b>	<b>11 550</b>	<b>11 211</b>	<b>(6 489)</b>
<b>Grand total</b>	<b>265 024</b>	<b>(582)</b>	<b>16 615</b>	<b>(1 257)</b>	<b>12 021</b>	<b>11 682</b>	<b>(6 499)</b>

LOAN QUALITY RATIOS (excluding adjustments relating to fair value hedge accounting)	30.09.2019	31.12.2018
Share of impaired loans <sup>1</sup>	4,3%	4,9%
Coverage ratio of impaired loans <sup>2</sup>	76,2%	74,0%
Share of loans overdue for more than 90 days in gross loans and advances to customers	2,9%	3,2%

<sup>1</sup> The share of impaired exposures was determined for loans and securities, excluding NBP bills and T-bonds, measured at amortized cost and loans measured at fair value through other comprehensive income, as the ratio of gross amount of impaired exposures to the total gross amount of loans and securities, excluding NBP bills and T-bonds measured at amortized cost and loans measured at fair value through other comprehensive income. Without accounting for the reclassification of the portion of loan portfolio measured at amortized cost to the portfolio measured at fair value through profit or loss by the gross amount of PLN 8 961 million (including impairment of PLN 824 million) the ratio would be 0.2 p. p. higher.

<sup>2</sup> The coverage ratio for impaired loans was determined as the ratio of total allowances for expected credit losses for loans and securities, excluding NBP bills and T-bonds measured at amortized cost and loans measured at fair value through other comprehensive income, to the gross amount of impaired exposures from this portfolio. Without accounting for the reclassification of the portion of loan portfolio measured at amortized cost to the portfolio measured at fair value through profit or loss (impairment of PLN 757 million and gross impaired loans of PLN 824 million) the ratio would be 1.2 p.p. higher.

The total write-offs and sale of loan receivables in the nine-month period of 2019 had an impact on the decrease in the share of impaired exposures of 0.3 p.p. (a decrease of 0.7 p.p. in the share of impaired exposures in 2018).



## 21. PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT	30.09.2019	31.12.2018
Land and buildings, of which:	2 251	1 537
right-of-use assets	875	-
Machinery and equipment, of which:	401	416
IT hardware	257	260
Assets under construction, of which:	129	162
IT hardware	29	70
Other, of which <sup>1</sup> :	1 611	816
right-of-use assets	31	-
<b>Total</b>	<b>4 392</b>	<b>2 931</b>

<sup>1</sup> The increase in the nine-month period ended 30 September 2019 resulted from the acquisition of the PCM Group and the recognition of vehicles under operating leases.

## 22. AMOUNTS DUE TO BANKS

AMOUNTS DUE TO BANKS	30.09.2019	31.12.2018
Measured at fair value through profit or loss	10	-
short position in securities	10	-
Measured at amortized cost	2 103	2 001
Loans and borrowings received <sup>1</sup>	250	250
Bank deposits	979	729
Current accounts	732	872
Other monetary market deposits	142	150
<b>Total</b>	<b>2 113</b>	<b>2 001</b>

<sup>1</sup> The item “Loans and advances received” is presented in detail in the note “Loans and advances received”

### 23. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.09.2019	31.12.2018
<b>Measured at fair value through profit or loss</b>	<b>25</b>	<b>-</b>
short position in securities	25	-
<b>Measured at amortized cost</b>	<b>251 242</b>	<b>242 816</b>
<b>Amounts due to retail customers</b>	<b>178 809</b>	<b>165 182</b>
Current accounts and overnight deposits	116 221	103 143
savings accounts	36 807	32 192
Term deposits	61 998	61 638
Other liabilities	590	401
<b>Amounts due to corporate entities</b>	<b>54 286</b>	<b>55 302</b>
Current accounts and overnight deposits	43 411	38 927
savings accounts	45	46
Term deposits	9 811	15 465
Amounts due from repurchase agreements	-	-
Other liabilities	1 064	910
<b>Amounts due to public sector</b>	<b>14 207</b>	<b>16 459</b>
Current accounts and overnight deposits	10 521	11 242
Term deposits	3 671	5 115
Other liabilities	15	102
<b>Loans and borrowings received<sup>1</sup></b>	<b>2 242</b>	<b>4 093</b>
<b>Liabilities in respect of insurance products</b>	<b>1 698</b>	<b>1 780</b>
Unit-Linked	1 429	1 502
Saving insurance policies	2	2
"Safe Capital"	257	265
Structured products	10	11
<b>Total</b>	<b>251 267</b>	<b>242 816</b>

<sup>1</sup> The item "Loans and advances received" is presented in detail in the note "Loans and advances received"

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.09.2019	31.12.2018
retail and private banking	168 235	155 079
business	50 634	55 051
SME	28 448	26 805
loans and advances received	2 242	4 093
other liabilities (including liabilities in respect of insurance products)	1 708	1 788
<b>Total</b>	<b>251 267</b>	<b>242 816</b>

## 24. LOANS AND ADVANCES RECEIVED

LOANS AND ADVANCES RECEIVED FROM:	30.09.2019	31.12.2018
Banks	250	250
International financial institutions	2 242	4 093
European Investment Bank	1 138	2 639
Council of Europe Development Bank	921	1 153
European Bank for Reconstruction and Development	43	85
International Financial Corporation	123	201
international financial institutions of Ukraine	17	15
<b>Total</b>	<b>2 492</b>	<b>4 343</b>

### LOANS AND ADVANCES RECEIVED FROM BANKS

During the nine-month period ended 30 September 2019, the Group drew loans of PLN 196 million (of which PLN 3 million relate to loans drawn by the Prime Car Management SA Group, taken over by the PKO Leasing SA Group) and repaid loans of PLN 1 337 million (of which PLN 1 144 million relates to the repayment of loans taken over by PKO Leasing SA Group as a result of acquiring the Prime Car Management Group).

In 2018 the Group made a full and final early repayment of the credit facility granted by Nordea Bank AB (publ) on the basis of the agreement of 1 April 2014. The credit facility was originally granted for a period of 7 years which means that the Group repaid it 3 years before the original maturity, including: CHF 309 million (PLN 1 112 million) and EUR 359 million (PLN 1 499 million). In connection with the repayment of the credit line, based on a separate agreement, the security established on receivables in the mortgage portfolio was released.

Furthermore, in 2018 the Group fully repaid loans received from:

- domestic banks, of PLN 15 million;
- foreign banks, of PLN 24 million.

In 2018, the Group drew a loan of PLN 100 million.

### LOANS AND ADVANCES FROM INTERNATIONAL FINANCIAL INSTITUTIONS

In the nine-month period ended 30 September 2019, the Group prepaid its credit facility of CHF 182 million (PLN 688 million), the third tranche of the loan of CHF 185 million (PLN 703 million) and EUR 18 million (PLN 79 million) and PLN 26 million granted by the European Investment Bank.

Furthermore the Group made early repayments of loans and advances of EUR 23 million (PLN 101 million) and PLN 26 million and principal payments of CHF 15 million (PLN 57 million), and CHF 15 million (PLN 66 million), of the loans granted by the Council of Europe Development Bank.

Moreover, the Group made partial early repayments of loans and advances received from the International Finance Corporation of EUR 19 million (PLN 82 million), and European Bank for Reconstruction and Development of PLN 42 million.

In 2018, the Group partly repaid loans and advances received from international financial institutions totalling PLN 648 million. At the same time, the Group drew loans and advances amounting to PLN 1 028 million.

## 25. LIABILITIES IN RESPECT OF SECURITIES IN ISSUE

LIABILITIES IN RESPECT OF SECURITIES IN ISSUE	30.09.2019	31.12.2018
<b>Measured at amortized cost:</b>		
covered bonds issued by PKO Bank Hipoteczny SA	16 260	12 800
bonds issued by PKO Bank Hipoteczny SA	3 871	3 186
bonds issued by PKO Finance AB	4 218	6 238
bonds issued by PKO Bank Polski SA	5 494	5 367
bonds issued by the PKO Leasing SA Group	2 459	995
bonds issued by KREDOBANK SA	45	41
<b>Total</b>	<b>32 347</b>	<b>28 627</b>

### ISSUE OF MORTGAGE-COVERED BONDS BY PKO BANK HIPOTECZNY SA

In the first three quarters of 2019, PKO Bank Hipoteczny SA carried out:

- three foreign issues of mortgage-covered bonds denominated in EUR, addressed to institutional investors, with a total nominal value of EUR 700 million, including:
  - benchmark issue of mortgage-covered bonds series 7 with a nominal value of EUR 500 million;
  - issue of the second tranche of mortgage-covered bonds series 7 with a nominal value of EUR 100 million, which increased the value of the series to EUR 600 million;
  - issue of the second tranche of mortgage-covered bonds series 1 with a nominal value of EUR 100 million, which increased the value of the series to EUR 600 million;
- one Polish issue of PLN mortgage-covered bonds (series 12), addressed to institutional investors, with a nominal value of PLN 250 million; under this issue green mortgage-covered bonds were issued for the first time, i.e. mortgage-covered bonds used exclusively to finance new or refinance existing long-term mortgage housing loans for properties with high energy-effectiveness.

The issues of foreign mortgage-covered bonds referred to above are quoted on the exchange in Luxembourg and in Warsaw (parallel market of the Warsaw Stock Exchange), and the issue of Polish mortgage-covered bonds on the parallel market of the Warsaw Stock Exchange and on BondSpot.

In 2018, the Company conducted the following issues of mortgage-covered bonds: a foreign issue of denominated in EUR totalling EUR 500 million and five domestic issues in PLN with a total nominal value of PLN 1 590 million.

### BONDS ISSUED BY PKO BANK HIPOTECZNY SA

In the first three quarters of 2019, PKO Bank Hipoteczny SA carried out:

- as part of its Non-Public Bond Issue Programme - Bond Issue Programme Agreement with PKO Bank Polski SA, it issued 42,389 bonds with a total nominal value of PLN 4,906 million (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 redeemed 45 623 bonds with a total nominal value of PLN 4 562 million;
- as part of the Public Bond Issue Programme established on 11 April 2019 and the Programme Agreement entered into with PKO Bank Polski SA and Biuro Maklerskie PKO Banku Polskiego SA on 31 May 2019, it carried out three bond issues with a total nominal value of PLN 256.5 million (950 000 bonds with a nominal value of PLN 100 each and 1 615 bonds with a nominal value of PLN 100 000 each).

In 2018, as part of the aforementioned Programme, the Company issued 74 864 bonds with a total nominal value of PLN 7 486 million and redeemed 69 482 bonds with a total nominal value of PLN 6 948 million. Moreover, in December 2018, it conducted an issue of unsecured bonds with a nominal value of PLN 350 million maturing on 21 February 2020.

### **BONDS ISSUED BY PKO FINANCE AB**

In the first three quarters of 2019 under the Bond Issue Programme Agreement concluded with PKO Bank Polski SA, PKO Finance AB redeemed bonds with a total nominal value of EUR 500 million.

### **BONDS ISSUED BY PKO BANK POLSKI SA**

In the first three quarters of 2019 PKO Bank Polski SA redeemed 6 150 bonds with a total nominal value of PLN 615 million and issued 6 000 bonds with a total nominal value of PLN 600 million.

In 2018 the Bank issued and redeemed securities amounting to PLN 1 300 million and issued bank bonds with a nominal value of PLN 1 265 million.

### **BONDS ISSUED BY THE PKO LEASING SA GROUP**

In the first three quarters of 2019, PKO Leasing SA carried out:

- under the Bond Issue Agreement concluded with PKO Bank Polski SA, it issued 1 035 000 bonds with a total nominal value of PLN 1 185 million (1 034 700 bonds with a nominal value of PLN 1 000 each and 300 bonds with a nominal value of PLN 500 000 each) and redeemed 1 316 400 bonds with a total nominal value of PLN 1 316 million; in 2019 the value of the issue programme was increased from PLN 600 million to PLN 1 500 million;
- it redeemed the last 730 bonds with a total nominal value of PLN 73 million, which had been issued under the issue agreement concluded by Raiffeisen-Leasing Polska SA (whose legal successor is PKO Leasing SA) with Raiffeisen Bank Polska SA (whose legal successor is BNP Paribas Bank Polska SA).

Furthermore as part of the lease portfolio securitization programme:

- ROOF Poland Leasing 2014 DAC repurchased a total of 3 974 class A1 and A2 and B bonds with a total nominal value of PLN 397 million for redemption; as at 30 September 2019, only class B bonds remained in the company's portfolio;
- Polish Lease Prime 1 DAC issued 3 670 class A bonds with a total issue value of PLN 1 835 million and 1 280 class B bonds with a total nominal value of PLN 640 million; the class B bonds were acquired by PKO Leasing SA with a guaranteed option of their sale to an investor in February 2020.

In July 2019, Prime Car Management SA made an early repurchase of 144 bonds with a total nominal value of PLN 14 million, for redemption.

In 2018, PKO Leasing SA issued 1 286 191 bonds with the total nominal value of PLN 1 286 million and redeemed 1 265 100 bonds with a total nominal value of PLN 1 265 million under a Bond Issuance Agreement with PKO Bank Polski SA.

In 2018, ROOF Poland Leasing 2014 DAC repurchased, with a view to redemption, 6 172 A1 and A2-class bonds issued under the lease portfolio securitization programme with the total nominal value of PLN 617 million.

### **BONDS ISSUED BY KREDOBANK SA**

In the first three quarters of 2019, KREDOBANK SA redeemed 41 558 bonds with a total nominal value of UAH 42 million and placed on the market an additional 5 138 bonds with a total nominal value of UAH 5 million (which had been repurchased by the company in 2017).

In 2018 KREDOBANK SA issued 250 000 bonds with a total nominal value of UAH 250 million and placed on the market an additional 39 822 bonds with a total nominal value of UAH 40 million (which had been repurchased by the company in 2017).

## 26. OTHER LIABILITIES

OTHER LIABILITIES	30.09.2019	31.12.2018
Expenses to be paid	632	626
Deferred income	467	395
Liability in respect of tax on certain financial institutions	87	83
Interbank settlements	849	481
Liabilities arising from investing activities and internal operations	69	247
Amounts due to suppliers	213	184
Liabilities and settlements in respect of trading in securities	536	364
Settlements of financial instruments	21	6
Liabilities in respect of contribution to the Bank Guarantee Fund, of which:	382	248
maintained in the form of payment commitments, of which:	382	248
to the Resolution Fund	217	112
to the Banks' Guarantee Fund	165	136
Liabilities under the public law	150	163
liabilities in respect of foreign exchange activities	293	298
Liabilities in respect of payment cards	388	15
Liabilities to insurance institutions	116	143
Lease liabilities	912	-
Other	353	432
<b>Total</b>	<b>5 468</b>	<b>3 685</b>
of which: other financial liabilities	3 953	2 364

## 27. PROVISIONS

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019	Provisions for legal claims	Provisions for pensions and other liabilities from defined-benefit post- employment plans	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions	Total
<b>1 January 2019, of which:</b>	<b>54</b>	<b>50</b>	<b>24</b>	<b>227</b>	<b>91</b>	<b>446</b>
Short-term provisions	54	8	24	177	91	354
Long-term provisions	-	42	-	50	-	92
Taking up control over subsidiaries	-	-	-	-	3	3
Increases, including increases of the existing provisions	11	-	23	154	73	261
Amounts utilized	(3)	(1)	(14)	-	(4)	(22)
Amounts unutilized, released during the period	(6)	(2)	-	(132)	(61)	(201)
Other changes and reclassifications	-	-	-	1	-	1
<b>30 September 2019, of which:</b>	<b>56</b>	<b>47</b>	<b>33</b>	<b>250</b>	<b>102</b>	<b>488</b>
Short-term provisions	56	8	33	200	102	399
Long-term provisions	-	39	-	50	-	89

FOR 9 MONTHS ENDED 30 SEPTEMBER 2018	Provisions for legal claims	Provisions for pensions and other liabilities from defined-benefit post- employment plans	Restructuring	Provisions for financial liabilities and guarantees granted	Other provisions	Total
31 December 2017	21	46	-	86	62	215
Changes due to reclassification	-	15	21	-	(36)	-
Changes due to IFRS 9 implementation	-	-	-	71	-	71
<b>1 January 2018 (restated), of which:</b>	<b>21</b>	<b>61</b>	<b>21</b>	<b>157</b>	<b>26</b>	<b>286</b>
Increases, including increases of the existing provisions	27	-	45	142	64	278
Amounts utilized	(8)	-	(15)	-	-	(23)
Amounts unutilized, released during the period	(3)	(15)	(9)	(125)	(16)	(168)
<b>30 September 2018, of which:</b>	<b>37</b>	<b>46</b>	<b>42</b>	<b>174</b>	<b>74</b>	<b>373</b>
Short-term provisions	37	6	42	136	74	295
Long-term provisions	-	40	-	38	-	78

## 28. SHAREHOLDING STRUCTURE OF THE BANK

NAME OF SHAREHOLDER	number of shares	% of voting rights	Nominal value of 1 share	Interest in share capital %
As at 30 September 2019				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Otwarty Fundusz Emerytalny <sup>1</sup>	94 257 435	7,54%	PLN 1	7,54%
Aviva Open Pension Fund <sup>1</sup>	87 991 840	7,04%	PLN 1	7,04%
Other shareholders <sup>2</sup>	699 831 745	55,99%	PLN 1	55,99%
<b>Total</b>	<b>1 250 000 000</b>	<b>100,00%</b>	---	<b>100,00%</b>
As at 31 December 2018				
State Treasury	367 918 980	29,43%	PLN 1	29,43%
Nationale Nederlanden Otwarty Fundusz Emerytalny <sup>1</sup>	95 472 008	7,64%	PLN 1	7,64%
Aviva Open Pension Fund <sup>1</sup>	89 163 966	7,13%	PLN 1	7,13%
Other shareholders <sup>2</sup>	697 445 046	55,80%	PLN 1	55,80%
<b>Total</b>	<b>1 250 000 000</b>	<b>100,00%</b>	---	<b>100,00%</b>

<sup>1</sup> Calculation of shareholdings as at the end of the first half of 2019 and 2018 published by PTE in annual and semi-annual information about the structure of fund assets and quotations from the Bulletin of the Warsaw Stock Exchange (Cedula Giełdowa).

<sup>2</sup> Including Bank Gospodarstwa Krajowego which, as at 31 December 2018, held 24 487 297 shares, constituting a 1.96% share of the votes at the General Shareholders' Meeting.

In the nine-month period of 2019 and 2018, there were no changes in the amount of the share capital of the Bank.

## 29. INFORMATION ABOUT MEMBERS OF THE PKO BANK POLSKI SA GROUP, JOINT VENTURES AND ASSOCIATES

### SUBSIDIARIES

No.	ENTITY NAME	REGISTERED OFFICE	% SHARE IN CAPITAL	
			30.09.2019	31.12.2018
	<b>DIRECT SUBSIDIARIES</b>			
1	PKO Bank Hipoteczny SA	Gdynia	100	100
2	PKO Towarzystwo Funduszy Inwestycyjnych SA	Warsaw	100	100
3	PKO Leasing SA	Łódź	100	100
4	PKO BP BANKOWY PTE SA	Warsaw	100	100
5	PKO BP Finat sp. z o.o.	Warsaw	100	100
6	PKO Życie Towarzystwo Ubezpieczeń SA	Warsaw	100	100
7	PKO Towarzystwo Ubezpieczeń SA	Warsaw	100	100
8	PKO Finance AB	Stockholm, Sweden	100	100
9	KREDOBANK SA	Lviv, Ukraine	100	100
10	ZenCard sp. z o.o.	Warsaw	100	100
11	Merkury - fiz an <sup>1</sup>	Warsaw	100	100
12	NEPTUN - fizan <sup>1</sup>	Warsaw	100	100
13	PKO VC - fizan <sup>1</sup>	Warsaw	100	100
	Qualia Development sp. z o.o. <sup>2</sup>	Warsaw	-	100
	Operator Chmury Krajowej sp. z o.o. <sup>3</sup>	Warsaw	-	100

<sup>1</sup> PKO Bank Polski SA has investment certificates of the Fund; the share in the Fund's investment certificates is presented in the item "Share in equity".

<sup>2</sup> On 28 June 2019 Qualia-Residence sp. z o.o. was combined with Qualia sp. z o.o. (as the acquiree) and PKO Leasing SA as the acquirer

<sup>3</sup> From 5 September 2019 the company is classified as a joint venture.

No.	ENTITY NAME	REGISTERED OFFICE	% SHARE IN CAPITAL*	
			30.09.2019	31.12.2018
<b>INDIRECT SUBSIDIARIES</b>				
<b>GRUPA PKO Leasing SA</b>				
1	PKO Leasing Nieruchomości sp. z o.o.	Warsaw	100	100
2	PKO Agencja Ubezpieczeniowa sp. z o.o.	Warsaw	100	100
	2.1 PKO Leasing Finanse sp. z o.o.	Warsaw	100	100
3	PKO Leasing Sverige AB	Stockholm, Sweden	100	100
4	PKO Faktoring SA	Warsaw	100	100
5	Prime Car Management SA <sup>1</sup>	Gdańsk	100	-
	5.1 Futura Leasing SA	Gdańsk	100	-
	5.2 Masterlease sp. z o.o.	Gdańsk	100	-
	5.3 MasterRent24 sp. z o.o.	Gdańsk	100	-
6	ROOF Poland Leasing 2014 DAC <sup>2</sup>	Dublin, Ireland	-	-
7	Polish Lease Prime 1 DAC <sup>3</sup>	Dublin, Ireland	-	-
<b>PKO Życie Towarzystwo Ubezpieczeń SA GROUP</b>				
8	Ubezpieczeniowe Usługi Finansowe sp. z o.o.	Warsaw	100	100
<b>KREDOBANK SA GROUP</b>				
9	Finansowa Kompania „Idea Kapital” sp. z o.o.	Lviv, Ukraine	100	100
<b>Merkury - fiz an</b>				
10	“Zarząd Majątkiem Górczewska” sp. z o.o.	Warsaw	100	100
11	Molina sp. z o.o.	Warsaw	100	100
12	Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.	Warsaw	100	100
13	Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.	Warsaw	100	100
14	Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A. w likwidacji	Warsaw	100	100
15	Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.	Warsaw	100	100
16	Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.	Warsaw	100	100
17	Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.	Warsaw	100	100
<b>NEPTUN - fiz an</b>				
18	Qualia sp. z o.o. <sup>4</sup>	Warsaw	100	-
19	Sarnia Dolina sp. z o.o. <sup>5</sup>	Warsaw	100	-
20	Bankowe Towarzystwo Kapitałowe SA	Warsaw	100	100
	20.1 "Inter-Risk Ukraina" additional liability company <sup>6</sup>	Kiev, Ukraine	99,90	99,90
	20.2 Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. <sup>7</sup>	Kiev, Ukraine	95,4676	95,4676
21	"CENTRUM HAFFNERA" sp. z o.o.	Sopot	72,9766	72,9766
	21.1 "Sopot Zdrój" sp. z o.o.	Sopot	100	100

\* share in equity of the direct parent

<sup>1</sup> Subsidiary of PKO Leasing SA since 27 May 2019.

<sup>2</sup> In accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.

<sup>3</sup> Subsidiary of PKO Leasing SA since 26 September 2019; in accordance with IFRS 10, PKO Leasing SA exercises control over the company, although it does not have a capital share in it.

<sup>4</sup> On 31 January 2019 a merger took place between Qualia sp. z o.o. (as the acquirer) and Qualia - Residence sp. z o.o. (as the acquiree); until 7 May 2019, Qualia sp. z o.o. was a subsidiary of Qualia Development sp. z o.o.

<sup>5</sup> Until 18 June 2019 a subsidiary of Qualia Development sp. z o.o.

<sup>6</sup> The second shareholder of the company is Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o.

<sup>7</sup> "Inter-Risk Ukraina" (a company with additional liability) is the second shareholder of the company.

## ASSOCIATES AND JOINT VENTURES

No.	ENTITY NAME	REGISTERED OFFICE	% SHARE IN CAPITAL*	
			30.09.2019	31.12.2018
<b>Joint ventures of the PKO Bank Polski SA</b>				
1	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	Warsaw	34	34
	1 EVO Payments International sp. z o.o.	Warsaw	100	100
	2 EVO Payments International s.r.o.	Prague, Czech Republic	100	100
2	Operator Chmury Krajowej sp. z o.o. <sup>1</sup>	Warsaw	50	-
<b>Joint venture of NEPTUN - fiz an</b>				
	3 "Centrum Obsługi Biznesu" sp. z o.o.	Poznań	41,4455	41,4455
<b>Associates of PKO Bank Polski SA</b>				
1	Bank Poczty SA	Bydgoszcz	25,0001	25,0001
2	"Poznański Fundusz Poręczeń Kredytowych" Sp. z o.o.	Poznań	33,33	33,33

\* share in equity of the direct parent / entity having a significant impact

<sup>1</sup> From 5 September 2019 a joint venture of PKO Bank Polski SA; previously a subsidiary with 100% interest in the Bank's equity.



### 30. CHANGES TO COMPANIES COMPRISING THE GROUP

In the nine month period of 2019, the following selected events had an impact on the PKO Bank Polski SA Group's structure.<sup>1</sup>

#### ACQUISITION OF PRIME CAR MANAGEMENT SA BY PKO LEASING SA

##### DESCRIPTION OF THE TRANSACTION

PKO Leasing SA (the Bank's subsidiary) acquired a total of 100% of shares of the public company Prime Car Management SA (PCM), including:

- on 27 May 2019 it acquired 11 244 402 PCM shares (which comprise 94.42% interest in the company's share capital and carry 94.42% voting rights at its General Shareholders' Meeting) as a result of a call to subscribe for the sale of shares in PCM, published by PKO Leasing SA on 18 April 2019 pursuant to the procedures of Article 74 (1) of the Act of 29 July 2005 Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and on Public Companies (Act on Public Offering), by settling the share purchase transaction of the shares to be subscribed for under stage I of the said call;
- on 24 June 2019 it acquired 664 438 shares of PCM (the remaining shares) under a squeeze-out according to the procedures stipulated in Article 82 (1) of the Act on Public Offering and the Regulation of the Finance Minister dated 14 November 2005 on acquiring public company's shares by way of a squeeze-out.

The total amount of the investment was PLN 283 million. The purchase was financed with an overdraft facility granted to PKO Leasing SA by PKO Bank Polski SA.

The acquired company engages in lease operations (finance and operating leases) and in vehicle fleet management.

The Company's share capital as at 30 September 2019 amounts to PLN 23 817 680 and consists of 11 908 840 shares, each of PLN 2 nominal value.

Until 17 June 2019, the shares of PCM were traded on the Warsaw Stock Exchange (WSE). PKO Leasing SA is taking steps to discontinue the dematerialization of and remove PCM shares from circulation on the regulated market.

In connection with the acquisition of PCM, its subsidiaries became part of the PKO Leasing SA Group:

Company	Share capital	Number of shares	Nominal value of the shares
Masterlease sp. z o.o.	PLN 7 905 000	158 100	PLN 50
MasterRent24 sp. z o.o.	PLN 2 850 000	28 500	PLN 100
Futura Leasing SA	PLN 1 689 320	1 689 320	PLN 1

The subsidiaries of PCM engage primarily in passenger car rental, finance leases, sales of vehicles and servicing and repairs of vehicles.

Simultaneously, in June 2019 PKO Bank Polski SA granted the company PCM two loans amounting to PLN 1 890 million for the purpose of changing the financing structure of PCM and its Capital Group (refinancing of hitherto existing liabilities of PCM resulting from loan agreements concluded and bonds issued, as well as current financing and refinancing activities).

<sup>1</sup> Information on all changes in the Group's structure, as well as the joint ventures and associated entities, has been presented respectively in the schedule of the subsidiaries, associated entities and joint ventures presented in note 30.

## ACCOUNTING FOR THE ACQUISITION

	Total companies in the Prime Car Management SA Group
Consideration given	283
Net identifiable assets acquired and liabilities assumed	363
<b>Gain from a bargain purchase</b>	<b>80</b>

## OTHER CHANGES IN THE PKO LEASING SA GROUP

On 28 June 2019 the merger between Qualia Development sp. z o.o. (the Bank's subsidiary) as the acquiree and PKO Leasing SA as the acquirer was registered in the National Court Register with jurisdiction over the registered office of the acquirer. The merger took place in accordance with Article 492 § 1 item 1 of the Commercial Companies Code (merger by acquisition) by transferring all the assets of the acquiree to the acquirer, with a simultaneous increase in the share capital of the acquirer and conversion of the shares in the acquiree into the shares of the acquirer.

After the merger PKO Bank Polski SA held 34 785 566 shares of PKO Leasing SA with a total nominal value of PLN 347 855 660 constituting 100% of the share capital and carrying 100% of the votes at the General Meeting of Shareholders.

On 26 September 2019, PKO Leasing SA sold a portfolio of securitized lease receivables to the special-purpose vehicle Polish Lease Prime 1 Designated Activity Company (Polish Lease Prime 1 DAC) with its registered office in Dublin (Ireland). Under IFRS 10, Polish Lease Prime 1 DAC meets the definition of a subsidiary of PKO Leasing SA and has been consolidated.

## RECLASSIFICATION OF OPERATOR CHMURY KRAJOWEJ SP. Z O.O.

On 5 September 2019, the increase of the share capital of Operator Chmury Krajowej sp. z o.o. by PLN 60 million, acquired by Polski Fundusz Rozwoju SA, and the amended Articles of Association of the company, were entered in the National Court Register.

As at 30 September 2019, the share capital of Operator Chmury Krajowej sp. z o.o. amounts to PLN 120 million and is divided into 1 200 000 shares of PLN 100 nominal value each. PKO Bank Polski SA held 600 000 shares of the company with a total nominal value of PLN 60 million constituting 50% of the share capital and carrying 50% of the votes at the General Meeting of Shareholders.

PKO Bank Polski SA changed the company's classification from a subsidiary to a joint venture.

## OTHER NOTES

### 31. DIVIDENDS PER SHARE AND PROFIT DISTRIBUTION

On 25 February 2019, the Bank received an individual recommendation from the Polish Financial Supervision Authority to increase its own funds by retaining at least 50% of the profit earned in 2018. At the same time, the PFSA confirmed that the Bank had met the requirements for the distribution of dividend at 50% of the 2018 net profit. The PFSA also expected the Bank's Management Board and Supervisory Board to present their position in respect of the recommendation received by the Bank.

Both the Bank's Management and Supervisory Boards passed resolutions stating that each of the authorities would implement the recommendation within the scopes of their respective responsibilities.

On 28 March 2019, the Bank's Management Board passed a resolution on submitting the recommendation for the appropriation of profit earned in 2018 of PLN 3 335 302 049 to the General shareholder's Meeting of the Bank as follows:

- 1. for the payment of dividend to the shareholders    PLN 1 662 500 000
- 2. for other reserves                                    PLN 5 151 025

Moreover the Bank's Management Board proposed retaining PLN 1 667 651 024 as unappropriated profit. The retention of a portion of the profit is justified by the potential option to use it for the distribution of dividend in the following years.

The above decision is consistent with the decision declared by the Bank to comply with the recommendation of the PFSA.

On 4 April 2019, the Bank's Supervisory Board issued a positive opinion about the recommendation of the Bank's Management Board.

On 6 May 2019 the Bank's Ordinary General Shareholders' Meeting passed a resolution on the appropriation of the Bank's profit for 2018 (resolution no. 6/2019), pursuant to the above recommendation put forward by the Management Board of the Bank.

Dividend amounted to 49.8% of the profit for 2018, which constitutes PLN 1.33, gross, per share. The General Meeting of Shareholders of PKO Bank Polski SA set the dividend date (date of vesting rights to dividend) at 31 July 2019, and the dividend payment date at 14 August 2019.

### 32. INFORMATION ABOUT LEASES

NET INCOME ON OPERATING LEASES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Income on operating leases	107	178	21	56
Depreciation of property, plant and equipment leased out under operating leases	(52)	(107)	(17)	(47)
Total net income on operating leases	55	71	4	9

LEASE-RELATED AMOUNTS RECOGNIZED IN INCOME STATEMENT - LESSEE	01.01-30.09.2019
Depreciation of right-of-use assets	(155)
Interest expense	(19)
Cost related to short-term lease agreements	(9)
Costs related to lease agreements in respect of low-value assets which are not short-term lease agreements, non-deductible VAT expenses and costs of service charges	(48)
Total costs	(231)

RIGHT-OF-USE ASSETS	30.09.2019
<b>Property, plant and equipment</b>	<b>906</b>
Land and buildings	875
Other, including: investment properties	31
<b>Non-current assets held for sale</b>	<b>3</b>
Land and buildings	3
<b>Total</b>	<b>909</b>
<b>OTHER LIABILITIES</b>	<b>30.09.2019</b>
Lease liabilities	912
<b>Total</b>	<b>912</b>

### 33. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET LIABILITIES GRANTED

#### LIABILITIES FOR GUARANTEES AND ACQUISITION OF ISSUES

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
<b>As at 30 September 2019</b>			
Company A	corporate bonds	39	31.12.2022
<b>Total</b>		<b>39</b>	

Issuer of underwritten securities	Type of underwritten securities	Maximum commitment to take up securities	Contract expiry date
<b>As at 31 December 2018</b>			
Company C	corporate bonds	1 266	31.12.2020
Company B	corporate bonds	708	31.07.2020
Company A	corporate bonds	47	31.12.2022
<b>Total</b>		<b>2 021</b>	

All contracts relate to the Agreement for Organizing, Conducting and Servicing the Bond Issue Programme. All securities of the Group under the underwriting programme have unlimited transferability, are not listed on the stock exchange and are not traded on a regulated OTC market.

#### CONTRACTUAL COMMITMENTS

VALUE OF CONTRACTUAL COMMITMENTS CONCERNING:	30.09.2019	31.12.2018
intangible assets	25	43
property, plant and equipment	39	51
<b>Total</b>	<b>64</b>	<b>94</b>

## FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED AS AT 30.09.2019	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowances for credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for credit losses (stage 2)	Nominal amount of liabilities at risk of impairment (stage 3)	Allowances for credit losses (stage 3)	Total nominal amount	Total provision	Total, net
<b>Financial liabilities granted:</b>									
Credit lines and limits	50 890	(84)	2 821	(81)	149	(12)	53 860	(177)	53 683
housing	2 947	(8)	397	(16)	5	(2)	3 349	(26)	3 323
business	39 510	(64)	1 085	(36)	136	(7)	40 731	(107)	40 624
consumer	8 433	(12)	1 339	(29)	8	(3)	9 780	(44)	9 736
Other	3 946	(14)	4	-	-	-	3 950	(14)	3 936
<b>Total</b>	<b>54 836</b>	<b>(98)</b>	<b>2 825</b>	<b>(81)</b>	<b>149</b>	<b>(12)</b>	<b>57 810</b>	<b>(191)</b>	<b>57 619</b>
of which irrevocable loan commitments	19 031	(28)	1 862	(42)	89	(4)	20 982	(74)	20 908
of which: purchased or originated credit-impaired off-balance sheet liabilities - POCI	-	-	-	-	74	-	74	-	74
<b>Guarantees and pledges granted:</b>									
<b>Guarantees granted in domestic and foreign trading</b>	<b>7 225</b>	<b>(8)</b>	<b>522</b>	<b>(12)</b>	<b>217</b>	<b>(35)</b>	<b>7 964</b>	<b>(55)</b>	<b>7 909</b>
to financial entities	543	-	-	-	-	-	543	-	543
to non-financial entities	6 394	(8)	522	(12)	217	(35)	7 133	(55)	7 078
to public sector	288	-	-	-	-	-	288	-	288
<b>Guarantees and pledges granted - domestic corporate bonds</b>	<b>95</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95</b>	<b>-</b>	<b>95</b>
to non-financial entities	95	-	-	-	-	-	95	-	95
<b>Letters of credit issued</b>	<b>1 305</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>(3)</b>	<b>1 325</b>	<b>(4)</b>	<b>1 321</b>
to non-financial entities	1 305	(1)	-	-	20	(3)	1 325	(4)	1 321
to public sector	-	-	-	-	-	-	-	-	-
<b>Guarantees and warranties granted - payment guarantee for financial entities</b>	<b>22</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>22</b>	<b>-</b>	<b>22</b>
<b>Guarantees and pledges granted - domestic municipal bonds</b>	<b>138</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>138</b>	<b>-</b>	<b>138</b>
<b>Total</b>	<b>8 785</b>	<b>(9)</b>	<b>522</b>	<b>(12)</b>	<b>237</b>	<b>(38)</b>	<b>9 544</b>	<b>(59)</b>	<b>9 485</b>
of which irrevocable loan commitments	5 228	(8)	519	(11)	216	(35)	5 963	(54)	5 909
of which performance guarantees granted	2 113	(3)	400	(8)	90	(28)	2 603	(39)	2 564

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
OF THE PKO BANK POLSKI SA GROUP  
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019  
(IN PLN MILLION)



FINANCIAL AND GUARANTEE COMMITMENTS GRANTED AS AT 31.12.2018	Nominal amount of liabilities with no significant increase in credit risk since initial recognition (stage 1)	Allowances for credit losses (stage 1)	Nominal amount of liabilities with a significant increase in credit risk since initial recognition, but not credit-impaired (stage 2)	Allowances for credit losses (stage 2)	Nominal amount of liabilities at risk of impairment (stage 3)	Allowances for credit losses (stage 3)	Total nominal amount	Total provision	Total, net
<b>Financial liabilities granted:</b>									
Credit lines and limits	42 649	(75)	3 025	(77)	193	(14)	45 867	(166)	45 701
housing	3 813	(14)	454	(18)	8	(3)	4 275	(35)	4 240
business	31 019	(50)	1 422	(38)	177	(8)	32 618	(96)	32 522
consumer	7 817	(11)	1 149	(21)	8	(3)	8 974	(35)	8 939
Other	4 010	(11)	-	-	-	-	4 010	(11)	3 999
<b>Total</b>	<b>46 659</b>	<b>(86)</b>	<b>3 025</b>	<b>(77)</b>	<b>193</b>	<b>(14)</b>	<b>49 877</b>	<b>(177)</b>	<b>49 700</b>
of which irrevocable loan commitments	21 554	(28)	1 729	(35)	95	(4)	23 378	(67)	23 311
of which: purchased or originated credit-impaired off-balance sheet liabilities - POCI	-	-	-	-	80	-	80	-	80
<b>Guarantees and pledges granted</b>									
<b>Guarantees granted in domestic and foreign trading</b>	<b>6 224</b>	<b>(10)</b>	<b>235</b>	<b>(9)</b>	<b>146</b>	<b>(27)</b>	<b>6 605</b>	<b>(46)</b>	<b>6 559</b>
to financial entities	523	(1)	-	-	-	-	523	(1)	522
to non-financial entities	5 688	(8)	235	(9)	146	(27)	6 069	(44)	6 025
to public sector	13	(1)	-	-	-	-	13	(1)	12
<b>Guarantees and pledges granted - domestic corporate bonds for non-financial entities</b>	<b>2 021</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 021</b>	<b>(2)</b>	<b>2 019</b>
<b>Letters of credit issued</b>	<b>1 206</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>(1)</b>	<b>1 207</b>	<b>(2)</b>	<b>1 205</b>
to non-financial entities	1 204	(1)	-	-	1	(1)	1 205	(2)	1 203
to public sector	2	-	-	-	-	-	2	-	2
<b>Guarantees and warranties granted - payment guarantee for financial entities</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>4</b>
<b>Guarantees and pledges granted - domestic municipal bonds</b>	<b>188</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>188</b>	<b>-</b>	<b>188</b>
<b>Total</b>	<b>9 643</b>	<b>(13)</b>	<b>235</b>	<b>(9)</b>	<b>147</b>	<b>(28)</b>	<b>10 025</b>	<b>(50)</b>	<b>9 975</b>
of which irrevocable loan commitments	6 135	(10)	235	(9)	146	(27)	6 516	(46)	6 470
of which performance guarantees granted	2 216	(5)	130	(5)	72	(9)	2 418	(19)	2 399

### 34. OFF-BALANCE SHEET LIABILITIES RECEIVED

OFF-BALANCE SHEET LIABILITIES RECEIVED BY NOMINAL VALUE	30.09.2019	31.12.2018
Financial	115	90
Guarantees	2 072	1 825
<b>Total</b>	<b>2 187</b>	<b>1 915</b>

### 35. LEGAL CLAIMS

As at 30 September 2019, the total value of court cases (litigation), in which PKO Bank Polski SA Group companies (including the Bank) are the respondent was PLN 1 119 million, of which PLN 47 million related to litigation in Ukraine (as at 31 December 2018, the total value of the subject matter of all court proceedings was PLN 1 784 million), while the total value of the subject matter of court cases (litigation) in which PKO Bank Polski SA Group companies (including the Bank) are the claimant, as at 30 September 2019, was PLN 2 242 million, of which PLN 37 million applied to court cases in Ukraine (as at 31 December 2018, the total value of the subject matter of such litigation was PLN 1 838 million).

#### THE MOST SIGNIFICANT PROCEEDINGS AGAINST THE BANK

- In October 2013 the Bank received a claim for the payment of PLN 31 million in respect of the losses incurred as a result of an unjustified refusal to grant disaster loans, due to an alleged lack of cooperation on the part of the Bank, which in consequence was to lead to the seizure of the claimants' family farm. The case is currently being examined by a first instance court. As at 30 September 2019 the Bank maintained a provision for this litigation of PLN 0.5 million.
- In November 2013 the Warsaw Municipal Consumer Rights Adviser lodged a claim on behalf of 66 persons (a developer's customers, owners of properties encumbered with a mortgage to the benefit of the Bank) for determining the non-existence of the right relating to the contractual ordinary collective mortgage of PLN 12 million disclosed in the land and mortgage registers regarding properties belonging to these people. The City Consumer Ombudsman filed a potential claim to obligate the Bank to file a declaration of intent, namely to agree to the deletion of these mortgage entries. On 30 September 2016 the District Court in Warsaw agreed to the claim and passed a judgment in which it determined the non-existence of the contractual mortgages set up on the apartments, referring to the absence of any contract concluded between the Bank and the developer for the division of the mortgage in the event that separate titles are established for particular apartments. The Bank appealed against the said judgment. In its judgment dated 3 December 2018 the Appeal Court largely dismissed the Bank's appeal. The Court shared the Bank's position only as to one person, which it considered not to be a consumer. On 9 August 2019 the Bank filed a cassation complaint. Given the nature of the claim, it was not necessary to set up a provision.
- In August 2016 a claim for the payment of PLN 20 million was filed with the Bank in respect of a loss in the assets of the Bank's customer as a result of – in the Claimant's opinion – unfair tax information PIT 8C for 2007, 2008 and 2009 being issued by Dom Maklerski PKO BP; currently, the case is being examined by a Court of first instance. The case is currently being examined by a first instance court. As at 30 September 2019 the Bank had not set up a provision for these proceedings.
- In September 2016 the Bank received a claim for the payment of PLN 15 million in respect of compensation for a loss resulting from the fact that the Bank did not disburse the investment loan funds; in the claim the Claimant states that the purpose of the loan agreement was the consolidation of earlier liabilities and determining new terms and conditions for the repayment of the debt, and the fact that the Bank did not disburse the funds led to the liabilities becoming due and covered with the debt restructuring procedure. The said proceedings are currently being conducted before a first instance court. As at 30 September 2019 the Bank set up a provision for this litigation of PLN 15 million.
- In November and December 2018 the Bank received two claims for finding a writ of execution ineffective, based on the same writ of execution concerning an amount of over PLN 13 million, which had been previously presented to SKOK Wesola. In respect of both cases, the Bank responded questioning the claim. In one of the cases dated 23 May 2019 a non-final verdict was issued dismissing the action, and on 24 July an appeal was lodged. In the second case 1st instance proceedings are in progress. Given the nature of the claim, it was not necessary to set up a provision.

- In August 2018, in a lawsuit brought by the Bank against a borrower for payment of PLN 66 million as repayment of the loan granted, the Bank received a counterclaim for payment of the amount of PLN 79 million as compensation for loss resulting from the refusal to continue financing, which allegedly caused the termination of the borrower's business activities. In December 2018, the counterclaim was increased to PLN 81 million. The Bank filed a response to the counterclaim, contesting the lawsuit. The said proceedings are currently being conducted before a first instance court. As at 30 September 2019 the Bank had not set up a provision for these proceedings.

#### LITIGATION AGAINST THE BANK RELATING TO FOREIGN CURRENCY LOANS GRANTED

As at 30 September 2019, 1 379 court proceedings relating to foreign currency loans granted were pending against the Bank with a total disputed amount of PLN 321 million, including two group proceedings regarding 75 loan agreements in the first, and 8 loan agreements in the second proceeding. The court proceedings were initiated against the Bank by its customers in connection with foreign currency loan agreements concluded. The Bank's customers' claims concerned mainly demands to determine the invalidity of all or part of the agreements or to receive refunds of allegedly undue benefits in connection with the abusive nature of the foreign currency clauses. None of the clauses used by the Bank in the agreements was entered in the register of prohibited contractual provisions.

On 3 October 2019 the Court of Justice of the European Union ("CJEU") handed down its judgment in Case C-260/18 initiated by requests for a preliminary ruling from the Sąd Okręgowy w Warszawie (Regional Court in Warsaw). The Bank was not a party to the proceedings before the CJEU. The CJEU responded to the four questions asked by the Polish court in respect of an indexed loan contract from November 2008. The CJEU judgment applies only to a situation where the national court has previously found the given contractual term abusive. According to the CJEU judgment, it is the exclusive authority of national courts to assess, as part of court proceedings, whether a particular contractual term may be considered abusive in the context of a particular case. The CJEU left it up to the national courts to assess whether a contract contains abusive clauses and whether, after the elimination of such abusive clauses, the contract may continue to apply and, if not, whether there is a national provision that can replace the removed clauses. In this respect, the CJEU did not support the need to annul contracts, but merely did not rule out such a solution, leaving the final assessment to the national courts, while pointing out that *"Based on well-established case-law, the purpose of this provision, and in the first instance of the second part of the sentence, is not to annul all contracts containing unfair terms but to replace the formal balance which the contract establishes between the rights and obligations of the parties with an effective balance which re-establishes equality between them (...)"*.

On the basis of the CJEU judgment, if a national court concludes that a contractual term is contrary to the consumer's interests (abusive), the term is not binding on the parties to the contract. The court removes the term from the contract. The next step is for the court to determine whether the contract may continue (be performed) and, if so, in what form. The court also analyses whether there is a supplementary provision of law that may replace the removed contractual terms. If the court concludes that the contract cannot be performed without the removed terms and, at the same time, it is not possible to replace the removed terms with supplementary provisions of national law, the court may declare the contract invalid.

The CJEU judgment will affect national courts' case-law in the first instance with regard to loans indexed to a foreign currency and the courts will examine the factual and legal situation, including the text of the loan contract, on a case-by-case basis. It should be pointed out that contracts indexed to CHF are clearly a minority in the Bank's portfolio. The majority are loan contracts denominated in CHF, where the amount of CHF debt was known to the borrower already at the date of execution of the loan contract and resulted directly from it. Contracts for loans indexed to CHF in the Bank's portfolio contain terms according to which the LIBOR interest rate applies to loans whose currency is CHF, whereas if the currency of loans is PLN then the WIBOR interest rate should be applied according to these contractual terms.

#### COURT PROCEEDINGS AGAINST THE BANK CONCERNING REIMBURSEMENT OF THE COMMISSION IN THE EVENT OF PREPAYMENT OF LOANS

As at 30 September 2019, 86 court proceedings were pending against the Bank with a total disputed amount of PLN 391 thousand, concerning the reimbursement of the commission in the event that the customer prepays all or part of the loan liability. The Bank set up a provision for this litigation of PLN 199 thousand.



On 11 September 2019, the Court of Justice of the European Union (“CJEU”) handed down its judgement in Case C-383/18 initiated by a request for a preliminary ruling from the Sąd Rejonowy Lublin-Wschód w Lublinie (Lublin-Wschód District Court in Lublin) with its seat in Świdnik. The Bank was not a party to the proceedings before the CJEU. In its judgment, the CJEU interpreted Article 16(1) of Directive 2008/48/EC of the European Parliament and of the Council, stating that it should be interpreted as meaning that the right of a consumer to a reduction in the total cost of the loan in the event of early repayment of the loan includes all the costs imposed on the consumer. In the CJEU’s opinion, the phrase “costs relating to the remaining duration of the contract” should not relate to the type of costs (possibility of connecting them with the duration of the contract) or to their due date, but only to the method of calculation of a reduction. However, the Court did not rule on the method of calculation of reimbursement of costs and left it to national courts.

The CJEU judgment will affect national courts’ case-law in cases involving reimbursement of commission, including those involving the Bank.

### **PROCEEDINGS CONDUCTED BEFORE THE PRESIDENT OF THE OFFICE OF COMPETITION AND CONSUMER PROTECTION (UOKiK)**

Three proceedings have been brought before the President of UOKiK ex officio and are currently in progress:

- Proceedings initiated ex officio on 28 June 2017 on the acknowledgement that the provisions of the template contract are inadmissible. The breach, of which the Bank is being accused, involves the use of contractual provisions in template mortgage loan agreements which are revalued/indexed/denominated in foreign currencies and their appendices, presenting the method of setting the foreign currency buy and sell rates, which, according to the President of the UOKiK, may be considered inadmissible in the light of Article 385 § 1 of the Civil Code. In the opinion of the UOKiK president, a part of the provisions included in the appendix to the annexe is imprecise, and the manner of determining exchange rates on this basis depends on factors randomly adopted by the Bank. In the opinion of the UOKiK president, such wording of the provisions may lead to the inability of consumers to verify whether the Bank accurately estimated the exchange rate at which it translates loan/mortgage loan instalments. In its letter dated 9 August 2017 the Bank presented its position on the charges formulated by the UOKiK President. On 31 July 2018 the Bank filed a motion for the issuance of a consent decree. In his letter dated 20 September 2019 the President of UOKiK extended the term to the conclusion of the proceedings until 31 December 2019. As at 30 September 2019 the Bank did not set up a provision for the proceedings (similarly to 31 December 2018).
- Proceedings initiated on 26 July 2017 ex officio about using practices which violate the collective interests of customers. The violation with which the Bank has been charged consists of collecting higher instalments on loans and advances to customers denominated in foreign currencies than those following from the advice about interest rate risk provided to customers before they had concluded the contracts, and transferring possible currency risk to the customers. The Bank presented its position on the claims in its letter dated 23 September 2017. In its letter of 14 March 2019, the President of UOKiK requested that the Bank present answers to 16 detailed questions in order to determine the circumstances necessary to settle the case. The Bank provided answers in a letter dated 10 May 2019. As at 30 September 2019 the Bank had not established a provision for these proceedings (similarly to 31 December 2018);
- Proceedings initiated ex officio on 12 March 2019 on the acknowledgement that the provisions of the template contract are inadmissible. The proceedings are related to modification clauses which specify the circumstances in which the Bank is entitled to amend the terms and conditions of the agreement, including the amount of fees and commission. In its letter of 31 May 2019, the Bank presented its position on the charges made by the President of UOKiK. By a letter dated 12 August 2019, the President of UOKiK, extended the deadline for the closure of the proceeding to 31 December 2019. As at 30 September 2019 the Bank had not set up a provision for these proceedings.

### **PROCEEDINGS BEFORE THE PRESIDENT OF THE ENERGY REGULATORY OFFICE (URE)**

In his letter dated 11 June 2019 the President of URE instigated administrative proceedings concerning charging the Bank with a fine in connection with the URE President's suspicion that the Bank breached its duty to abide by the restrictions in providing and consuming electricity between 10 and 31 August 2015 and called the Bank to take a position on the issue. The Bank presented its position on the claims in its letter dated 08 July 2019. As at 30 September 2019, the Bank had not set up a provision for the proceedings;

On 11 October 2019 the President of the Energy Regulatory Office issued a decision in respect of the Bank, in which:

- he imposed a penalty of PLN 2 494 on the Bank for exceeding the power limit on 10 August 2015 in the Bank's facility at ul. Henryka Sienkiewicza 12/14 in connection with the Bank's infringing its obligation to restrict supply and consumption of energy following from Article 11 and Article 11d. 3 of the Energy Law;
- he discontinued proceedings in respect of the remaining part relating to the Bank's facility located at ul. Wólczyńska 133 due to determining that the Bank did not infringe its obligation to restrict supply and consumption of energy following from Article 11 and Article 11d. 3 of the Energy Law.

The decision is not final.

#### REPRIVATIZATION CLAIMS RELATING TO PROPERTIES USED BY THE BANK

As at the date of the condensed interim consolidated financial statements the following proceedings are being conducted:

- two proceedings, including one conducted in respect of the Bank's properties, relating to reprivatization claims. This procedure is suspended. A second procedure regarding a property of the Bank, which was pending in 2018, ended with a final court judgment of the Regional Court in Kalisz of 8 November 2018. In a letter dated 10 January 2019, the opposing party lodged a cassation complaint against this judgment, which is currently awaiting the Supreme Court's decision on whether it will be accepted for determination.
- ten proceedings, of which one is suspended with respect to the real property of the other companies from the Bank's Group, the subject matter of which is to confirm that the administrative decisions are invalid or to return the property.

The Management Board of PKO Bank Polski SA is of the opinion that it is unlikely that serious claims may be brought against the Group in these matters.

#### PROCEEDINGS RELATING TO RESTRICTIVE PRACTICES ON THE MARKET OF PAYMENTS WITH PAYMENT CARDS IN POLAND

The Bank is a party to proceedings initiated by the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów UOKiK) on the basis of a decision dated 23 April 2001 upon the request of the Polish Trade and Distribution Organization Employers Association (Polska Organizacja Handlu i Dystrybucji - Związek Pracodawców - POHiD) against operators of the Visa and Europay payment systems and banks issuing Visa and Europay/ Eurocard/ Mastercard banking cards.

The claims relate to the use of practices limiting competition on the market of banking card payments in Poland, consisting of applying pre-agreed "interchange" fees for transactions made using Visa and Europay/Eurocard/Mastercard cards as well as limiting access to this market for external entities. On 29 December 2006, UOKiK decided that the practices, consisting of joint determination of the 'interchange' fee, did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, among other things, PKO Bank Polski SA, in the amount of PLN 16.6 million. The Bank appealed against the decision of the President of UOKiK to CCCP (Court for Competition and Consumer Protection / Sąd Ochrony Konkurencji i Konsumentów - SOKiK). By judgement of 21 November 2013 SOKiK reduced the penalty imposed on the Bank to PLN 10.4 million. The parties to the proceedings appealed against the judgment. In its judgment of 6 October 2015, the Court of Appeal in Warsaw restored the original amount of the imposed penalties stipulated in the decision of the UOKiK, i.e. a fine amounting to PLN 16.6 million (fine imposed on PKO Bank Polski SA) and a fine amounting to PLN 4.8 million (fine imposed on Nordea Bank Polska SA). The fines were paid by the Bank in October 2015. As a result of the cassation complaint made by the Bank, in its judgment dated 25 October 2017, the Supreme Court revoked the appealed judgment of the Court of Appeal in Warsaw and submitted the case for re-examination. The fines paid by the Bank were reimbursed to the Bank on 21 March 2018. Currently, the case is being examined by the Court of Appeal in Warsaw. After two hearings, the Court of Appeal adjourned the trial without setting a date. As at 30 September 2019 the Bank maintained a provision for this litigation of PLN 21 million (the same level as at 31 December 2018).

#### OTHER PROCEEDINGS ON THE DISTORTION OF COMPETITION

In the period from January to September 2019 no other Bank's Group companies were involved in material proceedings concerning practices that distort competition or arrangements with UOKiK in preliminary investigations, or addresses by the President of UOKiK without instigating proceedings (according to Article 49a of the Act on Protection of Competition and Consumers).

## CLAIMS FOR DAMAGES IN RESPECT OF THE INTERCHANGE FEE

The Bank was served three summons to participate, as an intervening party on the respondent's side, in cases relating to the interchange fees. Other banks are respondents in the case. The claims vis-à-vis the sued banks amount to almost PLN 146 million and are pursued as damages for differences in interchange fees resulting from applying practices that limit competition. If the courts find the claims justified, the respondents may claim recourse in separate court proceedings from other banks, including, among others, from PKO Bank Polski SA.

## 36. TRANSACTIONS WITH THE STATE TREASURY AND RELATED PARTIES

### TRANSACTIONS WITH THE STATE TREASURY

The State Treasury holds a 29.43% interest in the Bank's share capital.

The Group's consolidated statement of financial position shows receivables and securities and liabilities for transactions with the State Treasury, public sector entities and entities with a State Treasury shareholding.

Pursuant to the Act of 30 November 1995 on state support in the repayment of certain housing loans, reimbursement of guarantee bonuses paid, and amendments to certain acts, PKO Bank Polski SA receives payments from the State budget in respect of the interest forgiven on housing loans.

INCOME FROM TEMPORARY REDEMPTION BY THE STATE TREASURY OF INTEREST ON HOUSING LOANS IN THE 'OLD' PORTFOLIO	01.01-30.09.2019	01.01-30.09.2018
Income recognized on the accruals basis	67	107
Income recognized on the cash basis	46	84
Difference – "Loans and advances to customers"	21	23

As of 1 January 2018 based on the provisions of the Act of 30 November 1995 on state support in the repayment of certain housing loans, and reimbursement of guarantee bonuses paid, the borrowers acquired the right to be forgiven the remaining debt by the State Treasury, which will result in gradual (until 2026) full settlement of the housing loan indebtedness from the so-called "old" portfolio. The Bank conducts settlements related to the partial purchase of interest on housing loans by the State Treasury and in the nine-month period of 2019 it received commission of less than PLN 1 million. In the corresponding period of 2018 it received commission of PLN 1 million.

As of 1 January 1996, the Bank is the general distributor of revenue stamps, and in this respect it receives commission from the State Budget– in the nine-month period of 2019 the Bank received commission of less than 1 million in this respect. In the corresponding period of 2018 it received commission of PLN 1 million.

Biuro Maklerskie PKO Banku Polskiego plays the role of an agent for the issue of retail T-bonds under the agreement signed with the Ministry of Finance on 11 February 2003. Under this agreement, Biuro Maklerskie PKO Banku Polskiego receives a fee for providing the services of an agent for the issue of bonds, which in the nine-month period of 2019 amounted to PLN 61 million and PLN 45 million in the corresponding period of 2018.

### RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

Transactions of the parent company with associates and joint ventures are presented in the table below. All transactions with subsidiaries, joint ventures and associates referred to below were arm's length transactions. Repayment terms are within a range of from one month to seventeen years.

AS AT 30 SEPTEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	25	23	76	36
"Centrum Obsługi Biznesu" sp. z o.o.	19	19	6	-
Bank Pocztowy SA	-	-	-	1
Operator Chmury Krajowej sp. z o.o.	-	-	51	800
<b>Total joint ventures and associates</b>	<b>44</b>	<b>42</b>	<b>133</b>	<b>837</b>

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	362	335	93	93
"Centrum Obsługi Biznesu" sp. z o.o.	1 239	1 239	-	-
<b>Total joint ventures and associates</b>	<b>1 601</b>	<b>1 574</b>	<b>93</b>	<b>93</b>

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	40	23	43	23
"Centrum Obsługi Biznesu" sp. z o.o.	18	18	8	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-	5	-
<b>Total joint ventures and associates</b>	<b>58</b>	<b>41</b>	<b>56</b>	<b>24</b>

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.	200	168	54	54
"Centrum Obsługi Biznesu" sp. z o.o.	1	1	-	-
<b>Total joint ventures and associates</b>	<b>201</b>	<b>169</b>	<b>54</b>	<b>54</b>

### 37. FAIR VALUE HIERARCHY

The classification of financial instruments and methods for determining fair value are described in the Group's consolidated financial statements for 2018.

ASSETS MEASURED AT FAIR VALUE 30.09.2019	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	784	-	-	784
Other derivative financial instruments	3 111	-	-	3 111
Securities	62 233	53 425	5 817	2 991
held for trading	891	891	-	-
debt securities	871	871	-	-
shares in other entities – listed	19	19	-	-
investment certificates, rights to shares, pre-emptive rights	1	1	-	-
not held for trading, measured at fair value through profit or loss	2 108	1 445	146	517
debt securities	496	301	13	182
shares in other entities – listed	145	145	-	-
shares in other entities – not listed	336	-	1	335
investment fund units, investment certificates, rights to shares, pre-emptive rights	1 131	999	132	-
measured at fair value through other comprehensive income (FVOCI)	59 234	51 089	5 671	2 474
debt securities	59 234	51 089	5 671	2 474
Loans and advances to customers	9 182	-	1	9 181
not held for trading, measured at fair value through profit or loss	9 181	-	-	9 181
housing loans	19	-	-	19
business loans	186	-	-	186
consumer loans	8 976	-	-	8 976
measured at fair value through other comprehensive income (FVOCI)	1	-	1	-
consumer loans	1	-	1	-
<b>Total financial assets measured at fair value</b>	<b>75 310</b>	<b>53 425</b>	<b>9 713</b>	<b>12 172</b>

LIABILITIES MEASURED AT FAIR VALUE 30.09.2019	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	644	-	-	644
Other derivative financial instruments	3 408	-	-	3 408
Liabilities in respect of a short position in securities	35	35	-	-
<b>Total financial liabilities measured at fair value</b>	<b>4 087</b>	<b>35</b>	<b>-</b>	<b>4 052</b>

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AS AT 31.12.2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	658	-	-	658
Other derivative financial instruments	1 907	3	-	1 904
Securities	55 641	43 436	-	10 286
held for trading	235	235	-	-
debt securities	217	217	-	-
shares in other entities – listed	13	13	-	-
investment certificates, rights to shares, pre-emptive rights	5	5	-	-
not held for trading, measured at fair value through profit or loss	2 848	2 278	-	187
debt securities	1 201	1 034	-	52
shares in other entities – listed	180	180	-	-
shares in other entities – not listed	269	-	-	1
investment certificates, rights to shares, pre-emptive rights	1 198	1 064	-	134
measured at fair value through other comprehensive income (FVOCI)	52 558	40 923	-	10 099
debt securities	52 558	40 923	-	10 099
Loans and advances to customers	1 106	-	-	1 106
not held for trading, measured at fair value through profit or loss	1 106	-	-	1 106
housing loans	27	-	-	27
business loans	148	-	-	148
consumer loans	931	-	-	931
<b>Total financial assets measured at fair value</b>	<b>59 312</b>	<b>43 439</b>	<b>-</b>	<b>12 848</b>

LIABILITIES MEASURED AT FAIR VALUE 31.12.2018	Carrying amount	Level 1	Level 2	Level 3
		Prices quoted on active markets	Valuation techniques based on observable market data	Other valuation techniques
Hedging derivatives	471	-	-	471
Other derivative financial instruments	2 655	-	-	2 655
<b>Total financial liabilities measured at fair value</b>	<b>3 126</b>	<b>-</b>	<b>-</b>	<b>3 126</b>

In the nine-month period ended 30 September 2019 there were no changes to the measurement techniques and input data for particular levels of the fair value hierarchy. A detailed description of the measurement techniques may be found in the consolidated financial statements for 2018.

In the nine-month period ended 30 September 2019 corporate bonds of one of the entities amounting to PLN 1 466 million were transferred from level 2 to level 3 as a result of a change in the manner of calculating the risk margin. In the corresponding period of 2018 there were no transfers between the different levels of fair value hierarchy.

IMPACT OF ESTIMATES ON FAIR VALUE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS	30.09.2019		31.12.2018	
	Fair value under		Fair value under	
	positive scenario	negative scenario	positive scenario	negative scenario
Loans and advances to customers	18 042	17 043	1 138	1 075
Shares in Visa Inc.	207	183	148	124
Equity investments	140	127	132	119
Corporate bonds	2 663	2 649	1 654	1 648

The changes to fair value of the financial instruments at Level 3 are presented in the table below.

RECONCILIATION OF CHANGES DURING THE REPORTING PERIOD TO FAIR VALUE AT LEVEL 3	01.01-30.09.2019	01.01-30.09.2018
Opening balance at the beginning of the period	3 025	2 166
First time adoption of IFRS 9		1 186
Opening balance at the beginning of the period - restated		3 352
Foreign exchange gains and losses	12	14
Increase in exposure to equity instruments		1
Issues and redemptions of corporate bonds	(440)	(285)
Transfer of corporate bonds from level 2 to level 3	1 466	-
Reduction of equity exposure to a collective investment undertaking	-	(47)
Sale of participation units in a collective investment undertaking	-	(217)
Loans granted to customers during the reporting period	2 618	-
Sale / repayment of loans during the reporting period	(2 757)	(159)
Change in measurement category - Loans and advances to customers	8 204	
Net gain/(loss) on financial instruments measured at fair value through profit or loss	34	61
Change in the valuation recognized in comprehensive income - corporate bonds	10	(9)
As at the end of the period	12 172	2 711

### 38. FINANCIAL ASSETS AND LIABILITIES NOT PRESENTED AT FAIR VALUE IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	level of fair value hierarchy	30.09.2019	
		carrying amount	fair value
Cash and balances with the Central Bank	n/a	13 252	13 252
Amounts due from banks	2	3 859	3 859
Securities (excluding adjustments relating to fair value hedge accounting)		11 943	11 943
debt securities (Treasury bonds)	1	6 001	6 001
debt securities (corporate)	3	1 416	1 416
debt securities (municipal)	3	4 526	4 526
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	3	221 383	220 610
housing loans	3	118 202	116 468
business loans	3	65 309	66 029
consumer loans	3	20 206	20 453
receivables in respect of repurchase agreements	2	1 371	1 371
finance lease receivables	3	16 295	16 289
Other financial assets	3	3 588	3 588
Amounts due to the Central Bank	2	7	7
Amounts due to banks	2	2 103	2 103
Amounts due to customers		251 242	251 183
- individuals	3	178 809	178 750
- businesses	3	54 286	54 286
- public sector	3	14 207	14 207
- loans and advances received	3	2 242	2 242
- in respect of insurance products	2	1 698	1 698
Liabilities in respect of securities in issue	1, 2	32 347	32 911
Subordinated liabilities	2	2 708	2 708
Total financial liabilities	3	3 953	3 953

	level of fair value hierarchy	31.12.2018	
		carrying amount	fair value
Cash and balances with the Central Bank	n/a	22 925	22 925
Amounts due from banks	2	7 661	7 661
Securities (excluding adjustments relating to fair value hedge accounting)		8 473	8 476
debt securities (Treasury bonds)	1	2 358	2 361
debt securities (corporate)	3	2 108	2 108
debt securities (municipal)	3	4 007	4 007
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)		213 806	213 438
housing loans	3	112 770	111 761
business loans	3	60 918	61 294
consumer loans	3	25 570	25 820
receivables in respect of repurchase agreements	2	51	51
finance lease receivables	3	14 497	14 512
Other financial assets	3	2 825	2 825
Amounts due to the Central Bank	2	7	7
Amounts due to banks	2	2 001	2 001
Amounts due to customers		242 816	242 753
- individuals	3	165 182	165 120
- businesses	3	55 302	55 301
- public sector	3	16 459	16 459
- loans and advances received	3	4 093	4 093
- in respect of insurance products	2	1 780	1 780
Liabilities in respect of securities in issue	1, 2	28 627	28 725
Subordinated liabilities	2	2 731	2 731
Total financial liabilities	3	2 364	2 364

### 39. ASSETS CONSTITUTING COLLATERAL FOR LIABILITIES AND TRANSFERRED FINANCIAL ASSETS

#### COLLATERAL FOR COVERED BONDS OF PKO BANK HIPOTECZNY SA

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

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

The nominal value of loans entered in the register of collaterals for mortgage-covered bonds and constituting the Group's cover pool representing collateral for the mortgage-covered bonds issued totalled PLN 20 273 million as at 30 September 2019, and the nominal value of the additional collateral in the form of securities issued by the State Treasury and denominated in PLN amounted to PLN 250 million. As at 31 December 2018 it amounted to PLN 16 948 million and PLN 251 million respectively. The CIRS and FX-Forward transactions which hedge the foreign exchange and interest-rate risk of the issued EUR mortgage-covered bonds, and the IRS transactions hedging interest rate risk of the issued PLN fixed-interest-rate mortgage-covered bonds were also recognized in the register of collaterals for mortgage-covered bonds.

In the 9 months ended 30 September 2019 and in the preceding years the register of collateral for mortgage-covered bonds did not contain any asset-backed securities (ABS) which did not meet the requirements of paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (restated version).

### RECEIVABLES SUBJECT TO SECURITIZATION OF LEASE RECEIVABLES

In connection with the acquisition of Raiffeisen-Leasing Polska SA and its subsidiaries, on 1 December 2016, the Group consolidated a special purpose vehicle ROOF Poland Leasing 2014 DAC with its registered office in Ireland. The SPV is the buyer of securitized receivables resulting from lease agreements sold by Raiffeisen-Leasing Polska SA under the securitization plan which was initiated in December 2014. The receivables acquired by the SPV were financed by an issue of securities. The objective and benefit of selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

The redemption of debt securities in the period from 1 January to 30 September 2018 according to their nominal values amounted to: PLN 70 million (redeemed on 2 January 2018), PLN 204 million (redeemed on 3 April 2018), PLN 178 million (redeemed on 3 April 2018) and PLN 178 million (redeemed on 2 July 2018).

As at 30 September 2018, securitized lease receivables amounted to PLN 835 million. As at 31 December 2018, securitized lease receivables amounted to PLN 688 million.

In September 2019, PKO Leasing SA securitized lease receivables amounting to PLN 2 500 million. On 26 September 2019, PKO Leasing SA sold its portfolio of securitized lease receivables to the special purpose vehicle Polish Lease Prime 1 Designated Activity Company (Polish Lease Prime 1 DAC) with its registered office in Dublin (Ireland). The receivables purchased by the special purpose vehicle were financed mainly through the issue of securities (bonds) carried out on 26 September 2019, redeemable on 28 December 2029, and from the funds obtained within the PKO Leasing SA Group. Bonds with a nominal value of PLN 1 835 million were acquired by entities from outside the PKO Bank Polski SA Group. The objective and benefit of selling these receivables to the SPV was to obtain and diversify sources of long-term financing.

As at 30 September 2019, securitized lease receivables amounted to PLN 2 496 million.

### LIABILITIES FROM THE NEGATIVE VALUATION OF DERIVATIVE INSTRUMENTS

Cash deposits with banks include assets held as collateral for own liabilities, including settlements relating to the negative valuation of derivative instruments. As at 30 September 2019, such assets amounted to PLN 850 million (PLN 605 million as at 31 December 2018).

### PRELIMINARY SETTLEMENT DEPOSIT OF THE NATIONAL DEPOSITORY FOR SECURITIES (KDPW)

Biuro Maklerskie PKO Bank Polski SA holds bonds with the National Depository for Securities as collateral for the settlement of transactions with the Clearing House.

CARRYING AMOUNT / FAIR VALUE	30.09.2019	31.12.2018
Value of the deposit	10	10
Nominal value of the collateral	10	10
Type of collateral	Treasury bonds	Treasury bonds
Carrying amount of the collateral	8	10

### FUND FOR THE PROTECTION OF GUARANTEED FUNDS

	30.09.2019	31.12.2018
Value of the fund	1 082	1 088
Nominal value of the collateral	1 200	1 100
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	1 197	1 103



#### FUNDS SECURING THE CONTRIBUTION COMMITMENTS OF PAYMENTS TO BE MADE TO THE BANK GUARANTEE FUND

	30.09.2019	31.12.2018
Value of the contribution made in the form of payables	382	248
Nominal value of the assets in which funds corresponding to payables were invested	484	324
Type of collateral	Treasury bonds	Treasury bonds
Maturity of the collateral	25.01.2024	25.01.2024
Carrying amount of the collateral	482	324

#### 40. OTHER INFORMATION

##### SEASONALITY OR CYCLICALITY OF OPERATIONS DURING THE REPORTING PERIOD

The operations of the Bank or other companies in the PKO Bank Polski SA Group do not show any material traits of seasonality or cyclicity.

##### INFORMATION ON RELATED PARTY TRANSACTIONS OF THE ISSUER OR ITS SUBSIDIARY OTHER THAN ON AN ARM'S LENGTH BASIS

Between January and September 2019, the subsidiaries of PKO Bank Polski SA did not conclude any material related party transaction other than on an arm's length basis.

##### INFORMATION ON SIGNIFICANT AGREEMENTS FOR THE GRANTING BY THE ISSUER OR ITS SUBSIDIARY OF LOAN GUARANTIES AND GUARANTEES

Between January and September 2019, neither PKO Bank Polski SA nor its subsidiaries entered into any significant loan guaranty or guarantee agreements.

##### LOANS, GUARANTEE AND GUARANTY AGREEMENTS NOT RELATING TO OPERATING ACTIVITIES

Between January and September 2019, neither PKO Bank Polski SA nor its subsidiaries received any loans, guarantees or guaranties not related to operating activities.

##### SIGNIFICANT AGREEMENTS AND SIGNIFICANT AGREEMENTS WITH THE CENTRAL BANK OR SUPERVISORY AUTHORITIES

Neither PKO Bank Polski SA nor its subsidiaries concluded any significant agreements or significant agreements with the central bank or supervisory authorities between January and September 2019.

##### POSITION OF THE MANAGEMENT BOARD OF PKO BANK POLSKI SA ON THE FEASIBILITY OF IMPLEMENTATION OF PREVIOUSLY PUBLISHED PROFIT FORECASTS FOR THE GIVEN YEAR

PKO Bank Polski SA did not publish its profit forecast for 2019.

##### OTHER INFORMATION WHICH IS RELEVANT TO THE ASSESSMENT OF THE ISSUER'S HUMAN RESOURCES AND FINANCIAL POSITION. RESULTS OF OPERATIONS AND THEIR CHANGES

In the third quarter of 2019, there were no significant events involving PKO Bank Polski SA or its subsidiaries, relevant to the assessment of their human resources and financial position, and results of operations.

## OBJECTIVES AND PRINCIPLES OF RISK MANAGEMENT

The Group identifies risks in its operations and analyses the impact of each type of risk on the business operations of the Bank and entities in the Group. All the risks are managed; some of them have a material effect on the profitability and capital needed to cover them. All risks classified as material for the Bank are also material for the Group. The following risks are considered material for the Bank: credit risk, risk of foreign currency mortgage loans for households, foreign exchange risk, interest rate risk, liquidity risk (including financing risk), operating risk, business risk, risk of macroeconomic changes and model risk. Group entities may consider types of risks other than those listed above to be material, taking into account the specific nature and scale of their operations and the markets on which they operate. The materiality of all the identified risks is assessed on a regular basis, at least annually.

In the consolidated financial statements of the Group for 2018 and in the Report on Capital Adequacy and other information subject to publication in the Group as at 31 December 2018, the following elements of the risk management system were described in detail: risk definition, objectives of managing the specific risk, identification of the risk, measurement and evaluation, control, forecasting and monitoring, reporting and management activities to identify material types of risk.

In the nine-months ended 30 September 2019 the Group's main objectives, principles and organization of the risk management process have not changed compared with the principles described in the consolidated financial statements of the PKO Bank Polski SA Group for 2018.

### SPECIFIC ACTIVITIES IN THE AREA OF RISK MANAGEMENT UNDERTAKEN BY THE GROUP IN THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

In the nine-month period ended 30 September 2019, the Bank monitored the risks subject to monitoring. Based on the completed process, the risk posed by foreign-currency mortgage loans for households was concluded to be material.

As part of the quarterly monitoring of the credit losses measurement model, the Group updated the assumptions for using LGD and PD parameters. Recoveries in the LGD parameter were adjusted at the long end of the curve and the series of historical data was shortened to better reflect the present economic and macroeconomic position. Also, the manner of calculating PD for retail portfolios and for the portfolio of Firms and Companies changed, putting more emphasis on the amount of exposures contributing to the amount of default.

In the nine-month period ended 30 September 2019, the Group redeemed matured originated issues under the EMTN programme.

#### 41. CREDIT RISK MANAGEMENT

##### FINANCIAL ASSETS WRITTEN OFF DURING THE DEBT RECOVERY PERIODS

The table below presents the outstanding amounts to be repaid from financial assets, which were written down during the reporting period and which are still the subject of debt recovery activities.

FINANCIAL ASSETS WRITTEN OFF	01.01-30.09.2019		01.01-30.09.2018	
	Partly written off	Fully written off	Partly written off	Fully written off
Securities				
measured at fair value through other comprehensive income (FVOCI)	9	-	2	-
Loans and advances to customers				
measured at amortized cost	100	561	2 023	593
housing	60	26	532	249
business	27	310	1 164	209
consumer	13	155	327	131
finance lease receivables	-	70	-	4
Other financial assets				
measured at amortized cost	-	1	-	1
<b>Total</b>	<b>109</b>	<b>562</b>	<b>2 025</b>	<b>594</b>

## CRITERIA FOR WRITING OFF RECEIVABLES

The criteria for writing off financial assets did not change in relation to the principles described in the consolidated financial statements of the PKO Bank Polski SA Group for 2018.

Up until 30 September 2019, the Group performed block sales of impaired loan portfolios (balance sheet and off-balance sheet receivables) of more than 10 thousand individual receivables from retail and business customers amounting to approximately PLN 720 million. The total carrying amount of the provision for potential claims on sale of impaired loan portfolios as at 30 September 2019 amounted to PLN 1 million (as at 31 December 2018 it was PLN 2 million). As a result of the sale of the receivables all risks and rewards were transferred as a result of which the Bank stopped recognizing these assets. The Group did not receive any securities as a result of these transactions.

## INTERNAL RATING CLASS

The internal rating classes system did not change in relation to the principles described in the consolidated financial statements of the PKO Bank Polski SA Group for 2018

### 42. RISK MANAGEMENT OF FOREIGN CURRENCY HOUSING LOANS FOR HOUSEHOLDS

The Group analyses its portfolio of foreign currency housing loans for households in a specific manner and monitors the quality of the portfolio on an on-going basis.

The portfolio of foreign-currency housing loans for households is of good quality, as characterized, among other things, by the ratio of impaired loans.

Foreign currency home loans for households are monitored on a periodic basis. The risk profile of the portfolio of foreign-currency mortgage loans for households is regularly reported in consideration of their classification to LTV, DTI, the generation of granting, the amount of the loan granted, repayment delay and others.

HOUSING LOANS TO HOUSEHOLDS BY CURRENCY	30.09.2019			31.12.2018		
	gross	allowance	net	gross	allowance	net
PLN	91 872	(1 056)	90 816	86 024	(1 060)	84 964
CHF	22 997	(796)	22 201	23 263	(683)	22 580
EUR	2 983	(63)	2 920	3 155	(53)	3 102
USD	56	(4)	52	58	(6)	52
OTHER	207	(24)	183	146	(19)	127
<b>TOTAL</b>	<b>118 115</b>	<b>(1 943)</b>	<b>116 172</b>	<b>112 646</b>	<b>(1 821)</b>	<b>110 825</b>

As at 30 September 2019, the average LTV for the portfolio of CHF-denominated loans amounted to 62.5% (64.4% as at 31 December 2018) compared with the average LTV for the entire loan portfolio of 56.9% (59.2% as at 31 December 2018).

MORTGAGE LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
<b>30.09.2019</b>				
up to 2002 year	Gross amount	-	109	109
	Allowances for credit losses	-	(2)	(2)
	Net amount	-	107	107
	number of loans granted	-	7 014	7 014
from 2003 to 2009	Gross amount	-	19 125	19 125
	Allowances for credit losses	-	(749)	(749)
	Net amount	-	18 376	18 376
	number of loans granted	-	103 707	103 707
from 2010 to 2012	Gross amount	3 526	3 256	6 782
	Allowances for credit losses	(43)	(62)	(105)
	Net amount	3 483	3 194	6 677
	number of loans granted	11 224	12 907	24 131
from 2013 to 2016	Gross amount	5	16	21
	Allowances for credit losses	-	(4)	(4)
	Net amount	5	12	17
	number of loans granted	18	49	67
<b>Total</b>	<b>Gross amount</b>	<b>3 531</b>	<b>22 506</b>	<b>26 037</b>
	<b>Allowances for credit losses</b>	<b>(43)</b>	<b>(817)</b>	<b>(860)</b>
	<b>Net amount</b>	<b>3 488</b>	<b>21 689</b>	<b>25 177</b>
	<b>number of loans granted</b>	<b>11 242</b>	<b>123 677</b>	<b>134 919</b>

MORTGAGE LOANS AND ADVANCES IN FOREIGN CURRENCIES BY GRANTING DATE		INDEXED	DENOMINATED	Total
<b>31.12.2018</b>				
up to 2002 year	Gross amount	-	130	130
	Allowances for credit losses	-	(3)	(3)
	Net amount	-	127	127
	number of loans granted	-	7 850	7 850
from 2003 to 2009	Gross amount	-	19 392	19 392
	Allowances for credit losses	-	(648)	(648)
	Net amount	-	18 744	18 744
	number of loans granted	-	107 988	107 988
from 2010 to 2012	Gross amount	3 562	3 373	6 935
	Allowances for credit losses	(33)	(52)	(85)
	Net amount	3 529	3 321	6 850
	number of loans granted	11 527	13 353	24 880
from 2013 to 2016	Gross amount	5	17	22
	Allowances for credit losses	-	(4)	(4)
	Net amount	5	13	18
	number of loans granted	18	53	71
<b>Total</b>	<b>Gross amount</b>	<b>3 567</b>	<b>22 912</b>	<b>26 479</b>
	<b>Allowances for credit losses</b>	<b>(33)</b>	<b>(707)</b>	<b>(740)</b>
	<b>Net amount</b>	<b>3 534</b>	<b>22 205</b>	<b>25 739</b>
	<b>number of loans granted</b>	<b>11 545</b>	<b>129 244</b>	<b>140 789</b>

### 43. INTEREST RATE RISK MANAGEMENT

#### SENSITIVITY OF INTEREST INCOME

Sensitivity of the Group's interest income in the banking portfolio to the jumps in the income curve of 100 b.p in a one-year horizon in all currencies is shown in the table below:

NAME OF SENSITIVITY MEASURE	30.09.2019	31.12.2018
Sensitivity of interest income (PLN million)	998	991

#### SENSITIVITY OF ECONOMIC VALUE

The measure of sensitivity of economic value (BPV) of the Group's banking portfolio in each currency is presented in the table below.

NAME OF SENSITIVITY MEASURE	30.09.2019	31.12.2018
Sensitivity of economic value (PLN million)	5	8

#### VALUE AT RISK

The IR VaR portfolio for the Bank's operations is shown in the table below.

NAME OF SENSITIVITY MEASURE	30.09.2019	31.12.2018
IR VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)		
Average value	6	6
Maximum value	10	11
Value at the end of the period	3	5

<sup>1</sup> Due to the nature of the Group's companies' operations, the Group presents Value at Risk for the Bank in its banking portfolio.

### 44. FOREIGN EXCHANGE RISK MANAGEMENT

#### SENSITIVITY MEASURES

SENSITIVITY MEASURE	30.09.2019	31.12.2018
FX VaR for a 10-day time horizon at the confidence level of 99% (in PLN million)	3	4
Change in CUR/PLN exchange rate by 20% (in PLN million) (stress-test) <sup>2</sup>	286	256

<sup>1</sup> Taking into account the nature of the operation of the other Group companies which generate material foreign exchange risk and the specific characteristics of the market in which they operate, the Group does not determine the consolidated VaR sensitivity measure. These companies use their own risk measures to manage their foreign exchange risk. KREDOBANK SA applies the 10-day VaR which amounted to approx. PLN 0.2 million as at 30 September 2019 and to approx. PLN 0.2 million as at 31 December 2018.

<sup>2</sup> The table presents the value of the most adverse stress-test scenario: PLN appreciation of 20% and PLN depreciation of 20%.

#### FOREIGN CURRENCY POSITION

FOREIGN CURRENCY POSITION	30.09.2019	31.12.2018
EUR	(162)	(127)
USD	(11)	(49)
CHF	(14)	(34)
GBP	-	57
Other (Global, Net)	3	38

The Group's exposure to foreign exchange risk is low.

## 45. LIQUIDITY RISK MANAGEMENT

### LIQUIDITY GAP

The adjusted liquidity gap comprises a set of particular categories of items of the statement of financial position adjusted in respect of their adjusted maturities. The liquidity gaps presented below represent the sum of adjusted liquidity gaps of the Bank (adjustments relate to, among other things, the Bank's core deposits from non-financial entities and their maturities, core overdrafts of non-financial entities and their maturities, and liquid securities and their maturities), PKO Bank Hipoteczny, PKO Leasing SA, KREDOBANK SA and PKO Życie Towarzystwo Ubezpieczeń SA, and the contractual liquidity gaps of the other Group companies.

	on demand	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
30.09.2019								
adjusted periodic gap	12 318	38 483	2 275	1 077	12 990	8 488	12 598	(88 229)
adjusted cumulative periodic gap	12 318	50 801	53 076	54 153	67 143	75 631	88 229	-
31.12.2018								
adjusted periodic gap	23 068	32 000	(2 665)	46	11 732	13 006	14 745	(91 932)
adjusted cumulative periodic gap	23 068	55 068	52 403	52 449	64 181	77 187	91 932	-

In all time horizons, the adjusted cumulative liquidity gap of the Group, was positive as at 30 September 2019 and also as at 31 December 2018.

### SUPERVISORY LIQUIDITY MEASURES

The European and Polish supervisory liquidity measures which are regularly determined and monitored by the Bank and the Group are shown in the table below:

SUPERVISORY LIQUIDITY MEASURES	30.09.2019	31.12.2018
M3 - coverage ratio of non-liquid assets to own funds	14,12	17,44
M4 - coverage ratio of non-liquid assets and liquidity-restricted assets with own funds and stable external funds	1,23	1,22
LCR - liquidity coverage ratio	141,4%	132,0%

In the periods ended 30 September 2019 and 31 December 2018, liquidity measures remained above their respective supervisory limits. The M3-M4 measures indicated in the table are presented for the Bank, and the LCR measure is presented for the Group.

## 46. CAPITAL ADEQUACY

In accordance with Article 92 of the Regulation (EU) No. 575/2013 of the European Parliament and Council dated 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR) the minimum level of capital ratios maintained by the Group amounts to:

- total capital ratio (TCR) – 8.0%;
- Tier 1 capital ratio (T1) – 6.0%;
- Tier 1 core capital ratio (CET1) – 4.5%

Under the Act on Macroprudential Supervision and Crisis Management in the Financial System, the Group must keep the combined buffer, which is the sum of the applicable buffers, above the minima set out in Article 92 of the CRR, i.e.:

- a security buffer which is mandatory for all banks and amounts to 2.5% (ultimate buffer level) as of 1 January 2019;
- a countercyclical buffer is calculated in the weighted average of the countercyclical buffer ratios set by respective authorities of the states in which the Group has exposures. a countercyclical buffer is equal to 0% for credit exposures in the Republic of Poland.

- a systemic risk buffer, which is equal to 3% for credit exposures in the Republic of Poland;
- a buffer due to identifying the Bank as a systemically important institution (“O-SII”) in the amount of 1%

Furthermore, the Bank is obliged to maintain own funds to cover an additional capital requirement in order to hedge the risk resulting from mortgage-secured loans and advances to households denominated in foreign currencies (“a discretionary capital requirement”, Pol: *domiar kapitałowy*) for consolidated capital ratios: 0.42 p.p.; Tier 1 capital ratio: 0.31 p.p.; and Tier 1 core capital ratio: 0.23 p.p.

Irrespective of the above buffers, to meet the requirements for distributing 100% of the profit, the Polish Financial Supervision Authority determined an add-on in respect of the Bank's sensitivity to an adverse macroeconomic scenario, of 0.66 p.p.

#### OWN FUNDS USED IN THE CALCULATION OF CAPITAL RATIOS

In the nine-month period ended 30 September 2019 and in 2018, the Group's capital adequacy level remained at a safe level, well above the supervisory limits.

	30.09.2019	31.12.2018
<b>Total own funds</b>	<b>38 448</b>	<b>37 850</b>
<b>Tier 1 capital</b>	<b>35 748</b>	<b>35 150</b>
Tier 1 capital before regulatory adjustments and reductions, of which:	38 300	37 802
Share capital	1 250	1 250
Supplementary capital	29 428	29 281
Other reserves	3 160	3 753
General banking risk fund	1 070	1 070
Retained earnings, of which:	3 392	2 448
unappropriated profit	2 417	(88)
current profit included on approval of the PFSA	-	1 678
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	975	858
(-) Goodwill	(1 160)	(1 160)
(-) Other intangible assets	(1 595)	(1 650)
Accumulated other comprehensive income	648	249
Adjustments in Tier 1 capital due to prudential filters	(445)	(91)
provisions reflecting fair value gains and losses on instruments hedging cash flows from financial instruments not measured at fair value	(365)	(23)
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	(5)	(9)
additional valuation adjustment (AVA)	(75)	(59)
Other transitional period adjustments to Tier 1 capital	-	-
<b>Tier 2 capital</b>	<b>2 700</b>	<b>2 700</b>
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
<b>Requirements for own funds</b>	<b>17 082</b>	<b>16 035</b>
Credit risk	15 803	14 893
Operational risk	788	645
Market risk	463	472
Credit valuation adjustment risk	28	25
<b>Total capital adequacy ratio</b>	<b>18,01%</b>	<b>18,88%</b>
<b>Tier 1 capital ratio</b>	<b>16,74%</b>	<b>17,54%</b>

Comparison of own funds, capital ratio, leverage ratio of the Group reflecting and not reflecting the transitional IFRS 9 solutions, and corresponding expected credit losses.

	30.09.2019	31.12.2018
<b>Shareholders' funds (amounts)</b>		
Common equity Tier 1 capital (CET1);	35 748	35 150
Common equity Tier 1 capital (CET1), without applying IFRS 9 transitional arrangements and the respective expected credit losses	34 773	34 292
Tier 1 capital	35 748	35 150
Tier 1 capital, without applying IFRS 9 transitional arrangements and the respective expected credit losses	34 773	34 292
Total capital	38 448	37 850
Total capital, without applying IFRS 9 transitional arrangements and the respective expected credit losses	37 473	36 992
<b>Risk weighted assets (amounts)</b>		
Total risk weighted assets	213 532	200 442
Total risk weighted assets, without applying IFRS 9 transitional arrangements and the respective expected credit losses	212 632	199 624
<b>Capital ratios</b>		
Common equity Tier 1 capital (as a percentage of risk exposure)	16,74%	17,54%
Common equity Tier 1 capital (as a percentage of risk exposure), without applying IFRS 9 transitional arrangements and the respective expected credit losses	16,35%	17,18%
Tier 1 capital (as a percentage of risk exposure)	16,74%	17,54%
Tier 1 capital (as a percentage of risk exposure), without applying IFRS 9 transitional arrangements and the respective expected credit losses	16,35%	17,18%
Total capital (as a percentage of risk exposure)	18,01%	18,88%
Total capital (as a percentage of risk exposure), without applying IFRS 9 transitional arrangements and the respective expected credit losses	17,62%	18,53%
<b>Leverage ratio</b>		
Total exposure measure for leverage ratio calculation	355 640	336 797
Leverage ratio	10,05%	10,44%
Leverage ratio, without applying IFRS 9 transitional arrangements and the respective expected credit losses	9,80%	10,21%

The table below presents a reconciliation of the items of the statement of financial position used for calculating own funds and regulatory own funds as at 30 September 2019.

	Statement of financial position under IFRS	Elimination of companies excluded from prudential consolidation	Prudential consolidation/ Statement of financial position under CRR	Items not included in regulatory own funds	Items included in regulatory own funds
<b>ASSETS</b>					
Intangible assets	3 119	(163)	2 956	(201)	2 755
<b>LIABILITIES</b>					
Subordinated liabilities	2 708	-	2 708	(8)	2 700
<b>EQUITY</b>					
Share capital	1 250	-	1 250	-	1 250
Supplementary capital	29 429	(1)	29 428	-	29 428
Other reserves	3 238	(78)	3 160	-	3 160
General banking risk fund	1 070	-	1 070	-	1 070
Accumulated other comprehensive income	649	(1)	648	(365)	283
fair value of financial assets measured at fair value through other comprehensive income	485	1	486	-	486
cash flow hedges	364	1	365	(365)	-
foreign exchange differences on translation of foreign branches	(177)	(3)	(180)	-	(180)
actuarial gains and losses	(10)	(1)	(11)	-	(11)
share in other comprehensive income of subsidiaries, associates and joint ventures	(13)	1	(12)	-	(12)
<b>Net profit or loss for the year</b>	3 308	13	3 321	(3 321)	-
Retained earnings	2 101	316	2 417	-	2 417
Non-controlling interests	(10)	10	-	-	-
<b>TOTAL EQUITY</b>	41 035	259	41 294	(3 686)	37 608
<b>ADDITIONAL ADJUSTMENTS</b>					895
debit valuation adjustment, additional valuation adjustment					(80)
deferred income tax assets which depend on the future profitability but are not related to temporary timing differences					-
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity					975
<b>TOTAL OWN FUNDS FOR CALCULATION OF THE TOTAL CAPITAL RATIO</b>					38 448



The PKO Bank Polski S.A. Group's net profit consolidated in accordance with the prudence principle pursuant to the CRR amounted to PLN 3 321 million as at 30 September 2019.

#### 47. LEVERAGE RATIO

The Group calculates the leverage ratio as one of its capital adequacy measures.

For the purpose of measuring the risk of excessive leverage, the Group calculates the leverage ratio as the Tier 1 measure divided by the total exposure measure and expressed as a percentage. The leverage ratio as at 30 September 2019 and 31 December 2018 was above internal and external limits, as well as above the minimum levels as recommended by the PFSA.

To maintain the leverage ratio at an acceptable level, the Group set up a strategic tolerance limit and a threshold for the ratio and they are regularly monitored and verified periodically.

	Leverage ratio exposures specified in CRR	
	30.09.2019	31.12.2018
<b>Total capital and exposure measure</b>		
Tier 1 capital	35 748	35 150
Total exposure measure for leverage ratio calculation	355 640	336 797
<b>Leverage ratio</b>		
Leverage ratio	10,05%	10,44%

## STAND-ALONE INCOME STATEMENT

INCOME STATEMENT	Note	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Interest income	2	2 923	8 478	2 650	7 734
Interest expenses and similar charges	2	(520)	(1 542)	(490)	(1 445)
<b>Net interest income/(expense)</b>		<b>2 403</b>	<b>6 936</b>	<b>2 160</b>	<b>6 289</b>
Fee and commission income	3	906	2 631	891	2 610
Fee and commission expense	3	(279)	(785)	(256)	(745)
<b>Net fee and commission income/(expense)</b>		<b>627</b>	<b>1 846</b>	<b>635</b>	<b>1 865</b>
Dividend income	4	130	512	129	280
Net gain/(loss) on financial instruments measured at fair value through profit or loss		(1)	59	35	59
Foreign exchange gains/ (losses)		108	365	94	332
Net gains/(losses) on derecognition of financial instruments not measured at fair value through profit or loss		57	141	34	127
measured at fair value through other comprehensive income		55	139	34	119
measured at amortized cost		2	2	-	8
Net allowances for expected credit losses	5	(243)	(815)	(307)	(940)
Impairment of non-financial assets		(18)	(23)	(1)	(30)
Other operating income		28	140	32	123
Other operating expenses		(89)	(142)	(24)	(166)
<b>Net other operating income and expense</b>		<b>(61)</b>	<b>(2)</b>	<b>8</b>	<b>(43)</b>
General administrative expenses		(1 166)	(3 496)	(1 171)	(3 481)
Net regulatory charges		(54)	(438)	(95)	(461)
Tax on certain financial institutions		(237)	(697)	(220)	(651)
<b>Operating profit/(loss)</b>		<b>1 545</b>	<b>4 388</b>	<b>1 301</b>	<b>3 346</b>
<b>Profit before tax</b>		<b>1 545</b>	<b>4 388</b>	<b>1 301</b>	<b>3 346</b>
Income tax expense	6	(389)	(1 157)	(301)	(836)
<b>Net profit for the year</b>		<b>1 156</b>	<b>3 231</b>	<b>1 000</b>	<b>2 510</b>
Earnings per share					
- basic earnings per share for the period (PLN)		0,92	2,58	0,80	2,01
- diluted earnings per share for the period (PLN)		0,92	2,58	0,80	2,01
Weighted average number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250
Weighted average diluted number of ordinary shares during the period (in million)		1 250	1 250	1 250	1 250

In the nine-month period ended on 30 September 2019 and 30 September 2018, PKO Bank Polski SA did not conduct any discontinued operations.

## STAND-ALONE STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Net profit for the year	1 156	3 231	1 000	2 510
Other comprehensive income	130	212	(8)	137
Items which may be reclassified to profit or loss	130	212	(8)	137
Cash flow hedges (gross)	52	248	(29)	(56)
Deferred income tax	(10)	(47)	5	11
Net cash flow hedge	42	201	(24)	(45)
Remeasurement of fair value of financial assets measured at fair value through other comprehensive income (gross)	163	149	54	344
Gains /losses transferred to the profit or loss (on disposal)	(55)	(139)	(34)	(119)
Deferred income tax	(20)	1	(4)	(43)
Fair value of financial assets measured at fair value through other comprehensive income (net)	88	11	16	182
<b>Total net comprehensive income</b>	<b>1 286</b>	<b>3 443</b>	<b>992</b>	<b>2 647</b>

## STAND-ALONE STATEMENT OF FINANCIAL POSITION

	Note	30.09.2019	31.12.2018
<b>ASSETS</b>			
Cash and balances with the Central Bank		13 149	22 862
Amounts due from banks		7 830	11 213
Hedging derivatives		608	592
Other derivative financial instruments		3 115	1 909
Securities	7	71 551	60 439
- held for trading		934	282
- not held for trading, measured at fair value through profit or loss		658	1 280
- measured at fair value through other comprehensive income		56 687	50 562
- measured at amortized cost		13 272	8 315
Loans and advances to customers	8	201 888	191 575
- not held for trading, measured at fair value through profit or loss		9 181	1 106
- measured at fair value through other comprehensive income		8 353	8 496
- measured at amortized cost		184 354	181 973
Investments in subsidiaries, associates and joint ventures	10	3 994	3 588
Non-current assets held for sale		10	8
Intangible assets		2 503	2 595
Property, plant and equipment		2 675	2 082
Deferred income tax assets		1 086	1 232
Other assets		3 035	2 318
<b>TOTAL ASSETS</b>		<b>311 444</b>	<b>300 413</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Amounts due to the Central Bank		7	7
Amounts due to banks		1 716	1 591
- measured at fair value through profit or loss		10	-
- measured at amortized cost		1 706	1 591
Hedging derivatives		973	560
Other derivative financial instruments		3 412	2 657
Amounts due to customers	9	251 228	245 213
- measured at fair value through profit or loss		25	-
- measured at amortized cost		251 203	245 213
Liabilities in respect of securities in issue		5 494	5 367
Subordinated liabilities		2 708	2 731
Other liabilities		5 007	3 189
Current income tax liabilities		389	297
- of the Bank		369	297
- of the subsidiaries belonging to the Tax Group		20	-
Provisions		480	441
<b>TOTAL LIABILITIES</b>		<b>271 414</b>	<b>262 053</b>
<b>Equity</b>			
Share capital		1 250	1 250
Other capital		33 993	34 310
Retained earnings		1 556	(535)
Net profit or loss for the year		3 231	3 335
<b>TOTAL EQUITY</b>		<b>40 030</b>	<b>38 360</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>311 444</b>	<b>300 413</b>
Total capital adequacy ratio	12	20,90%	21,33%
Book value (in PLN million)		40 030	38 360
Number of shares (in million)		1 250	1 250
Book value per share (in PLN)		32,02	30,69
Diluted number of shares (in million)		1 250	1 250
Diluted book value per share (in PLN)		32,02	30,69

## STAND-ALONE STATEMENT OF CHANGES IN EQUITY

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019	Share capital	Other capital			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit or loss for the year	Total equity
		Supplementary capital	General banking risk fund	Other reserves					
31 December 2018	1 250	29 168	1 070	3 629	443	34 310	(535)	3 335	38 360
Changes due to IFRS 16 implementation	-	-	-	-	-	-	(111)	-	(111)
1 January 2019 (restated)	1 250	29 168	1 070	3 629	443	34 310	(646)	3 335	38 249
Transfer from retained earnings	-	-	-	-	-	-	3 335	(3 335)	-
Dividend paid	-	-	-	-	-	-	(1 662)	-	(1 662)
<b>Total comprehensive income, of which:</b>	-	-	-	-	212	212	-	3 231	3 443
Net profit for the year	-	-	-	-	-	-	-	3 231	3 231
Other comprehensive income	-	-	-	-	212	212	-	-	212
Covering of prior year loss <sup>1</sup>	-	-	-	(535)	-	(535)	535	-	-
Transfer from retained earnings to equity	-	-	-	6	-	6	(6)	-	-
30 September 2019	1 250	29 168	1 070	3 100	655	33 993	1 556	3 231	40 030

<sup>1</sup> In accordance with Resolution no. 6/2019 of the General Shareholders' Meeting, the accumulated losses amounting to PLN 535 million arose as a result of changes to accounting policies due to the first-time application of IFRS 9.

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2019	Accumulated other comprehensive income			
	Fair value of financial assets measures at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
1 January 2019	471	(18)	(10)	443
<b>Total comprehensive income, of which:</b>	11	201	-	212
Other comprehensive income	11	201	-	212
30 September 2019	482	183	(10)	655

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2018	Share capital	Other capital			Accumulated other comprehensive income	Total other capital and reserves	Retained earnings	Net profit or loss for the year	Total equity
		Reserves	Supplementary capital	General banking risk fund					
31 December 2017	1 250	27 118	1 070	3 593	182	31 963	-	2 774	35 987
Changes due to IFRS 9 implementation	-	-	-	-	(164)	(164)	(535)	-	(699)
1 January 2018 (restated)	1 250	27 118	1 070	3 593	18	31 799	(535)	2 774	35 288
Transfer from retained earnings	-	-	-	-	-	-	2 774	(2 774)	-
Dividend paid	-	-	-	-	-	-	(688)	-	(688)
<b>Total comprehensive income, of which:</b>	-	-	-	-	137	137	-	2 510	2 647
Net profit for the year	-	-	-	-	-	-	-	2 510	2 510
Other comprehensive income	-	-	-	-	137	137	-	-	137
Transfer from retained earnings to equity	-	2 050	-	36	-	2 086	(2 086)	-	-
30 September 2018	1 250	29 168	1 070	3 629	155	34 022	(535)	2 510	37 247

FOR THE 9 MONTHS ENDED 30 SEPTEMBER 2018	Accumulated other comprehensive income			
	Fair value of financial assets measures at fair value through other comprehensive income	Cash flow hedges	Actuarial gains and losses	Total
31 December 2017	266	(75)	(9)	182
Changes due to IFRS 9 implementation	(164)	-	-	(164)
As at 1 January 2018 (restated)	102	(75)	(9)	18
<b>Total comprehensive income, of which:</b>	182	(45)	-	137
Other comprehensive income	182	(45)	-	137
30 September 2018	284	(120)	(9)	155

## STAND-ALONE STATEMENT OF CASH FLOWS

	01.01- 30.09.2019	01.01- 30.09.2018
<b>Cash flows from operating activities</b>		
<b>Profit before tax</b>	<b>4 388</b>	<b>3 346</b>
<b>Total adjustments:</b>	<b>(3 526)</b>	<b>(4 577)</b>
Depreciation and amortization	610	509
(Gains)/losses on investing activities	(14)	(14)
Interest and dividends	(1 081)	(613)
Change in:		
amounts due from banks	(441)	(454)
hedging derivatives	397	886
other derivative instruments	(451)	163
securities	(1 284)	(1 131)
- held for trading	(652)	(1 580)
- not held for trading, measured at fair value through profit or loss	622	1 405
- measured at fair value through other comprehensive income (FVOCI)	(997)	(819)
- measured at amortized cost	(257)	(137)
loans and advances to customers	(9 739)	(4 906)
- not held for trading, measured at fair value through profit or loss	(8 075)	136
- measured at fair value through other comprehensive income (FVOCI)	143	302
- measured at amortized cost	(1 807)	(5 344)
non-current assets held for sale	(2)	21
other assets	(825)	(809)
accumulated allowances for credit losses	(565)	(2 325)
accumulated allowances on non-financial assets and other provisions	13	65
amounts due to banks	125	(87)
- measured at fair value through profit or loss	10	-
- measured at amortized cost	115	(87)
amounts due to customers	9 672	5 139
- measured at fair value through profit or loss	25	-
- measured at amortized cost	9 647	5 139
debt securities in issue	146	160
subordinated liabilities	(23)	(13)
other liabilities	782	147
Income tax paid	(985)	(1 266)
Other adjustments	139	(49)
<b>Net cash from/used in operating activities</b>	<b>862</b>	<b>(1 231)</b>

	01.01- 30.09.2019	01.01- 30.09.2018
<b>Cash flows from investing activities</b>		
<b>Inflows from investing activities</b>	<b>183 632</b>	<b>196 652</b>
Proceeds from sale of a subsidiary classified as held for sale	-	10
Proceeds from sale of and interest on securities measured at fair value through other comprehensive income	177 203	196 104
Redemption of and interest on securities measured at amortized cost	5 963	306
Proceeds from sale of intangible assets, property, plant and equipment and assets held for sale	51	61
Other inflows from investing activities (dividends)	415	171
<b>Outflows from investing activities</b>	<b>(192 505)</b>	<b>(194 933)</b>
Purchase of shares in subsidiaries, net of cash acquired	-	(240)
Increase in equity of subsidiaries, associates and joint ventures	(306)	(4)
Purchase of securities measured at fair value through other comprehensive income	(181 419)	(193 745)
Purchase of securities measured at amortized cost	(10 495)	(690)
Purchase of intangible assets and property, plant and equipment	(285)	(254)
<b>Net cash from/used in investing activities</b>	<b>(8 873)</b>	<b>1 719</b>

	01.01- 30.09.2019	01.01- 30.09.2018
<b>Cash flows from financing activities</b>		
Proceeds from debt securities in issue	596	645
Redemption of debt securities	(615)	(650)
Proceeds from issue of subordinated bonds	-	1 000
Dividend paid to shareholders	(1 662)	(688)
Payment of lease liabilities	151	-
Repayment of loans and advances	(3 657)	(2 656)
Repayment of interest on long-term borrowings	(342)	(335)
<b>Net cash from/used in financing activities</b>	<b>(5 529)</b>	<b>(2 684)</b>
<b>Total net cash flows</b>	<b>(13 540)</b>	<b>(2 196)</b>
of which foreign exchange differences on cash and cash equivalents	87	146
Cash equivalents at the beginning of the period	30 024	22 541
Cash equivalents at the end of the period	16 484	20 345



## NOTES TO THE STAND-ALONE FINANCIAL STATEMENTS

### 1. EXPLANATION OF THE DIFFERENCES BETWEEN PREVIOUSLY PUBLISHED FINANCIAL STATEMENTS AND THESE FINANCIAL STATEMENTS

In order to better recognize and present business events, the Bank made the following changes to these financial statements.

#### INCOME STATEMENT

INCOME STATEMENT	3 quarters period from 01.01.2018 to 30.09.2018 before restatement	separate disclosure of "net regulatory charges"	3 quarters period from 01.01.2018 to 30.09.2018 restated
Interest expenses	(1 484)	39	(1 445)
General administrative expenses	(3 903)	422	(3 481)
Net regulatory charges	-	(461)	(461)
<b>Total</b>	<b>(5 387)</b>	<b>-</b>	<b>(5 387)</b>

INCOME STATEMENT	third quarter period from 01.07.2018 to 30.09.2018 before restatement	separate disclosure of "net regulatory charges"	third quarter period from 01.07.2018 to 30.09.2018 restated
Interest expenses	(504)	14	(490)
General administrative expenses	(1 252)	81	(1 171)
Net regulatory charges	-	(95)	(95)
<b>Total</b>	<b>(1 756)</b>	<b>-</b>	<b>(1 756)</b>

#### STATEMENT OF CASH FLOWS

CASH FLOW STATEMENT	3 quarters period from 01.01.2018 to 30.09.2018 before restatement	separate disclosure and reclassification to new items	3 quarters period from 01.01.2018 to 30.09.2018 restated
<b>Cash flows from operating activities</b>			
change in securities	(1 114)	(17)	(1 131)
change in loans and advances to customers	(4 898)	(8)	(4 906)
change in provisions and allowances for credit losses	(2 350)	2 350	-
change in accumulated allowances for credit losses	-	(2 325)	(2 325)
change in accumulated allowances on non-financial assets and other provisions	-	65	65
other adjustments	16	(65)	(49)
<b>Total</b>	<b>(8 346)</b>	<b>-</b>	<b>(8 346)</b>

## NOTES TO THE STAND-ALONE INCOME STATEMENT

### 2. INTEREST INCOME AND EXPENSES

INTEREST ON:	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
loans to and other receivables from banks	49	126	41	118
hedging derivatives	135	406	125	372
debt securities	398	1 195	333	979
measured at amortized cost	78	218	47	137
measured at fair value through other comprehensive income	314	939	265	783
measured at fair value through profit or loss	6	38	21	59
loans and advances to customers	2 341	6 751	2 151	6 265
measured at amortized cost	1 489	5 757	2 082	6 051
measured at fair value through other comprehensive income	73	195	63	197
measured at fair value through profit or loss	779	799	6	17
<b>Total</b>	<b>2 923</b>	<b>8 478</b>	<b>2 650</b>	<b>7 734</b>
of which: interest income on impaired financial instruments	48	173	74	209
Interest income calculated under the effective interest rate method	2 003	7 235	2 498	7 286
on financial instruments measured at amortized cost	1 616	6 101	2 170	6 306
on instruments measured at fair value through other comprehensive income (FVOCI)	387	1 134	328	980
Income similar to interest income on instruments measured at fair value through profit or loss	920	1 243	152	448

INTEREST EXPENSES ON:	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
amounts due to banks (excluding loans and advances received)	(3)	(9)	(2)	(10)
deposits	(2)	(10)	(6)	(14)
loans and advances received	(56)	(160)	(57)	(178)
leases	(5)	(15)	-	-
amounts due to customers (excluding loans and advances received)	(392)	(1 167)	(366)	(1 094)
debt securities	(29)	(82)	(25)	(58)
measured at amortized cost	(3)	(6)	-	-
measured at fair value through other comprehensive income	(24)	(66)	(20)	(43)
measured at fair value through profit or loss	(2)	(10)	(5)	(15)
debt securities in issue	(11)	(32)	(11)	(29)
subordinated liabilities	(22)	(67)	(23)	(62)
<b>Total</b>	<b>(520)</b>	<b>(1 542)</b>	<b>(490)</b>	<b>(1 445)</b>

### 3. FEE AND COMMISSION INCOME AND EXPENSES

FEE AND COMMISSION INCOME	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
<b>Loans and insurance</b>	<b>228</b>	<b>664</b>	<b>201</b>	<b>583</b>
granting of loans and advances	177	519	161	470
offering insurance products	51	145	40	113
<b>Investment and pension funds and brokerage activity</b>	<b>48</b>	<b>161</b>	<b>87</b>	<b>283</b>
servicing investment funds and OFE (including management fees)	8	32	57	159
servicing and selling investment and insurance products	3	9	3	10
brokerage activities	37	120	27	114
<b>Cards</b>	<b>354</b>	<b>974</b>	<b>321</b>	<b>900</b>
<b>Bank accounts and other</b>	<b>276</b>	<b>832</b>	<b>282</b>	<b>844</b>
servicing bank accounts	201	611	203	607
cash operations	16	48	19	61
servicing foreign mass transactions	26	74	28	78
selling and distributing court fee stamps	-	-	-	1
customer orders	12	35	11	33
fiduciary services	1	4	2	5
other	20	60	19	59
<b>Total</b>	<b>906</b>	<b>2 631</b>	<b>891</b>	<b>2 610</b>

FEE AND COMMISSION EXPENSE	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Investment and pension funds and brokerage activity	(4)	(13)	(4)	(14)
Cards	(202)	(555)	(180)	(509)
Bank accounts and other	(73)	(217)	(72)	(222)
commission paid to external entities for product sales	(19)	(54)	(19)	(59)
cost of construction investment supervision and property valuation	(11)	(35)	(12)	(34)
clearing services	(8)	(26)	(8)	(23)
commissions for operating services provided by banks	(2)	(6)	(4)	(10)
sending short text messages (SMS)	(9)	(25)	(6)	(19)
other	(24)	(71)	(23)	(77)
<b>Total</b>	<b>(279)</b>	<b>(785)</b>	<b>(256)</b>	<b>(745)</b>

#### 4. DIVIDEND INCOME

DIVIDEND INCOME	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
from issuers not related to the Bank, with respect to:				
financial assets held for trading	1	13	1	12
financial instruments not held for trading, measured at fair value through profit or loss	-	12	1	12
from subsidiaries, joint ventures and associates, of which:	129	499	128	268
PKO Towarzystwa Funduszy Inwestycyjnych SA	75	243	60	124
CEUP eService Sp. z o.o.	-	24	4	17
PKO BP BANKOWY PTE SA	-	13	-	8
PKO BP Finat sp. z o.o.	13	36	14	58
PKO Życie Towarzystwo Ubezpieczeń SA	-	24	-	-
PKO Leasing SA	41	159	50	61
<b>Total</b>	<b>130</b>	<b>512</b>	<b>129</b>	<b>280</b>

#### 5. NET ALLOWANCES FOR CREDIT LOSSES

NET ALLOWANCES FOR EXPECTED CREDIT LOSSES	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Amounts due from banks	(2)	(1)	1	-
measured at amortized cost	(2)	(1)	1	-
Debt securities	6	-	-	7
measured at fair value through other comprehensive income (FVOCI)	1	(9)	4	8
measured at amortized cost	5	9	(4)	(1)
Loans and advances to customers	(222)	(792)	(294)	(929)
measured at fair value through other comprehensive income (FVOCI)	4	2	(4)	(9)
housing	4	2	(4)	(9)
measured at amortized cost	(226)	(794)	(290)	(920)
housing	(44)	(101)	(40)	(85)
business	(59)	(274)	(103)	(446)
consumer	(123)	(419)	(147)	(389)
Other financial assets	-	-	(1)	(1)
Provisions for financial liabilities and guarantees granted	(25)	(22)	(13)	(17)
<b>Total</b>	<b>(243)</b>	<b>(815)</b>	<b>(307)</b>	<b>(940)</b>

ACCUMULATED ALLOWANCES FOR CREDIT LOSSES (BALANCE)	30.09.2019	31.12.2018
Amounts due from banks	3	4
measured at amortized cost	3	4
Debt securities	17	30
measured at fair value through other comprehensive income (FVOCI)	7	10
measured at amortized cost	10	20
Loans and advances to customers	6 935	7 511
measured at amortized cost	6 935	7 511
Provisions for financial liabilities and guarantees granted	250	227
Other financial assets	97	95
<b>Total</b>	<b>7 302</b>	<b>7 867</b>

## 6. INCOME TAX

	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Current income tax expense	(369)	(1 057)	(472)	(1 065)
Deferred income tax on temporary differences	(20)	(100)	171	229
<b>Income tax expense recognized in the income statement</b>	<b>(389)</b>	<b>(1 157)</b>	<b>(301)</b>	<b>(836)</b>
Income tax expense on temporary differences recognized in other comprehensive income	(30)	(46)	1	(32)
<b>Total</b>	<b>(419)</b>	<b>(1 203)</b>	<b>(300)</b>	<b>(868)</b>

	third quarter period from 01.07.2019 to 30.09.2019	3 quarters cumulative period from 01.01.2019 to 30.09.2019	third quarter period from 01.07.2018 to 30.09.2018	3 quarters cumulative period from 01.01.2018 to 30.09.2018
Profit before tax	1 545	4 388	1 301	3 346
Tax calculated using the enacted rate in force in Poland (19%)	(294)	(834)	(247)	(636)
Effect of permanent timing differences, of which:	(95)	(323)	(54)	(200)
contributions and payments to the BGF	(8)	(85)	(13)	(68)
tax on certain financial institutions	(46)	(133)	(42)	(124)
3% flat-rate income tax on interest for non-residents	-	(12)	-	-
other permanent differences	(41)	(93)	1	(8)
Income tax expense recognized in the income statement	(389)	(1 157)	(301)	(836)
<b>Effective tax rate</b>	<b>25,2%</b>	<b>26,4%</b>	<b>23,1%</b>	<b>25,0%</b>

## NOTES TO THE STAND-ALONE STATEMENT OF FINANCIAL POSITION

### 7. SECURITIES

SECURITIES	30.09.2019	31.12.2018
Securities (excluding adjustments relating to fair value hedge accounting)	71 545	60 439
Adjustment relating to fair value hedge accounting	6	-
<b>Total</b>	<b>71 551</b>	<b>60 439</b>

SECURITIES (excluding adjustments relating to fair value hedge accounting) 30.09.2019	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost	Total
Debt securities	914	299	56 687	13 266	71 166
NBP money market bills	-	-	-	1 500	1 500
Treasury bonds (in PLN)	742	117	46 807	5 824	53 490
Treasury bonds (in foreign currencies)	2	-	640	-	642
municipal bonds (in PLN)	16	-	5 321	4 526	9 863
corporate bonds (in PLN)	96	182	3 566	1 416	5 260
corporate bonds (in foreign currencies)	1	-	353	-	354
covered bonds	57	-	-	-	57
Equity securities	20	359	-	-	379
shares in other entities - not listed <sup>1</sup>	-	333	-	-	333
shares in other entities - listed	19	26	-	-	45
investment certificates, rights to shares, pre-emptive rights	1	-	-	-	1
<b>Total</b>	<b>934</b>	<b>658</b>	<b>56 687</b>	<b>13 266</b>	<b>71 545</b>

<sup>1</sup> [młynik w not listed] The item comprises the interest in: Polski Standard Płatności sp. z o.o. of PLN 27 million and Visa Inc. of PLN 201 million.

SECURITIES (excluding adjustments relating to fair value hedge accounting) 31.12.2018	held for trading	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost	Total
Debt securities	264	972	50 562	8 315	60 113
NBP money market bills	-	-	2 900	-	2 900
Treasury bonds (in PLN)	94	820	38 276	2 200	41 390
Treasury bonds (in foreign currencies)	4	-	-	-	4
municipal bonds (in PLN)	16	-	5 301	4 007	9 324
corporate bonds (in foreign currencies)	-	37	-	-	37
corporate bonds (in PLN)	103	115	4 033	1 764	6 015
corporate bonds (in foreign currencies)	1	-	52	344	397
covered bonds	46	-	-	-	46
Equity securities	18	308	-	-	326
shares in other entities - not listed <sup>1</sup>	-	266	-	-	266
shares in other entities - listed	13	42	-	-	55
investment certificates, rights to shares, pre-emptive rights	5	-	-	-	5
<b>Total</b>	<b>282</b>	<b>1 280</b>	<b>50 562</b>	<b>8 315</b>	<b>60 439</b>

<sup>1</sup> the item comprises, among other things, the interest in Polski Standard Płatności sp. z o.o. of PLN 22 million and Visa Inc. of PLN 142 million.

The item T-bonds in PLN and in foreign currencies comprises Polish T-bonds.

As at 30 September 2019, the impairment allowance which did not reduce the fair value of securities measured at fair value through other comprehensive income amounted to PLN 35 million (PLN 18 million as at 31 December 2018). PLN 18 million.

## 8. LOANS AND ADVANCES TO CUSTOMERS

LOANS AND ADVANCES TO CUSTOMERS	30.09.2019	31.12.2018
	Net amount	Net amount
Loans and advances to customers (excluding adjustments relating to fair value hedge accounting)	201 880	191 574
Adjustment relating to fair value hedge accounting	8	1
<b>Total loans and advances to customers</b>	<b>201 888</b>	<b>191 575</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 30.09.2019	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost		Total	
			Gross amount	Allowances for credit losses		
	Net amount	Net amount	Gross amount	Allowances for credit losses	Net amount	Net amount
<b>Loans</b>	<b>9 181</b>	<b>8 353</b>	<b>189 910</b>	<b>(6 935)</b>	<b>182 975</b>	<b>200 509</b>
mortgage banking	19	8 353	80 339	(1 861)	78 478	86 850
housing	19	8 353	80 339	(1 861)	78 478	86 850
business	102	-	68 609	(1 620)	66 989	67 091
housing	-	-	340	(27)	313	313
business	102	-	68 269	(1 593)	66 676	66 778
retail and private banking	8 976	-	20 776	(1 183)	19 593	28 569
consumer	8 976	-	20 776	(1 183)	19 593	28 569
SME	84	-	20 186	(2 271)	17 915	17 999
housing	-	-	5 875	(139)	5 736	5 736
business	84	-	14 311	(2 132)	12 179	12 263
Reverse repo transactions	-	-	1 371	-	1 371	1 371
<b>Total</b>	<b>9 181</b>	<b>8 353</b>	<b>191 281</b>	<b>(6 935)</b>	<b>184 346</b>	<b>201 880</b>

LOANS AND ADVANCES TO CUSTOMERS (excluding adjustments relating to fair value hedge accounting) 31.12.2018	not held for trading, measured at fair value through profit or loss	measured at fair value through other comprehensive income (FVOCI)	measured at amortized cost		Total	
			Gross amount	Allowances for credit losses		
	Net amount	Net amount	Gross amount	Allowances for credit losses	Net amount	Net amount
<b>Loans</b>	<b>1 106</b>	<b>8 496</b>	<b>189 432</b>	<b>(7 511)</b>	<b>181 921</b>	<b>191 523</b>
mortgage banking	27	8 496	78 911	(1 757)	77 154	85 677
housing	27	8 496	78 911	(1 757)	77 154	85 677
business	121	-	64 066	(1 870)	62 196	62 317
housing	-	-	319	(54)	265	265
business	121	-	63 747	(1 816)	61 931	62 052
retail and private banking	931	-	26 822	(1 674)	25 148	26 079
consumer	931	-	26 822	(1 674)	25 148	26 079
SME	27	-	19 633	(2 210)	17 423	17 450
housing	-	-	5 981	(129)	5 852	5 852
business	27	-	13 652	(2 081)	11 571	11 598
Reverse repo transactions	-	-	51	-	51	51
<b>Total</b>	<b>1 106</b>	<b>8 496</b>	<b>189 483</b>	<b>(7 511)</b>	<b>181 972</b>	<b>191 574</b>

As at 30 September 2019, the allowances in respect of loans and advances to Customers measured at fair value through other comprehensive income was PLN 27 million (PLN 22 million as at 31 December 2018).

## 9. AMOUNTS DUE TO CUSTOMERS

AMOUNTS DUE TO CUSTOMERS	30.09.2019	31.12.2018
<b>Measured at fair value through profit or loss</b>	<b>25</b>	<b>-</b>
short position in securities	25	-
<b>Measured at amortized cost</b>	<b>251 203</b>	<b>245 213</b>
Amounts due to individuals	177 772	164 385
Current accounts and overnight deposits	115 873	102 859
of which: saving accounts	36 807	32 192
Term deposits	61 324	61 138
Other liabilities	575	388
Amounts due to business entities	53 920	55 530
Current accounts and overnight deposits	42 840	38 835
of which: saving accounts	45	46
Term deposits	10 160	15 740
Other liabilities	874	910
Amounts due from repurchase agreements	46	45
Amounts due to public sector	14 207	16 459
Current accounts and overnight deposits	10 521	11 242
Term deposits	3 671	5 115
Other liabilities	15	102
Loans and advances received	5 304	8 839
<b>Total</b>	<b>251 228</b>	<b>245 213</b>

AMOUNTS DUE TO CUSTOMERS BY SEGMENT	30.09.2019	31.12.2018
retail and private banking	167 200	154 259
business	50 986	55 868
SME	27 692	26 202
repo transactions	46	45
loans and advances received	5 304	8 839
<b>Total</b>	<b>251 228</b>	<b>245 213</b>

### LOANS AND ADVANCES RECEIVED FROM OTHER ENTITIES

In the 9 months ended 30 September 2019, the Bank repaid the loan of EUR 500 million (PLN 2 143 million) received from PKO Finance AB on time and made an early repayment of the line of credit and the third tranche of the loan of CHF 182 million (PLN 688 million) granted by the European Investment Bank. Furthermore the Bank made repayments of principal on loans received from the Bank of the Council of Europe on time.

- the fifth principal instalment of CHF 15 million (PLN 57 million), the first tranche of the loan granted of CHF 76 million;
- the first principal instalment of EUR 15 million (PLN 66 million), the second tranche of the loan granted of EUR 75 million.

In 2018, the Bank drew a loan of PLN 646 million from international financial institutions.

## 10. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

AS AT 30 SEPTEMBER 2019	Gross amount	Impairment allowance	Carrying amount
<b>SUBSIDIARIES</b>			
PKO Bank Hipoteczny SA	1 650	-	1 650
KREDOBANK SA	1 072	(793)	279
PKO Leasing SA	496	-	496
PKO Życie Towarzystwo Ubezpieczeń SA	240	-	240
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan <sup>1</sup>	200	-	200
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan <sup>1</sup>	132	-	132
Merkury - fiz an <sup>1</sup>	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	25	(23)	2
PKO BP Finat sp. z o.o.	21	-	21
<b>JOINT VENTURES</b>			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
Operator Chmury Krajowej sp. z o.o.	60	-	60
<b>ASSOCIATES</b>			
Bank Pocztowy SA	184	(97)	87
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	2	(2)	-
<b>Total</b>	<b>4 909</b>	<b>(915)</b>	<b>3 994</b>

<sup>1</sup> PKO Bank Polski SA holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.

AS AT 31 DECEMBER 2018	Gross amount	Impairment allowance	Carrying amount
<b>SUBSIDIARIES</b>			
PKO Bank Hipoteczny SA	1 300	-	1 300
KREDOBANK SA	1 072	(793)	279
Qualia Development sp. z o. o.	318	-	318
PKO Życie Towarzystwo Ubezpieczeń SA	240	-	240
PKO Towarzystwo Funduszy Inwestycyjnych SA	225	-	225
PKO VC - fizan <sup>1</sup>	200	-	200
PKO Leasing SA	178	-	178
PKO BP BANKOWY PTE SA	151	-	151
NEPTUN - fizan <sup>1</sup>	132	-	132
Merkury - fiz an <sup>1</sup>	120	-	120
PKO Towarzystwo Ubezpieczeń SA	110	-	110
PKO Finance AB	24	-	24
ZenCard sp. z o.o.	25	(23)	2
PKO BP Finat sp. z o.o.	21	-	21
Operator Chmury Krajowej sp. z o.o.	4	-	4
<b>JOINT VENTURES</b>			
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	197	-	197
<b>ASSOCIATES</b>			
Bank Pocztowy SA	184	(97)	87
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	2	(2)	-
<b>Total</b>	<b>4 503</b>	<b>(915)</b>	<b>3 588</b>

<sup>1</sup> PKO Bank Polski SA holds investment certificates of the Fund which allow to control the Fund in accordance with IFRS.



## OTHER NOTES

### 11. RELATED PARTY TRANSACTIONS CAPITAL LINKS

#### RELATED-PARTY TRANSACTIONS – CAPITAL LINKS

PKO Bank Polski SA provided arm's length services to its related (subordinated) entities within the scope of maintaining bank accounts, accepting deposits, granting loans and advances, taking up issues of debt securities, granting guarantees and spot exchange transactions, and offering units and certificates of investment funds, lease, factoring and insurance products of the PKO Bank Polski SA Group, as well as services offered by Biuro Maklerskie PKO Banku Polskiego SA (Brokerage House).

PKO Bank Polski SA provided services to PKO Bank Hipoteczny SA consisting of intermediation in sales of housing loans for individuals, performing aftersales services in respect of these loans and support tasks under an outsourcing agreement. The Bank offered its infrastructure and IT services, and rented office space to selected companies of PKO Bank Polski SA's Group. Together with Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o. it provided payment transaction clearing services.

AS AT 30 SEPTEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
KREDOBANK SA and its subsidiary	180	-	-	10	123
Merkury - fiz an and its subsidiaries	-	-	-	23	-
NEPTUN - fizan and its subsidiaries	152	152	-	66	-
PKO Bank Hipoteczny SA <sup>1</sup>	4 550	4 473	-	503	4 547
PKO BP BANKOWY PTE SA	-	-	-	24	-
PKO BP Finat sp. z o.o.	13	-	-	41	13
PKO Finance AB	-	-	4 213	-	-
PKO Leasing SA and its subsidiaries <sup>2</sup>	17 034	16 995	-	34	5 285
PKO Towarzystwo Funduszy Inwestycyjnych SA	77	-	-	254	-
PKO Towarzystwo Ubezpieczeń SA	-	-	-	26	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	-	501	1
ZenCard sp. z o.o.	3	3	-	1	3
<b>Total subsidiaries</b>	<b>22 009</b>	<b>21 623</b>	<b>5 696</b>	<b>9 972</b>	

<sup>1</sup> Receivables from PKO Bank Hipoteczny SA in respect of sales of mortgage-secured housing loans by the Bank amounted to PLN 2 518 million.

<sup>2</sup> this item includes two loans granted in June 2019 to the company PCM amounting to PLN 1 890 million in order to change the financial structure

AS AT 30 SEPTEMBER 2019 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	25	-	23	76	36
"Centrum Obsługi Biznesu" Sp. z o.o.	19	-	19	6	-
Bank Pocztowy SA	-	-	-	-	1
Operator Chmury Krajowej sp. z o.o.	-	-	-	51	800
<b>Total joint ventures and associates</b>	<b>44</b>	<b>42</b>	<b>133</b>	<b>837</b>	

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted	
KREDOBANK SA and its subsidiary	123	-	-	1	113
Merkury - fiz an and its subsidiaries	-	-	-	22	-
NEPTUN - fizan and its subsidiaries	159	159	-	52	-
PKO Bank Hipoteczny SA <sup>1</sup>	4 296	1 729	-	168	3 117
PKO BP BANKOWY PTE SA	-	-	-	14	-
PKO BP Finat sp. z o.o.	1	-	-	39	1
PKO Finance AB	-	-	6 238	-	-
PKO Leasing SA and its subsidiaries	15 121	15 120	-	36	4 304
PKO Towarzystwo Funduszy Inwestycyjnych SA	33	-	-	224	-
PKO Towarzystwo Ubezpieczeń SA	-	-	-	26	-
PKO Życie Towarzystwo Ubezpieczeń SA	-	-	-	472	1
Qualia Development Sp. z o.o. and its subsidiaries	-	-	-	384	-
ZenCard sp. z o.o.	-	-	-	1	-
Operator Chmury Krajowej sp. z o.o.	-	-	-	4	-
<b>Total subsidiaries</b>	<b>19 733</b>	<b>17 008</b>	<b>7 681</b>	<b>7 536</b>	

<sup>1</sup> Receivables from PKO Bank Hipoteczny SA in respect of sales of mortgage-secured housing loans by the Bank amounted to PLN 2 300 million.

AS AT 31 DECEMBER 2018 / ENTITY	Receivables	of which loans	Liabilities	Off-balance sheet liabilities granted
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	40	13	43	23
"Centrum Obsługi Biznesu" Sp. z o.o.	18	18	8	-
Bank Pocztowy SA	-	-	-	1
"Poznański Fundusz Poręczeń Kredytowych" sp. z o.o.	-	-	5	-
<b>Total joint ventures and associates</b>	<b>58</b>	<b>31</b>	<b>56</b>	<b>24</b>

FOR THE PERIOD ENDED 30 SEPTEMBER 2019 / ENTITY	Total income	of which interest and commission income	Total expenses	of which interest and commission income
KREDOBANK SA and its subsidiary	2	2	-	-
Merkury - fizan and its subsidiaries	-	-	-	-
NEPTUN - fizan and its subsidiaries	2	2	-	-
PKO Bank Hipoteczny SA	290	276	1	1
PKO BP BANKOWY PTE SA	13	-	-	-
PKO BP Finat sp. z o.o.	38	-	4	1
PKO Finance AB	-	-	143	143
PKO Leasing SA and its subsidiaries	433	273	1	1
PKO Towarzystwo Funduszy Inwestycyjnych SA	251	7	2	2
PKO Towarzystwo Ubezpieczeń SA	89	65	9	9
PKO Życie Towarzystwo Ubezpieczeń SA	45	44	18	18
Operator Chmury Krajowej sp. z o.o.	1	1	1	-
<b>Total subsidiaries</b>	<b>1 164</b>	<b>670</b>	<b>179</b>	<b>175</b>

FOR THE PERIOD ENDED 30 SEPTEMBER 2019 / ENTITY	Total income	of which interest and commission income	Total expenses	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	362	335	93	93
"Centrum Obsługi Biznesu" Sp. z o.o.	1 239	1 239	-	-
<b>Total joint ventures and associates</b>	<b>1 601</b>	<b>1 574</b>	<b>93</b>	<b>93</b>

FOR THE PERIOD ENDED 30 SEPTEMBER 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
KREDOBANK SA and its subsidiary	2	2	-	-
NEPTUN - fizan and its subsidiaries	2	2	-	-
PKO Bank Hipoteczny SA	187	177	1	1
PKO BP BANKOWY PTE SA	9	-	-	-
PKO BP Finat sp. z o.o.	60	-	4	-
PKO Finance AB	-	-	211	211
PKO Leasing SA and its subsidiaries	229	213	13	-
PKO Towarzystwo Funduszy Inwestycyjnych SA	163	96	1	1
PKO Towarzystwo Ubezpieczeń SA	56	56	5	5
PKO Życie Towarzystwo Ubezpieczeń SA	42	42	8	8
Qualia Development Sp. z o.o.	-	-	2	2
<b>Total subsidiaries</b>	<b>750</b>	<b>588</b>	<b>245</b>	<b>228</b>

FOR THE PERIOD ENDED 30 SEPTEMBER 2018 / ENTITY	Total income	of which interest and commission income	Total expense	of which interest and commission income
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.	200	168	54	54
"Centrum Obsługi Biznesu" Sp. z o.o.	1	1	-	-
<b>Total joint ventures and associates</b>	<b>201</b>	<b>169</b>	<b>54</b>	<b>54</b>

## 12. CAPITAL ADEQUACY

	30.09.2019	31.12.2018
<b>Total own funds</b>	<b>38 852</b>	<b>37 770</b>
<b>Tier 1 capital</b>	<b>36 152</b>	<b>35 070</b>
Tier 1 capital before regulatory adjustments and reductions, of which:	38 070	37 061
Share capital	1 250	1 250
Supplementary capital	29 168	29 168
Other reserves	3 100	3 629
General banking risk fund	1 070	1 070
Retained earnings, of which:	3 482	1 944
unappropriated profit	1 556	(535)
current profit included on approval of the PFSA	1 042	1 635
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	884	844
(-) Goodwill	(871)	(871)
(-) Other intangible assets	(1 431)	(1 503)
Accumulated other comprehensive income	655	443
Adjustments in Tier 1 capital due to prudential filters	(271)	(60)
cash flow hedges	(183)	17
fair value gains and losses arising from the institution's own credit risk related to derivative liabilities (DVA)	(6)	(11)
additional value adjustment (AVA)	(82)	(66)
Other transitional period adjustments to Tier 1 basic capital	-	-
<b>Tier 2 capital</b>	<b>2 700</b>	<b>2 700</b>
Equity instruments and subordinated loans eligible as Tier 2 capital	2 700	2 700
<b>Requirements for own funds</b>	<b>14 870</b>	<b>14 169</b>
Credit risk	13 831	13 216
Operational risk	527	437
Market risk	484	491
Credit valuation adjustment risk	28	25
<b>Total capital adequacy ratio</b>	<b>20,90%</b>	<b>21,33%</b>
<b>Tier 1 capital ratio</b>	<b>19,45%</b>	<b>19,80%</b>

The table below shows a reconciliation of the items of the statement of financial position used for calculating own funds and regulatory own funds.

	Statement of financial position under IFRS	Items not included in regulatory own funds	Items included in regulatory own funds
<b>ASSETS</b>			
Intangible assets	2 503	(201)	2 302
<b>LIABILITIES</b>			
Subordinated liabilities	2 708	(8)	2 700
<b>EQUITY</b>			
Share capital	1 250	-	1 250
Supplementary capital	29 168	-	29 168
Other reserves	3 100	-	3 100
General banking risk fund	1 070	-	1 070
Accumulated other comprehensive income	655	(183)	472
revaluation reserve in respect of securities measured at fair value through other comprehensive income (FVOCI)	482	-	482
revaluation reserve in respect of cash flow hedges	183	(183)	-
foreign exchange differences on translation	-	-	-
actuarial gains and losses	(10)	-	(10)
Net profit or loss for the year	3 231	(2 189)	1 042
Unappropriated profit	1 556	-	1 556
<b>TOTAL EQUITY</b>	<b>40 030</b>	<b>(2 372)</b>	<b>37 658</b>
<b>ADDITIONAL ADJUSTMENTS</b>			
additional fair value adjustments (DVA, AVA)	-	-	(88)
adjustment resulting from transitional solutions to mitigate the impact of IFRS 9 adoption on equity	-	-	884
<b>TOTAL OWN FUNDS FOR CALCULATION OF THE TOTAL CAPITAL RATIO</b>			<b>38 852</b>

## SUBSEQUENT EVENTS

### 13. EVENTS THAT TOOK PLACE AFTER THE BALANCE SHEET DATE

After the balance sheet date no events took place which could have a significant impact on future financial results.

### SIGNATURES OF ALL MEMBERS OF THE BANK'S MANAGEMENT BOARD

05.11.2019	ZBIGNIEW JAGIEŁŁO	PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	RAFAŁ ANTCZAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	RAFAŁ KOZŁOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	MAKS KRACZKOWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	MIECZYŚŁAW KRÓL	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	ADAM MARCINIAK	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	PIOTR MAZUR	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	JAKUB PAPIERSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)
05.11.2019	JAN EMERYK ROŚCISZEWSKI	VICE-PRESIDENT OF THE MANAGEMENT BOARD	..... (SIGNATURE)

SIGNATURE OF THE PERSON RESPONSIBLE FOR MAINTAINING  
THE BOOKS OF ACCOUNT

DANUTA SZYMAŃSKA  
DIRECTOR OF ACCOUNTING

.....  
(SIGNATURE)