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PKO Bank Hipoteczny SA Directors' Report for the six months ended 30 June 2022

SELECTED FINANCIAL DATA FOR THE PERIOD FROM 1 JANUARY 2022 TO 30 JUNE 2022

INCOME STATEMENT in PLN M	01.01.2022 – 30.06.2022	01.01.2021 – 30.06.2021	Y/y change (in PLN M)
Net interest income	155.2	152.7	2.5
Net fee and commission income	0.3	(3.6)	3.9
Net gain/(loss) on financial instruments measured at fair value through profit or loss	0.0	0.0	0.0
Net foreign exchange gains/(losses)	0.2	0.0	0.2
Net income/(expense) on modification	10.2	0.3	9.9
Net expected credit losses	0.2	(1.4)	1.6
Net other operating income and expenses	0.1	0.1	0.0
Administrative expenses	(21.7)	(24.8)	3.1
Regulatory charges	(31.0)	(24.6)	(6.4)
Tax on certain financial institutions	(37.0)	(42.8)	5.8
Operating profit	76.5	55.9	20.6
Profit before tax	76.5	55.9	20.6
Corporate income tax	(25.7)	(22.0)	(3.7)
Net profit	50.8	33.9	16.9

STATEMENT OF FINANCIAL POSITION IN PLN M	30.06.2022	31.12.2021
Cash and balances with the Central Bank	0.3	50.4
Amounts due from banks	4.4	0.5
Derivative hedging instruments	594.2	841.5
Securities	1,059.8	1,870.7
Loans and advances to customers	20,784.5	22,848.6
Other assets ¹	16.6	8.7
TOTAL ASSETS	22,459.8	25,620.4
Amounts due to banks	8,408.3	6,544.5
Derivative hedging instruments	10.0	2.0
Liabilities in respect of mortgage covered bonds issued	9,923.4	13,146.4
Liabilities in respect of bonds issued	2,088.3	3,728.1
Other liabilities and provisions ²	91.6	85.7
Equity	1,938.2	2,113.7
TOTAL EQUITY AND LIABILITIES	22,459.8	25,620.4

¹ Covering the following items of the statement of financial position: intangible assets, property, plant and equipment and other assets.

² Covering the following items of the statement of financial position: amounts due to customers; other liabilities, current income tax liabilities, deferred income tax provision and provisions.

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PKO BANK HIPOTECZNY SA
DIRECTORS' REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2022

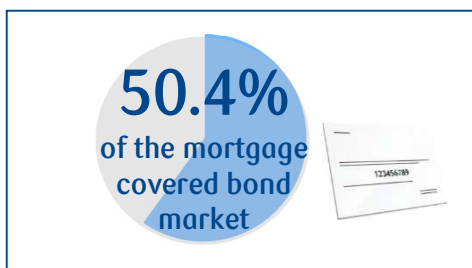


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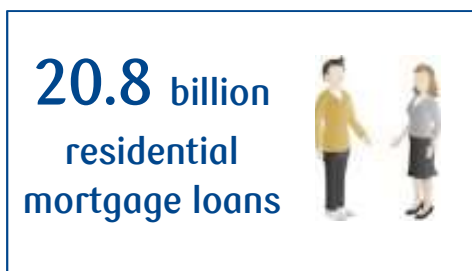
1. INTRODUCTION

PKO Bank Hipoteczny SA (the "Bank") specializes in granting residential mortgage loans to individual customers and purchasing receivables in respect of such loans. PKO Bank Hipoteczny SA (the "Bank") specializes in granting residential mortgage loans to individual customers and purchasing receivables in respect of such loans. The Bank acquires loans for its portfolio based on strategic cooperation with PKO Bank Polski SA. The mortgage loans granted or acquired constitute the basis of the Bank's mortgage covered bonds issue operations.



PKO Bank Hipoteczny SA is the leader on the Polish mortgage bank market in terms of total assets and the balance of residential mortgage loans. The Bank is Poland's largest issuer of mortgage covered bonds on Polish and international markets. It was the only bank in Poland to carry out benchmark issues of euro-denominated mortgage covered bonds, in the total number of five to 30 June 2022. In the first half of 2022 the Bank announced a subscription for the sixth benchmark issue in EUR, carried out on 4 July 2022. As at the end of June 2022, the outstanding mortgage covered bonds issued by the Bank account for approx. 50.4% of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks.

As at the end of June 2022, the outstanding mortgage covered bonds issued by the Bank account for approx. 50.4% of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks.



As at the end of June 2022, the Bank's total assets exceeded PLN 22.5 billion, of which PLN 20.8 billion were a high quality portfolio of residential loans.

EVALUATION OF PKO BANK HIPOTECZNY SA'S FINANCIAL CREDIBILITY – RATING

The financial credibility of PKO Bank Hipoteczny SA and the mortgage covered bonds issued by the Bank is assessed by the Moody's Investors Service Ltd international rating agency.

As at 30 June 2022, PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

	Rating	Outlook	Data of initial rating/rating confirmation date
Long-term issuer rating	A3	Stable	13.07.2021
Short-term issuer rating	P-2	n/a	13.07.2021
Opinion on long-term counterparty risk	A2(cr)	n/a	13.07.2021
Opinion on short-term counterparty risk	P-1(cr)	n/a	13.07.2021
Long-term counterparty risk rating	A2	n/a	13.07.2021
Short-term counterparty risk rating	P-1	n/a	13.07.2021

As at 30 June 2022, PKO Bank Hipoteczny SA's mortgage covered bonds had the following ratings assigned by Moody's:

	Rating	Rating confirmation date
Mortgage covered bonds denominated in PLN	Aa1	09.12.2020
Mortgage covered bonds denominated in EUR	Aa1	09.12.2020

The rating assigned to the mortgage covered bonds of PKO Bank Hipoteczny SA is the highest rating achievable by Polish securities. The limit for the ratings is the Polish country ceiling³ for debt instruments, which currently is at the level of Aa1.

THE COVID-19 PANDEMIC

In connection with the COVID-19 pandemic, despite a significant drop in the number of those infected in Q1 and Q2 of 2022, PKO Bank Hipoteczny continued the actions taken in the previous years, aimed at increasing the safety of customers and employees. Among other things:

- The Bank exercised the rotation work model.
- The Bank continued the possibility of suspending exercising contracts under “Shield 4.0” (statutory moratoria) by customers with mortgage loans who lost their jobs or another main source of income.

The Bank has been monitoring – and continues to monitor – the pandemic situation and accordingly adapts the actions taken.

WAR IN UKRAINE AND ITS IMPACT ON THE BANK'S OPERATIONS

On 24 February 2022 the Russian Federation (Russia) invaded Ukraine. The beginning of a military conflict at Polish borders led to a sudden increase in aversion to risk and significantly higher payments drawn from ATMs, purchases of fuel and staples. The Western world reacted to Russia's aggression by implementing unprecedented economic sanctions and striving to break any and all ties it had with the Russian economy. For the global economy, including mainly Europe, the war is a strong supply shock, related to restricting the availability and increasing the prices of energy resources, agricultural and industrial products, and breaking the supply chains. This is accompanied by increased volatility on the financial markets and higher aversion to risk which mainly affects the assets of countries bordering on Russia and Ukraine. The states in the region, including mainly Poland, became a haven for millions of exiles from Ukraine, and the exiles-related crisis which they face is unprecedented in terms of its scale in the history of the European Union.

The situation described above had a direct impact on the Bank's activities concerning additional allowances for expected credit losses on loans granted to the citizens of Russia, Ukraine and Belarus of PLN 2 million. The Bank also monitors regulations regarding sanctions on a current basis and implements them in a scope adequate to the specificity of its respective operations. Moreover, the Bank identifies the following factors which have or may have an indirect impact on the Bank's operations:

- impact of geopolitical risk on the Bank as an issuer;
- changes on the real estate market, in particular on the lease market, in connection with the displacement crisis.

The Bank monitors the conflict in Ukraine and accordingly adapts the actions taken.

PKO BANK POLSKI SA'S STRATEGY FOR THE YEARS 2020 – 2022

In the first quarter of 2020 the Bank's Management Board adopted and the Supervisory Board approved an updated Strategy of PKO Bank Hipoteczny SA for the years 2020 – 2022.

The Strategy covers determining:

- the Bank's mission and its strategic goals;
- the Bank's market position;
- the Bank's operating model;

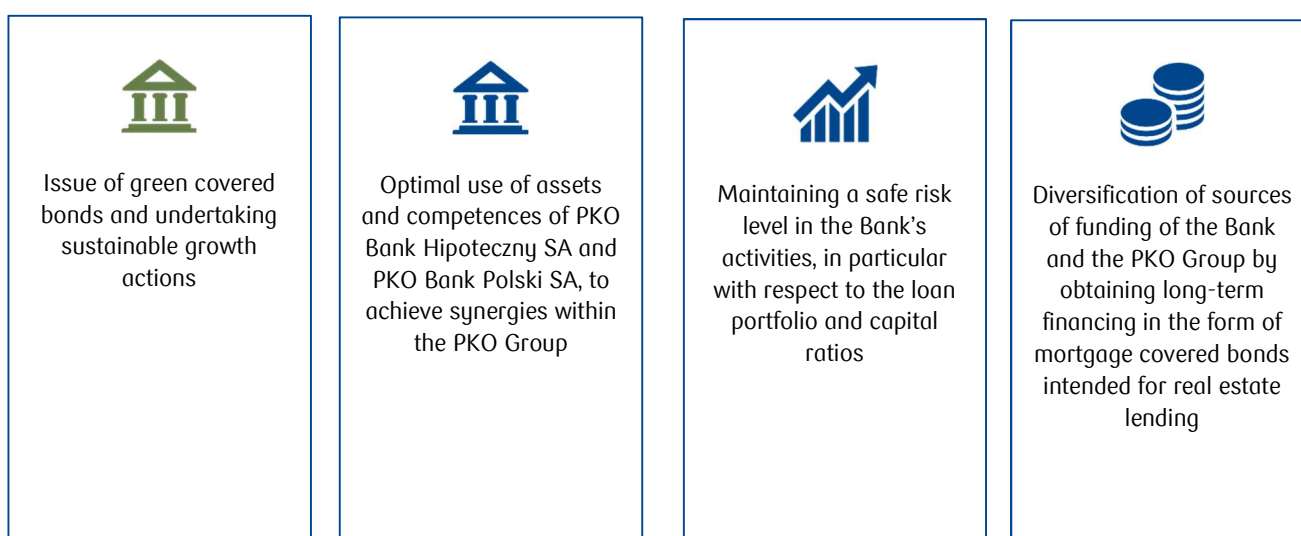
³ Maximum country rating.

- the Bank's strategic operating directions;
- the Bank's financial position in the years 2020 – 2022.

The Bank developed an updated operating strategy for the years 2020 – 2022 due to:

- updating the PKO Bank Polski Group strategy which redefines the role of PKO Bank Hipoteczny within the Group;
- the new strategy horizon developed by PKO Bank Polski (for 2020 – 2022), therefore, the strategy horizon of PKO Bank Hipoteczny SA was extended to 2022;
- changes in the regulatory environment, mainly the new regulatory requirement as to minimum own funds and eligible liabilities (MREL) which have a significant impact on the planned funding structure of the Group.

The Bank's strategic goals under the strategy comprise:



The epidemic threat and the international political and economic crisis which are the result of Russia's invasion in Ukraine may have an impact on the macroeconomic conditions in Poland and in PKO Bank Hipoteczny SA, among other things, by limiting revenue inflows, an increase in the allowances set up and difficulties in access to funding. The currently adopted strategy ends in 2022, therefore, in the second half of 2022, the Bank will be working on developing a strategy for consecutive years.

SELECTED PROJECTS

Green mortgages: obtaining funding by way of issuing green covered bonds

The Bank continues to be prepared to issue Green Covered Bonds. It has a financing offer on preferential terms for those customers who submit an energy certificate which meet the Bank's "green" energy criteria.

In June 2022, the Bank published an updated methodology for selecting green assets and updated policies for issuing Green Covered Bonds backed with green assets. These policies are set out in the PKO BH Green Covered Bond Framework (GCBF). The update consisted in particular on verifying whether the criteria for asset selection to green assets adopted by the Bank are consistent with the standard set by the Climate Bond Initiative for residential real estate in Poland and whether the policies comply with the requirements specified by the ICMA Green Bond Principles. For the purpose of additional verification, PKO BH GCBF was submitted to assessment by an external company specializing in assessing companies and their operations with respect to environmental and social protection, and corporate governance.

In the first quarter of 2022, the Bank started large-scale quarterly reporting on the portfolios of mortgage loans and green assets in accordance with the reporting standard applied according to the Energy Efficient Mortgage Label initiative, to which the Bank acceded in February 2021. Under this reporting the Bank presents, among other things,

the structure of green assets in terms of their maturities, size of the portfolio, year of construction of the real estate, use of energy or types of energy certificates. This initiative is aimed at creating a standard for green mortgage bonds and supporting the EU Green Deal.

Implementing a modification to the credit product which makes it more efficient for customers

The actions aimed at enhancing covered the development of remote processes, including the possibility to submit orders for partial repayment of a loan with a fixed interest rate over five years via the iPKO internet banking system.

All implementation work is conducted in cooperation with PKO Bank Polski SA which is the entity that offers the Bank's products.

Analyses / publications on mortgage banking and the real estate market

In cooperation with the Economic Analyses Department of PKO BP – on the website <https://www.pkobp.pl/centrum-analiz/> – in the real estate market section, the Bank prepares and publishes materials and expert analyses on the most current issues related to the real estate market.

Active participation in legislative work to adapt Polish law to the Covered Bonds Directive

In the first half of 2022 intense work was in progress on the draft amendments to the Act on Mortgage Covered Bonds and Mortgage Banks, implementing the decisions of Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU (the Covered Bond Directive) to the Polish legislation. In February 2022, the draft act for submitted to the Sejm. During the legislative process, the Bank, in cooperation with the PBA and other mortgage banks, actively participated in providing opinions on the draft act and draft secondary legislation to the act, providing comments to the provisions of the legislation. The Act was passed and became binding as of 8 July 2022.

MORTGAGE COVERED BOND ISSUES

In the first half of 2022 PKO Bank Hipoteczny SA did not issue mortgage covered bonds. However, in this period the Bank conducted a subscription for 8 Series green mortgage bonds denominated in EUR with a nominal value of EUR 500 million, with an issue date on 4 July 2022. This was the first foreign issue green mortgage bonds secured exclusively with high-quality PLN-denominated residential loans in Poland and the CEE region.

As at the end of June 2022, the Bank was the leader of the Polish mortgage banking market in terms of the balance of outstanding mortgage covered bonds. The value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA was PLN 9.9 billion as at 30 June 2022.

2. EXTERNAL OPERATING CONDITIONS

<p>Macroeconomic environment Residential real estate market Residential loan market Mortgage covered bonds market Regulatory and legal environment</p>
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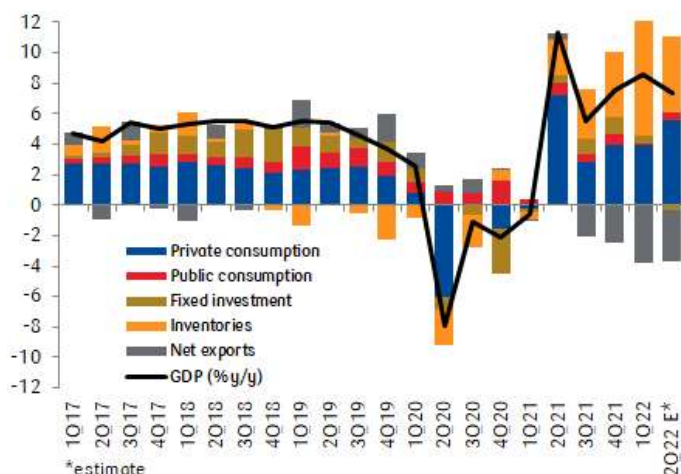
2.1. MACROECONOMIC ENVIRONMENT

The Bank only operates in Poland.

Macroeconomic factors which shaped the national economy in the first half of 2022:

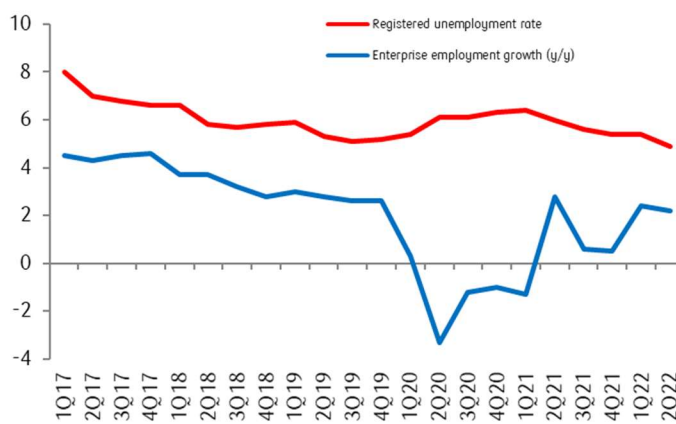
VERY STRONG BEGINNING OF THE YEAR IN THE ECONOMY

The beginning of 2022 was a period of extremely strong activity in the national economy. In Q1 GDP increased by 8.5% y/y, which was partly due to the well-growing consumption and significant accumulation of reserves in the economy, as in reaction to the maintained insufficient supplies of key raw materials, enterprises adopted a prudent approach and increased their warehouse inventories. In Q2 the economy slowed down as a result of weaker consumption which in turn was caused by the shrinking purchasing power of the available incomes, limiting capital expenditure in reaction to increased uncertainty following Russia's invasion of Ukraine and deterioration in the global market conditions. Despite a drop in real income consumption grew, among other things, due to the inflow of Ukrainian exiles, tax changes and the use of "mandatory savings" accumulated during the pandemic. However, due to the very strong start of the year, y/y GDP growth remained high.



RECORD LOW UNEMPLOYMENT

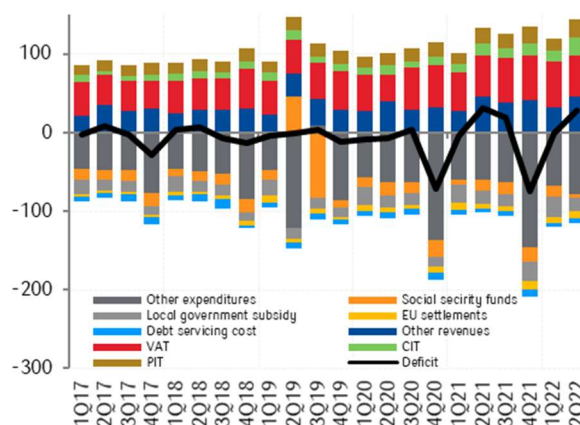
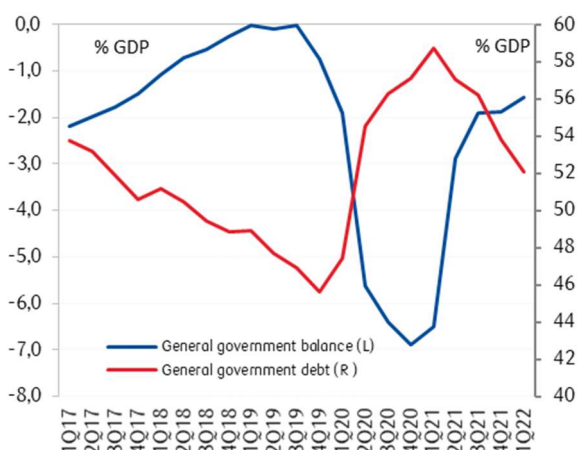
The situation on the labour market in the first half of 2022 was very good. In June the registered unemployment rate decreased to the lowest level since the transformation: 4.9%, whereas as at the end of 2021 it was 5.4%. After the outbreak of war in Ukraine an unprecedented wave of exiles migrated to Poland; approximately 1.5 million people – mainly women with children. Relatively quickly, the exiles' professional activation increased and already the employment rate among Ukrainians of working age exceeds 40%. Their inflow on the labour market eased the lack of resources reported previously by entrepreneurs. High inflation led to increased pressure on wage increases which were at least partly granted. The annual rate of remuneration growth in the enterprise sector accelerated to a two-digit number



– in the first half of 2022 average wages were 12.4% higher than in the corresponding period of 2021. Wages and salaries in other sectors, in particular in the public sector and in micro-enterprises, did not grow that fast. In May and June average wages in the enterprise sector increased at a slower rate than consumer prices, which means a real drop in purchasing power. June was also the third month in a row with negative y/y dynamics with respect to the work offers notified to employment agencies, which may indicate cooling of the demand for labour. The demographic conditions and the shrinking of the labour resources will lead to a situation whereby even an economic slowdown and a drop in the demand for labour should not cause a noticeable increase in unemployment in Poland.

PUBLIC FINANCE PREPARED FOR WAR

After the first quarter of 2022 the fiscal deficit (ESA) was 1.6% GDP and decreased compared with the deficit of 1.9% GDP in 2021. Public debt also noted a falling trend and amounted to 52.1% of the annual GDP in the first quarter of 2022 compared with 53.8% of GDP in 2021. The State budget is supported by a strong nominal increase in the tax base (consumption, enterprise results) and a transfer of the National Bank of Poland's profit – as a result, despite the growing costs of the Anti-Inflation Shield (less tax inflows) and aid offered to Ukraine, a solid budget surplus is maintained.



RECORD INFLATION

In the first half of 2022 inflation grew significantly in reaction to the post-pandemic supply shocks strengthened by Russia's attack on Ukraine which caused a significant increase in energy resource, industrial product and staple prices. In June inflation was 15.5% y/y, compared with 8.6% y/y in December, and was highest since nearly 25 years. Such fast increase in consumer prices was reached despite the Anti-Inflation Shields which in total reduced inflation by approx. 2-3p.p. In the analysed period, base inflation, net of staples and energy, also reached record levels, reflecting the inflationary pressure in Poland and the "effects of the second round" of cost shocks – high demand in the economy and a tight labour market enable offloading the higher costs onto end customers. The slightly better conditions on the oil market and the negative impact of high prices on demand visible in the slight slowing of the impact of base inflation in June suggest that consecutive months may bring about stabilization or a drop in the rate of price growth.

SUDDEN CYCLE OF INCREASES IN INTEREST RATES

In the first half of 2022 the Monetary Policy Council (MPC) continued a cycle of increases in reaction to the deterioration in inflation prospects. The reference rate increased from 1.75% as at the end of 2021 to 6.00% in June 2022. Initially, the MPC increased rates gradually, by 50 b.p., however, the weakening of the Polish zloty after Russia's attack on Ukraine led the monetary authorities to increase tightening to 75 b.p. in March and 100 b.p. in April. At the meetings in May and June rates grew by 75 b.p., and in June the Council decided on a 50 b.p. increase, thus signalling that the tightening cycle, which is to last as long as the increase in inflation, will soon end. From

October 2021 to July 2022 the reference rate increased from 0.1% to 6.5%, and the scale of increases was the fastest and highest in history.

NBP interest rates (end of period):

Rate	Q2 2022
Reference	6,00%
Lombard	6,50%
Deposit	5,50%
Bill of exchange rediscount	6,05%
Bill of exchange discount	6,10%

2.2. RESIDENTIAL REAL ESTATE MARKET

SITUATION ON THE RESIDENTIAL REAL ESTATE MARKET IN POLAND

After a very successful year 2021 for the residential real estate market, the first half of 2022 brought about a deterioration in the market conditions, mainly due to an increase in interest rates; this led to a lower volume in mortgage loans sold, which in turn led to a deterioration in demand and lower turnover on the primary and secondary market.

Despite lower demand, in conditions of high inflation, growing building material prices and construction costs, the pace of growth of residential real estate prices remained at a level similar to the level of inflation (more than ten percent annually).

PRIMARY MARKET

According to data published by JLL, developers on six largest local markets⁴ sold 19.6 thousand apartments in the first half of 2022, which was an almost 50% lower result than in the corresponding period of the previous year. However, it should be borne in mind that in connection with meeting the deferred demand of the year of the pandemic – 2020, the first half of 2021 was a record period in terms of sales volume. Compared with the second half of 2021, the number of apartments sold in the first half of 2022 dropped by 35%, and this ratio best reflects the actual drop in sales on the primary market resulting from weaker demand which was the consequence of an increase in interest rates and the fact that residential loans were less accessible to potential buyers.

Despite weaker demand, in conditions of increasing prices of building materials and labour costs, the rate of growth of residential real estate on the primary market was maintained at a relatively high level. According to the data published by the NBP in the first quarter of 2022, the rate of growth of prices in Warsaw during the year was 16%, in the segment of six large cities⁵ at a level of 17%, and in the segment of ten medium-sized cities⁶ at a level of 19%. Data from the internal database of the PKO BP SA Group showed that in the second quarter of 2022 the rate of growth in prices was maintained and on an annual basis amounted to: 14% in Warsaw, 18% in the segment of six large cities, 12% in the segment of ten medium-sized cities, 19% in segments comprising other municipalities and land poviats. In the first half of 2022, the rate of growth in residential real estate prices was maintained at a level similar to inflation.

SECONDARY MARKET

Data from the internal database of the PKO BP SA Group indicates that the drop in turnover on the secondary market in the first half of 2022 was approx. 50%.

⁴ Warsaw, Tricity, Kraków, Wrocław, Poznań, Łódź

⁵ Kraków, Wrocław, Poznań, Gdynia, Gdańsk, Łódź

⁶ Bydgoszcz, Białystok, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin, Zielona Góra

The rate of growth of prices on the secondary residential real estate market in the first half of 2022 was just as high as on the primary market. The data published by the NBP shows that in the first quarter of 2022 prices of residential real estate in Warsaw increased by 5%, in the segment of six large cities by 12%, and in the segment of ten medium-sized cities by 16% on an annual basis. Data about transaction prices kept in the PKO BP SA Group database also indicate maintenance of a high rate of growth of residential real estate prices in all market segments.

SUPPLY AND DEMAND ON THE RESIDENTIAL REAL ESTATE MARKET

The increase in interest rates and the tightening of lending policies by banks led to a decrease in demand for residential real estate. Moreover, high inflation which was higher than the average rate of growth in wages and salaries since May 2022, which led to a drop in real income, resulted in a significant drop in consumer sentiments – consumer confidence ratios published by Polish Statistics (GUS) have been on the decline since October 2021. The above factors caused the boom on the residential real estate market, which had been experienced for the previous eight years, to end.

Apart from the drop in turnover, a 17% drop in the number of apartments whose construction began in the first half of 2022 compared to the corresponding period of the previous year attests to the decline in conditions in the residential real estate market. However, it should be noted that despite this drop the number of apartments under construction remained higher than in the previous residential real estate boom years (2014-2020).

The macroeconomic indices published by the Polish Statistics (GUS) and the PMI⁷ values herald a deterioration in market conditions in the second half of 2022. In the conditions of maintained high interest rates and lower availability of residential loans, this deterioration should lead to a drop in the rate of growth in prices of residential real estate. The turnover volume on the primary and secondary market will probably stabilize at a relatively low level, only a little higher than that observed in 2010-2013, years that directly preceded the boom on the residential real estate market observed in 2014-2021.

2.3. RESIDENTIAL LOAN MARKET

Based on NBP data, the banks' receivables in respect of residential loans in Poland were PLN 512.2 billion as at 30 June 2022, up 4.6% y/y. As at 30 June 2022, the balance of loans in PLN was PLN 404.3 billion (78.9% of the total amounts due to banks in respect of residential loans in Poland) and increased by 7.1% y/y.

The total balance of residential loans in relation to the Gross Domestic Product expressed at market prices stood at 18.9% at the end of the first quarter of 2022. This amount was significantly below the average for EU Member States, which is approx. 40%. This shows the large development potential of the residential loan market in Poland.

2.4. MORTGAGE COVERED BONDS MARKET

As at 30 June 2022, five mortgage banks were operating in Poland:

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

The Polish mortgage covered bond market is relatively small and moderately liquid. At the end of June 2022, the total value of outstanding mortgage covered bonds issued by Polish mortgage banks amounted to PLN 19.6 billion,

⁷ The business activity index in the production sector calculated by Markit Economics

i.e. PLN 5.1 billion less than at 30 June 2021. As at the end of June 2022, outstanding mortgage covered bonds issued by Polish banks corresponded to 3.9% of the amount of residential loans granted by banks.

PKO Bank Hipoteczny SA is Poland's largest issuer of mortgage covered bonds on the Polish market. The value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA was PLN 9.9 billion as at 30 June 2022, which constituted approx. 50% of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks.

2.5. REGULATORY AND LEGAL ENVIRONMENT

In the first half of 2022, the following legal and regulatory solutions significantly affecting the operations of PKO Bank Hipoteczny SA came into force:

BAILIFF AUCTIONS	The Act of 8 April 2022 amending the act on assistance to citizens of Ukraine in connection with the armed conflict on the territory of that country and certain other acts – the Act repealed the ban on auctioning residential quarters and real estate on which a building is located, used to satisfy the residential needs of the debtor, which had been in force during the state of epidemiological threat and epidemic.
CREDIT RISK	The position of the Polish Financial Supervision Authority's Office on actions aimed at limiting the level of credit risk dated 7 March 2022. The recommendation relates, among other things, to the parameters used by banks in assessing creditability, including accepting minimum changes in interest rates of 5 p.p.
CAPITAL ADEQUACY	The PFSA letter dated 10 February 2022 on assessing an additional capital charge under Pillar II (P2G). This refers to maintaining own funds to cover a capital surcharge of 0.50 p.p. above the total capital ratio to absorb potential losses in the event that stress conditions occur. The surcharge should consist exclusively of Tier I capital.

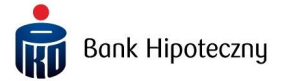
In the first half of 2022 PKO Bank Hipoteczny SA has completed the implementation of the amended Act on mortgage covered bonds and mortgage banks which comes into force on 8 July 2022 which implements Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU.

The most important amendments to the Act on Covered Bonds and Mortgage Banks with an impact on the Bank's operations comprise:

- introducing the definition of a mortgage covered bond and completing the scope of terms used in the Act;
- specifying the policies for using the "European Covered Bond" and "European Covered Bond (Premium)" by Polish banks;
- modifying the terms for calculating the liquidity buffer for the pool of assets backing mortgage covered bonds;
- officially delegating the Minister of Finance to determine, by way of a regulation, the ratio of the maximum amount of a single mortgage loan to the mortgage lending value of the respective real estate;
- specifying additional requirements relating to monitoring issue programmes of mortgage banks by the Polish Financial Supervision Authority;
- Implementing additional information requirements relating to the mortgage covered bond issue programmes;
- granting rights to impose administrative sanctions for the Polish Financial Supervision Authority;
- modifying the Bankruptcy Law with respect to assets which constitute a separate bankruptcy estate of a mortgage bank to enable satisfying derivative contracts from that separate estate.

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

PKO BANK HIPOTECZNY SA
DIRECTORS' REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2022



Amendments to the Act on Covered Bonds and Mortgage Banks became binding on 8 July 2022 (i.e. post-balance-sheet date), and by that date the Bank made necessary amendments to its internal regulations to ensure compliance with the amended Act.

In the first half of 2022, PKO Bank Hipoteczny SA also started work on implementing particular special terms and conditions for handling mortgage loan contracts relating to the “government loan holidays”, pursuant to the assumptions of the draft Act on crowdfunding for business ventures and assistance to borrowers.

The Act regulating consumers’ right to suspend repayment of mortgage loans drawn to satisfy their own housing needs became binding on 29 July 2022 (i.e. post-balance-sheet date), and by that date the Bank, pursuant to the provisions of the Act, enabled its customers to file applications for “Government Credit Holidays” and began servicing them.

Details of the impact of the “Government Credit Holidays” on the Bank are included in the Events that occurred after the date of the Report, on page 54.

3. FINANCIAL PERFORMANCE AND CAPITAL ADEQUACY

Key financial indicators of PKO Bank Hipoteczny SA
Statement of financial position of PKO Bank Hipoteczny SA
Income statement of PKO Bank Hipoteczny SA
Requirements regarding own funds (Pillar I)
Internal capital (Pillar II)
Disclosures (Pillar III)

3.1. KEY FINANCIAL INDICATORS OF PKO BANK HIPOTECZNY SA

	30.06.2022	31.12.2021	30.06.2021
Total assets (in PLN million)	22,459.8	25,620.4	26,350.2
ROA ⁸	0.4%	0.4%	0.3%
ROE ⁹	5.0%	4.5%	3.3%
Total capital ratio (TCR)	22.7%	20.9%	19.9%
Leverage ratio (LR)	9.0%	8.0%	7.8%
Cost to income ratio (C/I) ¹⁰	23.7%	23.9%	24.7%

3.2. STATEMENT OF FINANCIAL POSITION OF PKO BANK HIPOTECZNY SA

In PLN million	30.06.2022	31.12.2021	30.06.2021
Cash and balances with the Central Bank	0.3	50.4	0.0
Amounts due from banks	4.4	0.5	0.0
Derivative hedging instruments	594.2	841.5	827.7
Securities	1,059.8	1,870.7	1,492.5
Loans and advances to customers	20,784.5	22,848.6	24,021.1
Other assets ¹¹	16.6	8.7	8.9
TOTAL ASSETS	22,459.8	25,620.4	26,350.2

in PLN million	30.06.2022	31.12.2021	30.06.2021
Amounts due to banks	8,408.3	6,544.5	4,138.3
Derivative hedging instruments	10.0	2.0	0.7
Liabilities in respect of mortgage covered bonds issued	9,923.4	13,146.4	15,946.6
Liabilities in respect of bonds issued	2,088.3	3,728.1	4,084.6
Other liabilities and provisions ¹²	91.6	85.7	106.3
Equity	1,938.2	2,113.7	2,073.7
TOTAL LIABILITIES AND EQUITY	22,459.8	25,620.4	26,350.2

⁸ Annualized ratio calculated as the quotient of the net profit/(loss) for the given period and the average balance of assets as at the beginning and end of the reporting period, and interim monthly periods.

⁹ Annualized ratio calculated by dividing net profit/(loss) for the given period by the average balance of total equity as at the beginning and end of the reporting period, and interim monthly periods.

¹⁰ Annualized ratio without accounting for the tax on other financial institutions.

¹¹ Covering the following items of the statement of financial position: intangible assets, property, plant and equipment and other assets.

¹² Covering the following items of the statement of financial position: amounts due to customers; other liabilities, current income tax liabilities, deferred income tax provision and provisions.

As at 30 June 2022 total assets of PKO Bank Hipoteczny SA amounted to PLN 22,459.8 million, which is a 12.3% decrease compared with the end of 2021. Residential loans were the key component of the Bank's assets. Their carrying amount, taking into account allowances for expected credit losses recognized as at 30 June 2022, amounted to PLN 20,784.5 million, of which new loans amounted to PLN 10,740.1 million, whereas loans purchased from PKO Bank Polski SA amounted to PLN 10,044.4 million.

As far as liabilities are concerned, the share of mortgage covered bonds constituted 44.2% of the balance sheet total as at the end of June 2022. In the first half of 2022 PKO Bank Hipoteczny SA did not issue mortgage covered bonds.

As at the end of June 2022, the carrying amount of mortgage covered bonds was PLN 9,923.4 million, 24.5% down compared with the end of 2021, due to the redemption of Series 4 and 8 mortgage covered bonds with a total nominal value of PLN 600 million and Series 1 mortgage covered bonds with a nominal value of PLN 600 million.

As at 30 June 2022, financial liabilities to PKO Bank Polski SA constituted a significant item of the Bank's liabilities and equity. They consisted of liabilities in the form of loans, limited overdraft facilities, liabilities in respect of the mortgage covered bonds and unsecured bonds acquired by PKO Bank Polski SA and other liabilities to PKO Bank Polski SA. Their total balance was PLN 8,324.1 million. Unsecured bonds issued by the Bank also constituted a significant source of funding the Bank's operations. As at 30 June 2022 they amounted to PLN 2,088.3 million, which is a 44.0% decrease compared with the end of 2021.

3.3. INCOME STATEMENT OF PKO BANK HIPOTECZNY SA

in PLN million	01.01.2022 – 30.06.2022	01.01.2021 – 30.06.2021	Y/y change (in PLN million)
Net interest income	155.2	152.7	2.5
Net fee and commission income	0.3	(3.6)	3.9
Net gain/(loss) on financial instruments measured at fair value through profit or loss	0.0	0.0	0.0
Net foreign exchange gains/(losses)	0.2	0.0	0.2
Net income/(expense) on modification	10.2	0.3	9.9
Net expected credit losses	0.2	(1.4)	1.6
Net other operating income and expenses	0.1	0.1	0.0
Administrative expenses	(21.7)	(24.8)	3.1
Regulatory charges	(31.0)	(24.6)	(6.4)
Tax on certain financial institutions	(37.0)	(42.8)	5.8
Operating profit	76.5	55.9	20.6
Profit before tax	76.5	55.9	20.6
Corporate income tax	(25.7)	(22.0)	(3.7)
Net profit	50.8	33.9	16.9

In the first half of 2022, PKO Bank Hipoteczny SA generated a net profit of PLN 50.8 million, up PLN 16.9 million compared with the corresponding period of 2021.

In the analysed period, the Bank earned interest income of PLN 581.1 million. It comprised mainly income on residential loans of PLN 558.3 million and income on debt securities. In the analysed period, the Bank incurred interest expense of PLN 425.8 million. This related mainly to the mortgage covered bonds issued and costs of hedging transactions. The related interest expense was PLN 253.4 million. The Bank also incurred, among other things, interest expense of PLN 134.5 million on loans and overdraft limits used, and PLN 37.9 million on bonds issued.

The Bank's turnover in the first half of 2022 (understood as the total value of interest income and fee and commission income) amounted to PLN 586.2 million. The realized turnover was generated entirely from the Bank's operations in Poland.

In the first half of 2022, the Bank earned net fee and commission income of PLN 0.3 million. The total amount of fee and commission income was PLN 5.1 million. Fee and commission income from customers constituted a significant item of commission income including, among other things, fees for real estate valuations performed by the Bank and for real estate inspections, as well as commission for early, full or partial loan repayments. The total amount of fee and commission expense was PLN 4.8 million. This item comprised, among other things, costs of credit lines of PLN 2.0 million and costs related to the issue of bonds of PLN 1.4 million.

In the first half of 2022 the Bank incurred administrative expenses of PLN 21.7 million. Non-personnel costs of PLN 12.9 million, including costs related to services rendered by PKO Bank Polski SA under an outsourcing agreement of PLN 10.0 million, were a significant component of administrative expenses. Costs of employee benefits, whose amount during the reporting period was PLN 8.1 million, were also a significant component of administrative expenses.

In the first half of 2022, the Bank also incurred regulatory expenses totalling PLN 31.0 million. The main item of such expenses was the contribution to the mandatory resolution fund of the Bank Guarantee Fund of PLN 27.6 million, which is a PLN 6.5 million increase compared with the corresponding period of 2021.

Tax on certain financial institutions (bank tax), which amounted to PLN 37.0 million in the reporting period, was also a significant cost of the Bank's activities.

The costs of regulatory charges and bank tax have a material impact on reducing the Bank's profitability.

The Bank's costs resulting from allowances for expected credit losses amounted to PLN 0.2 million in the first half of 2022.

PAYMENT OF DIVIDEND

On 28 April 2022 the Annual General Meeting of PKO Bank Hipoteczny SA passed a resolution on appropriating the Bank's profit for 2021, according to which:

- PLN 7,589 thousand i.e. 8% of the profit was earmarked for transfer to the Bank's supplementary capital, pursuant to Article 348 and Article 396 of the Commercial Companies Code;
- PLN 87,278 thousand i.e. the remaining portion of the profit was earmarked for payment of dividend. On 29 April 2022 the Bank transferred the funds for payment of dividend to PKO Bank Polski SA to the register of the non-public market maintained by PKO BP Biuro Maklerskie. In 2021, the Bank did not pay out dividend.

THE BANK'S FUNDING STRUCTURE

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

	30.06.2022	31.12.2021
Equity	8.6%	8.3%
Funds from the parent entity	36.8%	25.5%
Mortgage covered bonds issued	44.2%	51.3%
Bonds issued	9.3%	14.6%
Other	1.1%	0.3%
Total	100.0%	100.0%

As at 30 June 2022 and as at 31 December 2021 the Bank had no liabilities in respect of which it would be in contractual default.

3.4. REQUIREMENTS REGARDING OWN FUNDS (PILLAR I)

GENERAL INFORMATION

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

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

At 30 June 2022, the own funds requirements concerning the credit valuation adjustment, settlement and delivery, and market risk were nil, therefore the total own funds requirement comprised the requirements for credit and operational risks.

Own funds requirements	30.06.2022	31.12.2021
Credit risk (in PLN millions)	644.5	714.5
Operational risk (in PLN millions)	47.0	44.3
Total own funds requirement (in PLN millions)	691.5	758.8
Common equity Tier 1 capital ratio (CET1)	22.7%	20.9%
Tier 1 capital ratio (T1)	22.7%	20.9%
Total capital ratio (TCR)	22.7%	20.9%

Without accounting for the temporary measures following from the implementation of IFRS 9 and those related to the COVID-19 pandemic, the total capital ratio of the Bank would amount to 22.5% (as at 31 December 2021: 20.5%).

The tables below show the exposure amounts, risk weighted assets (RWA) and the own funds requirements broken down by particular exposure classes:

30.06.2022	Gross exposure	Exposure value ¹³	Risk-weighted assets (RWA)	Own funds requirement
Retail exposures ¹⁴	1,818.4	1,806.7	1,344.8	107.6
Exposures secured by mortgages on real estate	19,020.1	18,977.7	6,642.1	531.4
Exposures to central governments or central banks	1,060.2	1,060.2	0	0
Exposures to institutions	1,812.8	1,812.8	0	0
Exposures in default	54.2	37.1	39.9	3.2
Other exposures	16.6	16.6	29.8	2.4
Total	23,782.30	23,711.10	8,056.60	644.60

¹³ The value of balance-sheet exposures and the balance-sheet equivalent of contingent liabilities and transactions, taking into account specific credit risk adjustments and the CCF (Credit Conversion Factor).

¹⁴ These result from that part of the exposure which is not fully and completely secured, i.e. which exceeds an MLV of 80% or is in a transitional period, i.e. until collateral has been put up.

31.12.2021	Gross exposure	Exposure value ¹⁵	Risk-weighted assets (RWA)	Own funds requirement
Retail exposures ¹⁶	2,208.9	2,199.9	1,628.7	130.3
Exposures secured by mortgages on real estate	20,720.2	20,688.7	7,240.9	579.3
Exposures to central governments or central banks	1,870.7	1,870.7	0.0	0.0
Exposures to institutions	2,029.9	2,029.9	0.0	0.0
Exposures in default	57.3	48.3	53.2	4.3
Other exposures	8.7	8.7	8.7	0.7
Total	26,947.1	26,897.2	8,931.7	714.6

CREDIT RISK ADJUSTMENTS

For the purpose of specific credit risk adjustments, the Bank uses impairment loss, which was recognized in the Bank's Tier 1 capital in accordance with the CRR and implementing legislation.

The approach applied by the Bank to identifying exposures at risk of impairment and methods for estimating allowances for expected credit losses and provisions for financial liabilities granted are described in Note 39.2 "Impairment of credit exposures" to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2021.

USE OF CREDIT RISK MITIGATION TECHNIQUES

The Bank uses mortgage collateral for the classification of exposures to classes of exposures secured by mortgages on immovable property and the use of preferential risk weights. Detailed information about the main types of collateral adopted by the Bank and the method of determining the mortgage lending value is presented in Note 32 "Residual risk management" to the financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2022.

3.5. INTERNAL CAPITAL (PILLAR II)

Internal capital is the estimated amount of capital required to cover all identified material risks in the Bank's activities, as well as the effect of changes in the business environment, taking into account the expected level of risk.

PKO Bank Hipoteczny SA regularly monitors the materiality of different risks involved in the Bank's operations.

The Bank separately assesses its internal capital for the following risks considered to be material:

- credit risk;
- liquidity risk;
- operational risk;
- interest rate risk;
- model risk.

The internal capital to cover particular risks is determined in accordance with the methods set out in the Bank's internal regulations. The total internal capital is the sum of internal capital amounts necessary to cover all the risks

¹⁵ The value of balance-sheet exposures and the balance-sheet equivalent of contingent liabilities and transactions, taking into account specific credit risk adjustments and the CCF (Credit Conversion Factor).

¹⁶ These result from that part of the exposure which is not fully and completely secured, i.e. which exceeds an MLV of 80% or is in a transitional period, i.e. until collateral has been put up.

material for the Bank. The Bank has adopted a prudent approach to risk aggregation and does not take advantage of the diversification effect.

Structure of internal capital	30.06.2022	31.12.2021
For credit risk	87.0%	87.1%
For operational risk	6.3%	5.4%
For liquidity risk	1.0%	2.5%
For interest rate risk	5.4%	4.8%
For model risk	0.3%	0.2%
Total	100.0%	100.0%

In order to estimate the amount of capital necessary to operate safely in recessionary conditions, the Bank conducts regular stress tests.

3.6. DISCLOSURES (PILLAR III)

Considering the scale and specific nature of its operations, in the financial statements and in the Directors' Report the Bank discloses in particular the following information:

- risk management objectives and strategies;
- own funds for capital adequacy purposes;
- capital buffers;
- financial leverage;
- capital requirements;
- credit risk adjustments;
- credit risk mitigation techniques used;
- the Bank's remuneration policies with respect to persons whose professional activity has a material impact on the Bank's risk profile;
- the requirements referred to in Article 111a of the Banking Law and Recommendation H;
- operational risk in accordance with Recommendation M;
- liquidity risk management system and the liquidity position, in accordance with Recommendation P;
- impact of implementing International Financial Reporting Standard 9 (IFRS 9) on capital adequacy.

Being part of the PKO Bank Polski Group, the Bank also supplies information to the parent for consolidation purposes.

Details of the scope of information disclosed, the method of its verification and publication are presented in PKO Bank Polski SA Capital Adequacy Information Policies and other information to be published, which is available on the Bank's website (www.pkobh.pl).

4. BUSINESS OF PKO BANK HIPOTECZNY SA

Sales of residential mortgage loans under the agency model
Acquisition of residential mortgage loan receivables
Structure of the residential mortgage loan portfolio
Mortgage covered bonds
Financial market operations

4.1. SALES OF RESIDENTIAL MORTGAGE LOANS UNDER THE AGENCY MODEL

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

As of 2020, implementing the updated strategy for the years 2020 – 2022 in accordance with the recommendation of the Supervisory Board, the Bank is limiting sales of residential mortgage loans. This decision had no impact on the Group's total sales of mortgage loans. Therefore, in the first half of 2022, the Bank granted PLN 121 million worth of mortgage loans, which is a drop of 33% compared with the first half of 2021.

Pursuant to the Act of 19 June 2020 on Subsidies on Interest on Bank Loans Granted to Entrepreneurs Affected by COVID-19 and on the Simplified Procedure for the Approval of Arrangements in Connection with COVID-19 ("Shield 4.0"), the Bank continued to allow the option of suspending the exercise of a loan contract with respect to borrowers who lost their jobs or another main source of income after 13 March 2020 (so-called statutory moratoria). With respect to 25 loan contracts, borrowers availed themselves of suspending exercising the contract, whereas as at 30 June 2022 there were no active suspensions of contracts in the Bank. At the same time, in the second quarter of 2022, the Bank began work on implementing the suspension of loan instalments based on the Act on crowdfunding for business ventures and assistance to borrowers.

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

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

CRITERIA	AGENCY MODEL
Loan amount/market value of the real estate	Max 80% ¹⁷
Loan amount/mortgage lending value of the real estate	Max 100%
Legal title to the real estate	Ownership or perpetual usufruct
Loan collateral	Mortgage recorded as the first in Section IV of the Land and Mortgage Register
Currency	PLN
Purpose	Residential

¹⁷ In the event that the required own contribution is insured, the Bank allows granting a loan where the ratio does not exceed 90%.

4.2. ACQUISITION OF RESIDENTIAL MORTGAGE LOAN RECEIVABLES

The purchase of residential mortgage loan receivables based on a framework agreement signed in 2015 with PKO Bank Polski SA is an important element of the business of PKO Bank Hipoteczny SA.

In the first half of 2022, PKO Bank Hipoteczny SA did not make any transfers of residential mortgage loan receivables from PKO Bank Polski SA.

The following table shows the main criteria applied by PKO Bank Hipoteczny SA in the process of acquiring residential mortgage loans:

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

4.3. STRUCTURE OF THE RESIDENTIAL MORTGAGE LOAN PORTFOLIO

PORTFOLIO STRUCTURE BY LTV

The structure of the gross portfolio of loans granted to customers in the statement of financial position of PKO Bank Hipoteczny SA according to the LTV ratio based on market valuation¹⁸ and the LTV ratio based on the MLV is presented in the following tables.

Gross loans granted to customers at LTV based on market valuation	30.06.2022	31.12.2021
Below 50%	74.0%	63.9%
51% - 60%	18.2%	21.8%
61% - 70%	6.8%	11.4%
71% - 80%	0.9%	2.8%
80% - 90%	0.1%	0.1%
over 90%	0.0%	0.0%
Total, gross	100%	100%
Average LTV based on market valuation	40.4%	44.0%

Gross loans granted to customers at LTV based on mortgage lending value	30.06.2022	31.12.2021
below 50%	20.6%	18.9%
51% - 60%	12.3%	11.7%
61% - 70%	16.6%	16.0%
71% - 80%	22.9%	23.1%
80% - 90%	24.0%	25.0%

¹⁸ Current level of LTV calculated based on the value of the real estate as at the moment of granting the loan, updated using statistical methods based on an analysis of the real estate market.

Gross loans granted to customers at LtV based on mortgage lending value	30.06.2022	31.12.2021
over 90%	3.6%	5.3%
Total, gross	100%	100%
Average LtV based on MLV	66.0%	67.3%

In the first half of 2022, the average LtV based on the market valuation of the loan portfolio dropped by 3.6 p.p. (in the first half of 2021, it dropped by 2.6 p.p.), which is the effect of further growth in the market values of the real estate constituting the collateral for the loans granted by the Bank, with simultaneous depreciation of the portfolio. With respect to LtV based on MLV the drop is much smaller and results exclusively from the depreciation of the portfolio. The MLV determined as at the moment of granting the loans required updating only in individual cases.

INTEREST ON LOANS

The Bank grants loans bearing an interest rate based on WIBOR 6M and a five-year fixed base rate. At the same time, the Bank has a portfolio of historically granted loans based on WIBOR 3M.

The base reference rates used for the Bank's loans are the WIBOR 3M and WIBOR 6M, which on average amounted to 4.9% and 5.19% respectively in the first half of 2022. Moreover, the average five-year fixed base interest rate was 5.33% in the period.

4.4. MORTGAGE COVERED BONDS

The key objective of PKO Bank Hipoteczny SA is issuing mortgage covered bonds which are the main source of the long-term funding for loans secured with real estate. Short- and medium-term bonds are also material sources of funding for the Bank.

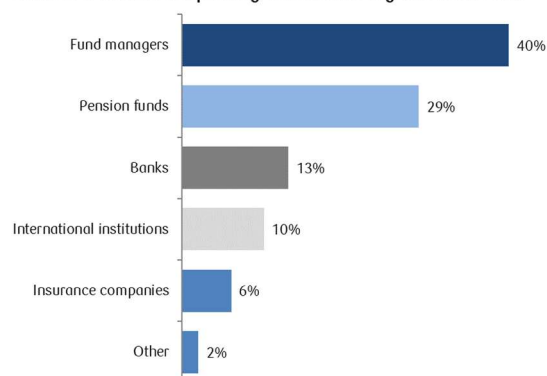
DOMESTIC ISSUES OF MORTGAGE COVERED BONDS

From the beginning of its operations, PKO Bank Hipoteczny SA has issued thirteen series of Polish mortgage covered bonds, including two issues of Green Covered Bonds.

The total value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA for the domestic market (at the nominal value) was PLN 2,490 million as at the end of June 2022.

All series of domestic mortgage covered bonds issued are traded on the Warsaw Stock Exchange parallel market and on the BondSpot regulated market. They are also accepted in repo transactions by the National Bank of Poland.

Chart: Purchasers of domestic issues of PKO Bank Hipoteczny SA's covered bonds on the primary market in the years 2015-2022



In the first half of 2022 PKO Bank Hipoteczny SA did not carry out any domestic issues of mortgage covered bonds.

In the first half of 2022, PKO Bank Hipoteczny SA redeemed two series of mortgage covered bonds with a total nominal value of PLN 600 million.

Chart: Geographical distribution of domestic issues of PKO Bank Hipoteczny SA's covered bonds in the years 2015-2022



PLN-denominated mortgage covered bonds of PKO Bank Hipoteczny SA issued and outstanding until 30 June 2022:

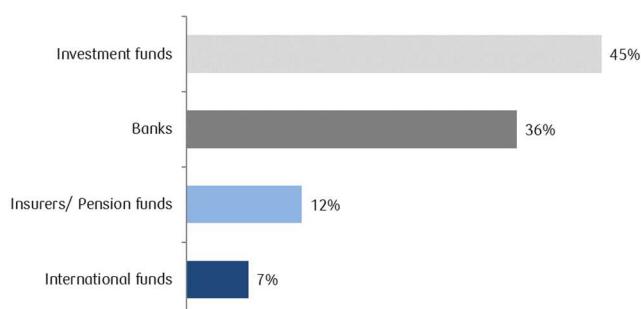
Series	Mortgage covered bond number (ISIN)	Issue date	Redemption date	Series value (in PLN million)	Interest rate	Currency	Rating of the issue	Listing
6	PLPKOHP00066	27.10.2017	27.06.2023	500	WIBOR3M +0.60%	PLN	Aa1	Bondspot, WSE parallel regulated market
7	PLPKOHP00074	27.04.2018	25.04.2024	700	WIBOR3M +0.49%	PLN	Aa1	Bondspot, WSE parallel regulated market
9	PLPKOHP00090	27.07.2018	25.07.2025	500	WIBOR3M +0.62%	PLN	Aa1	Bondspot, WSE parallel regulated market
10	PLPKOHP00108	24.08.2018	24.08.2028	60	3.4875%	PLN	Aa1	Bondspot, WSE parallel regulated market
11	PLPKOHP00116	26.10.2018	28.04.2025	230	WIBOR3M +0.66%	PLN	Aa1	Bondspot, WSE parallel regulated market
12	PLPKOHP00132	10.06.2019	30.09.2024	250	WIBOR3M +0.60%	PLN	Aa1	Bondspot, WSE parallel regulated market
13	PLPKOHP00199	02.12.2019	02.12.2024	250	WIBOR3M +0.51%	PLN	Aa1	Bondspot, WSE parallel regulated market

INTERNATIONAL ISSUES OF MORTGAGE COVERED BONDS

From the beginning of its operations, PKO Bank Hipoteczny SA has issued seven series of international mortgage covered bonds, including five benchmark issues and two private placements.

The total value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA for the international market (at the nominal value) was EUR 1,579 million as at the end of June 2022.

Chart: Purchasers of EUR-denominated issues of PKO Bank Hipoteczny SA's covered bonds on the primary market in the years 2016-2022



All series of international mortgage covered bonds issued are traded on the Luxembourg Stock Exchange and, except for series 2 and 5, on the parallel market of the Warsaw Stock Exchange. They are also accepted in repo transactions by the European Central Bank.

In the first half of 2022 PKO Bank Hipoteczny SA did not issue any international mortgage covered bonds. However, in this period the Bank conducted a subscription for Series 8 Green Covered Bonds denominated in EUR with a nominal value of EUR 500 million, with the issue date on 4 July 2022. This was the first benchmark issue of EUR-denominated Green Covered Bonds from the CEE region.

In the first half of 2022, PKO Bank Hipoteczny SA redeemed mortgage covered bonds denominated in EUR with a total nominal value of EUR 600 million.

EUR-denominated mortgage covered bonds of PKO Bank Hipoteczny SA issued and outstanding until 30 June 2022:

Series	Mortgage covered bond number (ISIN)	Issue date	Redemption date	Series value (EUR million)	Coupon	Price	Currency	Rating of the issue	Listing
2	XS1559882821	02.02.2017	02.02.2024	25	0.82%	100.00%	EUR	Aa1	LuxSE
3	XS1588411188	30.03.2017	24.01.2023	500	0.625%	99.972%	EUR	Aa1	LuxSE, WSE parallel regulated market
4	XS1690669574	27.09.2017	27.08.2024	500	0.75%	99.906%	EUR	Aa1	LuxSE, WSE parallel regulated market
5	XS1709552696	02.11.2017	03.11.2022	54	0.467%	100.00%	EUR	Aa1	LuxSE
6	XS1795407979	22.03.2018	24.01.2024	500	0.75%	99.892%	EUR	Aa1	LuxSE, WSE parallel regulated market

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

BONDS – BOND ISSUE PROGRAMME AGREEMENT CONCLUDED WITH PKO BANK POLSKI SA

On 30 September 2015, PKO Bank Hipoteczny SA concluded an agreement for an Own Bonds Issue Programme with PKO Bank Polski SA, based on which zero coupon bonds, floating coupon bonds and fixed coupon bonds with maximum tenors of up to 36 months may be issued. In the first half of 2022, the Bank issued bonds of a total nominal value of PLN 1,595 million. At the same time, it redeemed bonds with a total nominal value of PLN 3,218.5 million. The balance of bonds issued under the Programme was PLN 2,107 million as at 30 June 2022. The Bank intends to continue to seek funding under this Programme.

GREEN COVERED BONDS

In 2019, PKO Bank Hipoteczny SA for the first time published the Green Covered Bond Framework - GCBF). In June 2022 the GCBF was published by the Bank in an updated version, in connection with the planned issue of Green

Covered Bonds. The GCBF specifies, among other things, the principles for selecting assets to secure the Green Covered Bond issues. Green issues by PKO Bank Hipoteczny SA are secured with mortgages that meet the highest energy efficiency and CO2 emissions standards.

The proceeds from Green Covered Bonds are used exclusively to provide full or partial financing or refinancing of new and/or existing projects which have been classified as green. Such bonds satisfy the criteria set by the International Capital Market Association (ICMA), which are known as Green Bond Principles (GBP). The GBP are a set of guidelines concerning the purpose of financing, assessment and selection of assets, managing the proceeds from the issue and reporting the allocation of funds.

In June 2019 and then in June 2022 PKO Bank Hipoteczny SA obtained a second party opinion for its Green Covered Bond Framework from Sustainalytics, a specialized and certified international institution. PKO Bank Hipoteczny SA's Green Covered Bonds are certified by the Climate Bond Initiative.

At least once a year the Bank publishes a report on allocation and the impact of the issues of the Green Covered Bonds on the environment.

For more detailed information concerning Green Covered Bonds issued by the Bank, please visit:

https://www.knf.gov.pl/dla_ryнку/Zasady_ladu_korporacyjnego

THE COVERED BOND LABEL

On 6 February 2018, PKO Bank Hipoteczny, as the first issuer of mortgage covered bonds from Poland, joined The Covered Bond Label. The Covered Bond Label is a quality certificate, whose purpose is to build awareness of the safety and high quality of assets such as mortgage covered bonds among investors.

The Bank's details on the website of The Covered Bond Label are available at:

<https://coveredbondlabel.com/issuer/132-pko-bank-hipoteczny-spolka-akcyjna>

ENERGY EFFICIENT MORTGAGE LABEL

In February 2021, PKO Bank Hipoteczny joined the Energy Efficient Mortgage Label initiative. EEML became a recognized quality brand for consumers, borrowers and investors, aimed at identifying mortgage loans for energy-efficient buildings in lending institutions' portfolios.

EEML reporting is aimed at ensuring comparability between various entities on the market and greater transparency with respect to climate risk. PKO Bank Hipoteczny started EEML reporting at the end of the first quarter of 2022.

4.5. FINANCIAL MARKET OPERATIONS

PKO Bank Hipoteczny SA executes treasury transactions on the wholesale financial market. The purpose of the transactions is to manage liquidity (over short-, mid- and long-term time horizons) and the Bank's foreign-currency position. Additionally, the Act on Mortgage Covered Bonds and Mortgage Banks imposes an obligation on PKO Bank Hipoteczny SA to mitigate the risk caused by fluctuations in exchange rates.

For the purpose of funding the granting of residential loans and the purchase of receivables for residential loans granted by PKO Bank Polski SA, PKO Bank Hipoteczny SA issues mortgage covered bonds, unsecured bonds, and takes out credit lines and assumes liabilities for purchased receivables. However, in accordance with the Act on Mortgage Covered Bonds and Mortgage Banks, the level of liabilities arising from the taking out of loans and advances (including liabilities in respect of purchased receivables) and issuing bonds cannot exceed in aggregate ten times the Bank's own funds. This limit changed as of 8 July 2022 in connection with the amended Act on Covered Bonds and Mortgage Banks coming into force. As a result of the amendments, the limit was increased from six times to ten times for banks applying the net stable funding requirement on an individual basis, on condition that the operations have been continuing since at least 18 months.

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

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In the Management Board's opinion, as at 30 June 2022, there were no indicators of a risk of late payment of the liabilities incurred by the Bank. As at 30 June 2022, the Bank complied with all internal and regulatory liquidity limits. Details of the levels of the Bank's liquidity limits are provided in Note 33 "Liquidity risk management" to the condensed interim financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2022.

As far as the issue of EUR-denominated mortgage covered bonds is concerned, for the purpose of hedging interest-rate risk and foreign exchange risk, PKO Bank Hipoteczny SA entered into Cross-Currency Interest Rate Swap (CIRS) transactions, under which the Bank pays a coupon in PLN based on a variable interest rate, and receives a coupon based on a fixed interest rate for EUR. If PKO Bank Hipoteczny SA is declared bankrupt by a court, the CIRS transactions will automatically be extended by 12 months on the terms set on the transaction date and indicated in the Final Terms of issue of mortgage covered bonds. Additionally, the Bank has executed a series of FX-Forward contracts, which hedge currency exposures with maturities on the payment dates of the coupons for the EUR-denominated mortgage covered bonds.

As far as the issue of fixed-interest rate mortgage covered bonds in PLN is concerned, PKO Bank Hipoteczny SA entered into IRS transactions to hedge interest rate risk. Under the IRS transactions, the Bank pays a coupon based on a floating PLN rate, and receives a coupon based on a fixed PLN rate.

5. INTERNAL OPERATING CONDITIONS

Lending process and cooperation with PKO Bank Polski SA
Internal governance
Internal control system
Risk management
Measurement of residential mortgage loan collaterals
Cover pool for mortgage covered bonds
Cover Pool Monitor
Statutory limits

5.1. LENDING PROCESS AND COOPERATION WITH PKO BANK POLSKI SA

PKO Bank Hipoteczny SA purchases residential mortgage loans for its portfolio as part of its strategic cooperation with PKO Bank Polski SA. The banks work together under two models:

- agency model;
- pooling model.

The cooperation with PKO Bank Polski SA is governed in detail by an outsourcing agreement concluded on 16 January 2015. The agreement governs the scope of the cooperation and describes in detail the method of performing the outsourced functions, first and foremost in the area of offering and administering residential loans and performing support functions for PKO Bank Hipoteczny SA. Additionally, the agreement imposes obligations on PKO Bank Polski SA to properly perform the functions entrusted to it, as well as broad reporting and controlling obligations towards PKO Bank Hipoteczny SA.

On 17 November 2015, the Receivables Sale Framework Agreement was signed with PKO Bank Polski SA. On the basis thereof, the Bank has been acquiring and may continue to acquire portfolios of receivables in respect of residential mortgage loans from PKO Bank Polski SA since December 2015.

As part of the regulatory approval process before the PFSA for establishing a mortgage bank, PKO Bank Polski SA undertook to ensure that, if necessary and if PKO Bank Hipoteczny SA's capital or liquidity ratios fall below the level required by law or by other regulations of relevant domestic banking supervision authorities that are applicable to PKO Bank Hipoteczny SA, it will immediately provide PKO Bank Hipoteczny SA with appropriate financial support.

5.2. INTERNAL GOVERNANCE

An effective and transparent internal governance system is operative in the Bank, as specified in PKO Bank Hipoteczny SA's Articles of Association and the adopted system of internal regulations which comprises the Bank management system, the Bank's organization and operating principles, its rights, duties and responsibilities, and mutual relationships between the Bank's particular authorities and organizational units, including the Supervisory Board, Management Board and key employees. The key elements of internal governance, its goals and relationships between them and the basic principles of the Bank's organization are defined in the Bank's management strategy.

The Bank's Management System covers all the aspects of the Bank's functioning, and in particular strategic planning and managing the Bank's Strategy, the internal control system, risk management system, ethical principles, procedures for anonymous notification of violations of the law and the ethical procedures and standards binding in the Bank, capital adequacy, the manner of shaping products, managing human resources and remuneration policy.

The Bank conducts its activities in a responsible manner, taking into consideration the principles of internal governance, guided by the need to take the highest diligence, professionalism and ethics. The Bank discharges its duties under the binding legal regulations, complies with the requirements for regulated institutions imposed by the Polish Financial Supervision Authority in the form of recommendations and good practices addressed to the banking

sector, the Corporate Governance Framework for supervised institutions, and guidelines specified by the European Banking Authority adopted pursuant to the supervisory practice in the Member States in the scope relating to the Bank's operations and the adopted business model, in consideration of the scale, specificity and nature of the Bank's operations. The above rules support the Bank in its endeavours to reinforce operating transparency and maintain the safety of its operations.

The Bank's Management Board is responsible for designing, implementing and abiding by and correct functioning of its internal governance, taking into account all of its components. The Bank's Management Board regularly informs the Bank's Supervisory Board of the state of the governance strategy realized by the Bank and the risk management strategy, and of the most important related issues, and if necessary, it immediately notifies of events and circumstances material for the assessment of the Bank's position and its management.

Pursuant to Recommendation Z of the PFSA, as of 1 January 2022 the Bank's Management Board will assess and verify the internal governance functioning within the Bank to adapt it to the changing internal conditions and changes in the Bank's environment. The Management Board will inform the Supervisory Board of the results of the assessment and of all material events which may have an impact on the functioning of the Bank's internal governance.

The Bank's Supervisory Board oversees the implementation and functioning of the internal governance and assesses its adequacy and effectiveness. As of 1 January 2022, the Bank's Supervisory Board will annually assess the implemented and operative internal governance. The assessment will take into account primarily all the elements comprising the internal governance and material changes in internal and external factors which may have an impact on the Bank's operations.

5.3. INTERNAL CONTROL SYSTEM

The internal control system in PKO Bank Hipoteczny SA is one of the elements of managing the Bank. The objective of the internal control system is to support the Bank's decision-making processes to ensure:

- effectiveness of the Bank's operations;
- reliability and accuracy of financial reporting, administrative and accounting procedures, and reliable internal and external reporting;
- compliance with the risk management policy;
- compliance of the Bank's operations with the generally applicable laws, internal regulations and market standards adopted by the Bank, taking into account regulatory recommendations.

The Bank's internal control system includes:

- the control function designed to ensure compliance with controls relating, in particular, to risk management; this function covers all of the Bank's business units which are responsible for carrying out the tasks assigned to this function;
- the compliance function, which, together with the business units, is responsible for identifying, assessing, controlling and monitoring the risk of the Bank's non-compliance with the generally applicable laws and with the Bank's internal regulations and market standards adopted by the Bank, taking into account regulatory recommendations, and for the submission of the relevant reports;
- the independent internal audit function to evaluate and assess, independently and objectively, the adequacy and effectiveness of the risk management system, the internal control system, and corporate governance, except for the aspects relating to the internal audit function itself.

The internal control system is arranged at the Bank on three independent levels:

- the first level consists of organizational structures that perform operational tasks to manage exposure to risk, which operate under the internal regulations;

- the second level comprises operations of the compliance function and the identification, measurement or estimation, controlling, monitoring and reporting the Bank's material risks, and the recognized threats and irregularities – these tasks are performed by specialized organizational structures operating under applicable policies, methodologies and procedures. The purpose of such structures is to ensure that actions at the first level are properly designed and effectively mitigate risks, support risk measurement and analysis, and to ensure the effectiveness of operations;
- the third level is internal audit, which carries out independent audits of elements of the Bank's management system, including the risk management system and the internal control system. The internal audit operates separately from, and can support the activities carried out by, the first and second level. The support involves consultation without affecting the decisions made.

The Bank's Management Board ensures the continuity of operation of the internal control system and proper cooperation of all business units within the internal control system in place. The Management Board also identifies corrective actions to be taken to remedy any irregularities identified by the internal control system, including specific corrective and disciplinary measures. The Bank's Management Board approves criteria for distinguishing the relevant processes taking into account the management strategy, the business model and the impact on the Bank's financial performance and capital adequacy, as well as risk tolerance. The Bank's Management Board also approves the list of significant processes and their connection with the internal control system's objectives.

Supervision over the internal control system is exercised by the Supervisory Board with the support of the Audit and Finance Committee of the Bank's Supervisory Board. The Supervisory Board approves, in particular, the principles of operation of the internal control system and assesses the adequacy and effectiveness of the system. The Audit and Finance Committee supports the Supervisory Board by monitoring and reviewing the adequacy and effectiveness of the internal control system based on the reports obtained from compliance, internal audit and the control function matrix coordinator, as well as by reviewing draft resolutions of the Management Board in terms of the internal control system, the approval of which falls within the competence of the Supervisory Board.

Reporting under the internal control system and actions taken to enhance and correct its functioning showed that in the first half of 2022 the internal control system in PKO Bank Hipoteczny SA was effective and commensurate with the business model and the scale of the Bank's operations.

5.4. RISK MANAGEMENT

The risk management process is a key process in PKO Bank Hipoteczny SA. Its purpose is to ensure the Bank's risk level control in a changing macroeconomic and legal environment and to ensure its maintenance within the risk tolerance accepted by the Bank and the adopted limit system. The assumed level of risk plays an important role in the planning and decision-making processes.

Risk management in the Bank is based in particular on the following principles:

- the Bank manages all identified types of risk associated with its operations;
- the process of risk management is adequate to the scale of the Bank's operations and to the materiality, scale and complexity of a given risk;
- the risk management process supports the execution of the Bank's management strategy, while maintaining compliance with the risk management strategy, in particular in the area of the risk tolerance level;
- the process of risk management is continuously adjusted to new factors and sources of risk;
- methods of risk management and risk measurement systems are adjusted to the scale and complexity of the Bank's operations and to the nature and size of the risk to which the Bank is exposed;
- methods of risk management are periodically reviewed and validated;
- risk management is integrated with planning and controlling processes;
- the risk level is regularly monitored and compared against the system of limits that apply in the Bank, while the Bank's management receives regular information on the level of risk;

- the risk management process is cohesive with the risk management principles in the PKO Bank Polski SA Group.

PKO Bank Hipoteczny SA identifies and manages the following types of risk:

MATERIAL RISKS

- Credit risk
- Liquidity risk including funding risk
- Interest rate risk
- Model risk
- Operational risk

MONITORED RISKS

- Concentration risk
 - Residual risk
 - Foreign exchange risk
 - Business risk, including macroeconomic risk
 - Compliance risk
 - Reputation risk
 - Capital adequacy risk, including excessive leverage risk
 - Derivatives risk
-

The materiality of individual types of risk is defined at the level of the Bank. While determining the criteria of considering a certain risk to be material, the impact of such risk on the Bank's activities is taken into account, and three levels of risk are distinguished:

- material risks – which are subject to active management;
- risks subject to monitoring – which are monitored for materiality;
- other risks which have not been defined or do not arise in the Bank (immaterial and unmonitored).

For monitored risks, PKO Bank Hipoteczny SA performs periodic monitoring of whether they should be designated as material. The Bank has defined materiality criteria, which when exceeded, a risk will be recognized as material.

In its Risk Management Strategy, the Bank has defined a number of strategic limits which define the tolerance for different risks. The Bank monitors these limits on an ongoing basis. In the first half of 2022, as well as during the whole period of the Bank's activities, none of them was exceeded.

A detailed description of the Bank's risk management objectives and methods is provided in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020, in the chapter "Objectives and principles of risk management", and with respect to important information on the level of financial risk in the Bank's operations, together with the methods of hedging significant types of planned transactions for which hedge accounting is applied, the most current information is provided in the respective section of the financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2022.

5.5. MEASUREMENT OF RESIDENTIAL MORTGAGE LOAN COLLATERALS

PKO Bank Hipoteczny SA's policy concerning loan collaterals and their measurement is based on the provisions of the following legal acts:

- the Act on Mortgage Bonds and Mortgage Banks;
- the Act on Land and Mortgage Registers and Mortgage;
- The Banking Law.

Additionally, the question of loan collaterals is addressed by:

- the recommendations of the PFSA, including Recommendations F, S and J;

- the Bank's internal regulations.

The Bank has in place and applies the Rules for Setting the Mortgage Lending Value of Real Estate, approved (as amended) by the Polish Financial Supervision Authority on 30 October 2017. The Rules take into account the provisions of Recommendation F concerning the basic criteria applied by the Polish Financial Supervision Authority in approving rules for setting the mortgage lending value (MLV) of real estate issued by mortgage banks.

The mortgage lending value of real estate is the value determined by the mortgage bank which, in the Bank's opinion, reflects the level of risk associated with the real estate as the loan collateral. The mortgage lending value of real estate is used to determine the maximum amount of a loan that can be secured by a mortgage on a given property, and to make a decision on whether a receivable secured by a particular property can be purchased by the Bank. The mortgage lending value of real estate is determined in a prudent manner, taking into consideration long-term parameters.

PKO Bank Hipoteczny SA determines the MLV on the basis of expert valuations of the mortgage lending value of property. Such valuations are carried out with due diligence and prudence. They take into account only those property characteristics and expenditures necessary for its construction, which will be of a permanent nature and which any property holder will be able to obtain assuming rational exploitation. The expert valuation, made on a specified date, documents assumptions and parameters underlying the analysis, the process of determining the MLV and the resulting MLV proposal. The expert opinion takes into account analyses and forecasts concerning specific parameters for a given property, which influence the evaluation of credit risk, as well as factors of a general nature, e.g. population growth, the unemployment rate and urban development planning.

The process of setting the MLV is carried out in the Bank by a dedicated team.

In the agency model, the process of setting the mortgage lending value of real estate comprises three stages:

PREPARATION OF THE MLV EXPERT OPINION	Property appraiser with appropriate experience and the ability to estimate banking risk in connection with securing residential mortgage loans or a dedicated organizational unit of the Bank – the Collateral Valuation Team at the Loan Office, based on the report from the inspection of the real estate prepared by a property appraiser
VERIFICATION OF THE MLV OPINION	PKO Bank Polski SA under the Outsourcing Agreement, or a dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office
REVIEW OF THE MLV OF REAL ESTATE EXPERT OPINION AND DETERMINING THE MORTGAGE LENDING VALUE OF THE REAL ESTATE	A dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office

In the case of the purchase of a receivable, the process of setting the mortgage lending value of real estate comprises four stages:

CONFIRMATION OF THE PROPERTY'S LEGAL STATUS	PKO Bank Polski SA, under the outsourcing agreement
PREPARATION OF AN INSPECTION PROTOCOL OF THE PROPERTY, TOGETHER WITH MARKET RESEARCH	Appraiser with appropriate experience and the ability to estimate banking risk in the area of securing residential mortgage loans
PREPARATION OF THE MLV EXPERT OPINION	A dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office
REVIEW OF THE MLV OF REAL ESTATE EXPERT OPINION AND DETERMINING THE MORTGAGE LENDING VALUE OF THE REAL ESTATE	A dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office

The processes of preparing an MLV expert opinion and setting the mortgage lending value of a property described above are executed by two independent individuals.

5.6. COVER POOL FOR MORTGAGE COVERED BONDS

PKO Bank Hipoteczny SA maintains a cover pool for its mortgage covered bonds. The Bank includes in the cover pool residential mortgage loan receivables, and rights and funds that constitute the basis for issuing mortgage covered bonds, as well as additional funds that constitute the excess to cover interest on mortgage covered bonds in circulation which is due in the following six months. The mortgage covered bonds are secured by loans secured by the highest priority mortgage. The following Bank's funds can also constitute the basis for issuing mortgage covered bonds:

- 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 five years;
- deposited with the National Bank of Poland;
- held in cash.

The nominal value of loans entered in the Bank's cover pool representing collateral for the mortgage covered bonds issued totalled PLN 19,916.0 thousand at 30 June 2022. The nominal value of the over-collateralization in the form of securities issued by the State Treasury, denominated in PLN, stood at PLN 235 million. As at 31 December 2021 it amounted to PLN 21,778.5 million and PLN 130 million respectively. The Bank's mortgage bonds cover pool also included CIRS hedging foreign exchange risk and interest rate risk of the mortgage covered bonds denominated in EUR, FX-Forward transactions hedging the foreign exchange risk of issued mortgage covered bonds denominated in PLN and IRS transactions hedging the interest rate risk of fixed rate mortgage bonds issued in PLN.

In the first half of 2022 and in the previous years the cover pool did not include asset-backed securities (ABS), which do not meet the requirements specified in 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) (recast).

The method of managing the cover pool is laid out by:

- the Polish Mortgage Covered Bonds and Mortgage Banks Act of 29 August 1997 (Journal of Laws 2022.581);
- Resolution No. 633/2015 of the PFSA of 1 December 2015 on defining the form of a cover pool;
- Recommendation K of the PFSA of 9 February 2016 concerning the principles for maintaining the cover pool by mortgage banks.

In connection with the coming into force of the amended Act on Covered Bonds and Mortgage Banks, the cover pool maintained by the Bank was adapted to the new requirements.

The Cover Pool Monitor and the Deputy Cover Pool Monitor provide continuous supervision of the management of the cover pool.

The following table presents basic data on the Cover Pool as at 30 June 2022 and 31 December 2021:

	30.06.2022	31.12.2021
Total cover pool, including (in PLN million):	20,151.0	21,908.5
<i>loans secured by mortgages (in PLN million)</i>	19,916.0	21,778.5
<i>other assets¹⁹ (in PLN million)</i>	235.0	130.0
Liquidity buffer ²⁰ (in PLN million)	201.2	136.0
Nominal value of hedging transactions ²¹ (in PLN million)	7,449.7	10,079.2

¹⁹ Article 18(3) of the Act on mortgage covered bonds and mortgage banks

²⁰ Article 18(3a) of the Act on mortgage covered bonds and mortgage banks.

²¹ The nominal value of the hedging transaction corresponds with the issue price of the mortgage covered bond.

	30.06.2022	31.12.2021
Number of loans	113,212	120,246
Average loan value (in PLN thousand)	175.9	181.1
Average weighted time since loan issuance (seasoning) (months)	69.8	64.8
Average maturity (months)	246.1	248.4
Average LtV (loan amount to market value)	39.9%	43.3%
Average loan to cover pool	65.8%	67.1%
Over-collateralization ²²	110.8%	72.2%

5.7. COVER POOL MONITOR

The purpose of the cover pool monitor is to ensure protection of the material interests of the holders of mortgage covered bonds. The Act on Mortgage Covered Bonds and Mortgage Banks guarantees protecting the independence of the monitor and his deputy. Monitors are appointed by the Polish Financial Supervision Authority, upon the request of the Bank's Supervisory Board, for a period of six years.

Due to the lapse of the six-year period referred to above, on 5 March 2021 the PFSA appointed the Cover Pool Monitor and the Deputy Cover Pool Monitor for PKO Bank Hipoteczny SA:

	Position	Appointment date	Date of dismissal / resignation
Tadeusz Swat	Cover Pool Monitor	05.03.2021	-
Grzegorz Kędzia	Deputy Monitor	05.03.2021	-

5.8. STATUTORY LIMITS

Acting under the Act on Mortgage Covered Bonds and Mortgage Banks, PKO Bank Hipoteczny SA is obliged to monitor and comply with designated limits related to the operations of a mortgage bank.

The statutory limits and the level to which they have been met as at 30 June 2022 and 31 December 2021 were as follows:

Limit	Legal basis	Limit level	Actual level	
			30.06.2022	31.12.2021
Total value of receivables on loans secured by mortgages, and mortgage loan receivables purchased from other banks, in which the value exceeds 60% of the mortgage lending value, in proportion to the total value of receivables secured by mortgages	Article 13(1)	≤30.0%	14.2%	15.0%
Value of funds received from the issue of mortgage bonds designated for refinancing loans secured by mortgages or receivables on such loans acquired from other banks, in proportion to 80% of the mortgage lending value of particular residential properties that constitute the collateral	Article 14	≤100.0%	48.7%	58.9%
Total value of acquired shares in other entities, in proportion to the Bank's own funds	Article 15(1)(5)	≤10.0%	0.0%	0.0%

²² Accounts for the net value of hedging transactions and does not account for non-performing loans (NPL).

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Limit	Legal basis	Limit level	Actual level	
			30.06.2022	31.12.2021
Total value of loans and advances taken out and bonds issued, in proportion to the Bank's own funds	Article 15(2)	≤600.0%	535.9.8%	519.9%
Total amount of loans and advances taken out and bonds issued, in proportion to the amount designated for refinancing of activities described in Article 12 of the Act, i.e. issue of loans secured and unsecured by mortgages, receivables purchased from other banks on loans granted by them and secured or unsecured by mortgage	Article 15(3)	≤100.0%	50.6%	45.0%
Total nominal value of mortgage covered bonds outstanding, in proportion to the Bank's own funds and general risk provision	Article 17	≤4000.0%	503.6%	663.5%
Total nominal value of receivables secured by mortgages and value of rights and additional funds of the Bank constituting the basis for the issue of mortgage covered bonds, in proportion to the total nominal value of outstanding mortgage covered bonds (taking into account hedging instruments)	Article 18(1)	≥110.0%	210.8%	172.3%
Total nominal value of receivables secured by mortgages constituting the basis for the issue of mortgage covered bonds, in proportion to the total nominal value of outstanding mortgage covered bonds	Article 18(1)	≥85.0%	201.6%	165.8%
Interest expense on mortgage covered bonds outstanding (cumulative from the beginning of the financial year and on any given day), in proportion to interest income on receivables secured by mortgages and rights and additional funds constituting the basis for the issue of mortgage covered bonds (cumulative from the beginning of the financial year and on any given day), taking into account hedging instruments	Article 18(2)	≤100.0%	20.3%	21.8%
Bank funds constituting the excess described in Article 18(3a) over the nominal value of interest on mortgage bonds outstanding due in the following six month	Article 18(3a)	≥100.0%	195.5.0%	207.0%
Value of receivables secured by mortgages established during the course of construction investments, in proportion to the total value of receivables secured by mortgages that constitute the basis for the issue of mortgage covered bonds	First sentence of Article 23(1)	≤10.0%	2.2%	3.3%
Value of receivables secured by mortgages established on land designated for construction in accordance with development plans, in proportion to the value of receivables secured by mortgages established during the course of construction projects that constitute the basis for the issue of mortgage covered bonds	Second sentence of Article 23(1)	≤10.0%	0.0%	0.0%

PKO Bank Hipoteczny SA did not breach any of these limits during the entire period covered by this Report.

The Bank obtained positive results of the liquidity tests and coverage balance tests conducted as at the end of June 2022.

In connection with the coming into force of the amended Act on Covered Bonds and Mortgage Banks, the system for monitoring the Bank's statutory limits was adapted to the new requirements as of 8 July 2022.

6. ORGANIZATION AND GOVERNING BODIES OF PKO BANK HIPOTECZNY SA

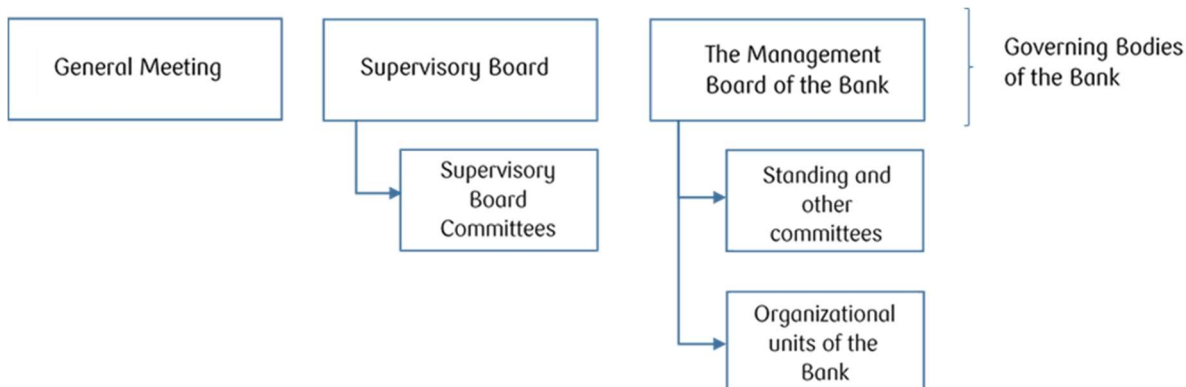
Qualified staff Organizational structure of PKO Bank Hipoteczny SA Competences of the governing bodies and committees of PKO Bank Hipoteczny SA The Management Board of PKO Bank Hipoteczny SA The Supervisory Board of PKO Bank Hipoteczny SA
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6.1. QUALIFIED STAFF

The Bank implements tools and procedures to guarantee that the Bank's staff has the highest qualifications in its key areas of operation. The Bank systematically raises the qualifications of its staff and tries to ensure employment stability. These factors have a significant impact on the pursuit of the Bank's strategy and its business objectives, and therefore on its operations and performance.

6.2. ORGANIZATIONAL STRUCTURE OF PKO BANK HIPOTECZNY SA

PKO Bank Hipoteczny SA is managed on the basis of the organizational structure presented in the chart below and within the framework of the duties of the Bank's Governing Bodies, described in the following section of this chapter.



6.3. COMPETENCES OF THE GOVERNING BODIES AND COMMITTEES OF PKO BANK HIPOTECZNY SA

The competences of the **General Shareholders' Meeting of the Bank** include in particular:

- appointing and dismissing members of the Supervisory Board and determining the principles for remunerating them and covering the costs related to the performance of the function of a Supervisory Board member by the Bank;
- determining the procedures for redeeming shares, the compensation for such redeemed shares and granting consent for the purchase of the Bank's treasury shares for redemption purposes;
- creating and dissolving special funds created from net profit;
- adopting resolutions on the issue of bonds convertible into shares or other instruments entitling the holder to acquire or take up shares in the Bank;
- adopting resolutions on the liquidation, disposal or lease of the enterprise of the Bank or its organized part and establishing limited property rights over them;
- adopting resolutions on the settlement of claims for damages caused at the establishment of the Bank, or by the exercise of management or supervision;

- granting consent for the Bank taking up, acquiring within the scope allowed by the Act, as well as for selling or encumbering shares in companies by the Bank, redeeming shares in companies held by the Bank, as well as making additional payments to such companies by the Bank, making contributions, investing and disinvesting in companies and granting consent for the purchase and sale of bonds or other securities convertible into shares;
- assessing whether the remuneration policy used by the Bank contributes to the development and safety of the Bank's operations;
- granting consent to manage intangible fixed assets, property, plant and equipment, including making contributions to a company or cooperative if the market value of the assets exceeds 5% of total assets determined on the basis of the latest approved financial statements, and offering these assets for use to another entity, for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject matter of the legal transaction exceeds 5% of total assets;
- granting consent to purchasing property, plant and equipment with a value exceeding PLN 100,000,000 or 5% of total assets determined on the basis of the latest approved financial statements;
- assessing the adequacy of internal regulations relating to the functioning of the Supervisory Board and assessing the effectiveness of the operations of the Supervisory Board.

The competences of the **Bank's Supervisory Board** include in particular:

- approving the Bank's annual financial plan and long-term development plans (in particular the Bank's strategy);
- approving the compliance policies of the Bank;
- approving the Bank's management strategy, the risk management strategy, including the general level of risk at the Bank, the policy for estimating internal capital and capital management and reviewing the internal capital assessment strategies and procedures and capital management procedures;
- approving the policies for creating and changing the Bank's products;
- approving the audit charter, the internal audit function's strategy, the annual and long-term internal audit plans and the principles for cooperation with the internal audit function at PKO Bank Polski SA and the statutory auditor;
- approving and periodically reviewing the remuneration policy concerning persons whose professional activities significantly affect the Bank's risk profile;
- approving the operating principles of internal controls, the criteria for assessing the adequacy and effectiveness of the internal control system and the principles for classifying irregularities discovered by the internal controls;
- approving the Management Board regulations;
- approving the Regulations for Setting the Mortgage Lending Value of Property, which take effect after the approval by the PFSA;
- affirming the Code of Ethics and the Rules for the Management of Conflicts of Interest;
- approving the framework organizational structure of the Bank, adjusted to the scale and profile of the risk taken on by the Bank;
- approving and reviewing the performance of the cooperation agreements concluded with PKO Bank Polski SA;
- adopting the Supervisory Board Rules;
- appointing and dismissing individual members of the Management Board, including specifying the detailed principles and procedures of conducting qualification procedures for Management Board members;
- representing the Bank in agreements with members of the Management Board;
- approving the policy and procedures for selecting an audit firm responsible for auditing the Bank's financial statements and the policy for providing permitted non-audit services by the audit firm performing the audit, its related entities and members of its network;
- selecting an audit firm to conduct an audit or review of the Bank's financial statements;
- assessing the Directors' Report on the Bank's activities and the financial statements for the previous financial year in terms of their consistency with the books of account and documents, and the status quo, and the

- proposals of the Management Board concerning the distribution of profit or the offsetting of losses and presenting a written annual report on the results of these assessments to the General Shareholders' Meeting;
- assessing the adequacy and effectiveness of the internal control system operating in the Bank, including the control function, the compliance unit and the internal audit units, as well as assessing the adequacy and effectiveness of the risk management system;
 - assessing the effectiveness of managing the compliance risk by the Bank;
 - assessing the adequacy and effectiveness of the whistleblowing procedure with respect to violations of the law and of the procedures and ethical standards in force at the Bank;
 - supervising the implementation of the management system and assessing the adequacy and effectiveness of the system;
 - applying to the PFSA for consent to appoint two members of the Management Board, including the President of the Management Board and the member of the Bank's Management Board responsible for managing risks material to the Bank's operations, and to entrust the function of the member of the Management Board responsible for supervising the management of risks material to the Bank's operations to an appointed member of the Management Board;
 - informing the PFSA about including on the agenda of a Supervisory Board meeting items concerning: (i) dismissing the President of the Management Board, (ii) dismissing a member of the Management Board supervising material risk management or entrusting his/her duties to another member of the Management Board;
 - applying to the PFSA for consent to the appointment of a Bank cover pool monitor and deputy cover pool monitor;
 - granting consent to appointing and removing the person managing the compliance and internal audit unit;
 - granting consent to changing the registered office or location (address) of the Bank;
 - assessing the functioning of the Bank's remuneration policy and submitting relevant reports to the General Shareholders' Meeting;
 - assessing the application of the Principles of Corporate Governance for Supervised Institutions by the Bank.

In the first half of 2022, the **Supervisory Board committees** which operated in the Bank had, in particular, the following competences:

**AUDIT AND FINANCE
COMMITTEE**

- monitoring and expressing periodic opinions
 - on (i) the adequacy and effectiveness of the internal control system; (ii) the adequacy and effectiveness of the risk management system and internal audit, the effectiveness of the Bank's compliance risk management and the adequacy of the compliance unit; (iii) the application of the Corporate Governance Principles for Supervised Institutions and implementation and application of internal governance, and its adequacy and effectiveness; (iv) the adequacy and effectiveness of the whistleblowing policy and the ethical procedures and standards in force at the Bank;
 - giving opinions on the proposed annual and tri-annual internal audit plans;
 - giving opinions on Management Board information relating to the operation of the internal control system, the manner of ensuring independence of the internal audit and the compliance units, and ensuring funds for the purpose of performing tasks and improving the qualifications and skills of the units' staff;
 - monitoring the financial reporting process including the review of the Bank's interim and annual financial statements, and expressing opinions on them;
 - monitoring financial audit proceedings, in particular the audits performed by external audit firms, in consideration of all the conclusions and determinations of the Audit Supervision Commission following from the inspection of the audit firm;
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- controlling and monitoring of the independence of the statutory auditor and the audit firm, in particular when other, non-audit services are provided to the Bank by the audit firm;
 - obtaining a representation confirming the independence of the audit firm and of the auditors performing the audit of the Bank's financial statements;
 - developing a policy for selecting an audit firm to conduct the audit and providing the Supervisory Board with recommendations as to the policy adopted;
 - developing a procedure for selecting the audit firm to conduct an audit and providing the Supervisory Board with recommendations as to the procedure adopted;
 - developing a policy for providing permitted non-audit services by the audit firm which conducts the audit, its related entities, and by a member of the audit firm's network, and presenting recommendations on adopting the policy to the Supervisory Board;
 - providing the Supervisory Board with recommendations as to the appointment of the audit firm to conduct the audit of the Bank's financial statements;
 - giving consent for the provision of permitted non-audit services by the auditor, the audit firm which conducts the audit, and in the event that the auditor or audit firm are part of a network – for every member of such a network;
 - assessing the reasons for terminating a contract with the audit firm conducting the audit;
 - agreeing the policies for conducting audit activities by the audit firm performing the audit, in consideration of the proposed audit plan;
 - informing the Supervisory Board of the audit results and explaining how the audit contributed to the fairness of the Bank's financial reporting and what was the role of the Committee in the audit process;
 - analysing the effectiveness of functioning of the internal controls and credit risk management system with respect to the correct determination of the allowances for expected credit losses;
 - assuring compliance with all the requirements relating to the independence of a statutory auditor by external audit firms participating in the development of the IFRS 9 models and the processes of estimating allowances for expected credit losses;
 - submitting an additional audit report referred to in Article 11 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 to the Management and Supervisory Boards;
 - submitting recommendations aimed at ensuring fairness of the Bank's financial reporting to the Supervisory Board;
 - giving opinions on the Bank's strategic and financial plans;
 - giving opinions on Management Board resolutions with respect to the internal control system, the approval of which is the responsibility of the Supervisory Board;
 - analysing information and periodic reports in the area of particular internal control components;
 - meeting with the manager of the finance and accounting function at least once a year;
 - meeting with the manager of the internal audit unit and the manager of the compliance unit at least once a year – without the participation of members of the Bank's Management Board;
 - giving opinions on appointing and dismissing, as well as on the remuneration of the manager of the internal audit unit and of the compliance unit.
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RISK COMMITTEE

- giving opinions on the Bank's overall current and future risk appetite, strategic risk directions and tasks in the context of the Bank's strategy and the conditions resulting from the macroeconomic situation and the regulatory environment, and in particular, on the risk management strategy developed by the Management Board and the Bank's acceptable overall risk level;
- supporting the Supervisory Board in overseeing the implementation of the Bank's operational risk management strategy by higher level management;
- reviewing the prices of liabilities and assets offered to customers to check whether they are fully compliant with the Bank's business model and its risk management strategy, and if they do not appropriately reflect the types of risk pursuant to this model and strategy, presenting proposals for ensuring adequacy of the prices of liabilities and assets with respect to risk to the Bank's Management Board;
- monitoring compliance of the Bank's policy in the area of taking on risk with the strategy and financial plan;
- analysing periodic risk reports, including the utilization of strategic risk tolerance limits and developing relevant guidelines on their basis, as well as periodic reviews of pursuance of the risk management strategy;
- giving opinions on capital adequacy, creditworthiness evaluation principles, the risk measurement model, the impairment measurement model;
- reviewing the principles of the disclosure policy regarding capital adequacy, liquidity risk management, interest rate risk and foreign exchange risk, operational risk, model risk, including the impairment risk;
- giving opinions on the draft Rules on setting the Mortgage Lending Value of real estate.
- submitting information significant for monitoring the effectiveness and adequacy of the Bank's risk management system to the Audit and Finance Committee;
- assessing the information received on potential non-compliance with the management strategy adopted by the Bank, its risk management strategy, adopted risk appetite and other policies approved by the Bank's Management Board.

REMUNERATION AND NOMINATION COMMITTEE

- annually assessing the structure, size, composition and effectiveness of the Management Board's functioning, and recommending potential changes to the Supervisory Board;
 - bi-annually assessing the knowledge, competences and experience of the Management Board as a whole, and of particular Members of the Board, and informing the Management Board of the results of the assessment;
 - giving opinions on, and conducting periodic reviews of, nominations for key managerial positions in the Bank;
 - submitting proposals relating to appropriate forms of contracts with members of the Bank's Management Board to the Supervisory Board;
 - preparing opinions on the Code of Ethics and the Principles for Management of Conflicts of Interest;
 - preparing opinions on requests concerning the consent for a member of the Management Board to engage in competitive activities or to participate in a competing company as a partner in a civil law company, a sole proprietorship or as a member of a governing body of a commercial company, or to participate in another competing legal person as a member of its governing body;
 - evaluating and performing periodic reviews, subject to the approval of the Supervisory Board, of the general principles of the policy for remunerating individuals whose actions have a material impact on the Bank's risk profile;
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- supporting the Supervisory Board in the process of giving opinions on the functioning of the Bank's remuneration policy and respective reporting to the General Shareholders' Meeting;
 - evaluating and monitoring the variable remuneration components of individuals whose activities have a significant impact on the Bank's risk profile, second-level risk management, the compliance unit manager and the internal audit unit manager;
 - giving opinions on the amount of fixed remuneration for the manager of the internal audit unit and of the compliance unit;
 - giving opinions on the detailed rules and procedures for recruiting members of the Bank's Management Board and assessing the suitability of members of the Bank's Management Board;
 - preparing and carrying out, with potential support from external independent entities, the programme for raising the qualifications of members of the Supervisory Board.

COMMERCIAL
COMMITTEE

- reviewing the results of the functioning of cooperation agreements concluded between PKO Bank Polski SA and the Bank;
 - providing opinions on material changes to the criteria for qualifying products for the Bank;
 - providing opinions on introducing new products to the Bank's offer and the directions of change in the Bank's product offer;
 - monitoring and supervising the outsourcing of internal processes.
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The competences of the Bank's **Management Board** include in particular:

- defining PKO Bank Hipoteczny SA's strategy, taking into account the operational risk and the strategy for managing the Bank;
- determining the risk management strategy, including the determination of the Bank's general risk level;
- setting the annual financial plan, including the conditions for its execution;
- adopting the Organizational Regulations of the Bank and the rules for segregation of duties;
- establishing and closing down standing Committees of the Bank and defining their competences;
- adopting the Management Board rules;
- adopting the Regulations for setting the Mortgage Lending Value of real estate;
- adopting the regulations for the use of special funds created from net profit;
- determining the operating principles of the internal control system, the criteria for determining the adequacy and effectiveness of the system and the principles for classifying irregularities discovered by the internal control system;
- approving the operating regulations of the internal audit unit and the audit charter, determining the cooperation rules of the internal audit unit with the corresponding unit of PKO Bank Polski SA and the independent registered auditor, giving opinions on the operating strategy of the internal audit unit and annual and multi-year plans of internal audits;
- approving the operating rules of the compliance unit, determining the cooperation principles of the internal audit unit with the corresponding unit of PKO Bank Polski SA and giving opinions on the annual operating plan of the compliance unit;
- establishing internal capital estimation and equity management policies;
- establishing, restructuring and closing down branches and other organizational units of the Bank in Poland and abroad;
- taking decisions on issues of mortgage covered bonds.

The Bank's Management Board established standing committees with the following functions:

**THE ASSET AND LIABILITY
COMMITTEE**

- supporting the management functions for liquidity, interest rate, business risks – including macroeconomic, currency, capital risk – including leverage risk – and the related risk of models and their measurement;
- managing of the Bank's capital adequacy;
- reviewing documents concerning capital adequacy, equity, internal capital, stress testing, the risks mentioned above and the risk tolerance limits for those risks;
- making decisions concerning the Bank's operations, particularly regarding the risk measures and limits, risk management, the result of validation of the risk models, stress-test assumptions, hedging strategies under hedge accounting and recommendations for the Management Board with regard to launching emergency measures relating to capital and emergency procedures relating to liquidity;
- issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.

CREDIT COMMITTEE

- supporting the functions that manage credit, concentration and residual risks, as well as the risk of the models measuring such risks;
- reviewing documents concerning the risks mentioned above, the profile and quality structure of the loan portfolio, impairment losses on assets, acquisition of loan portfolios and the property market;
- making decisions concerning the Bank's operations, particularly regarding the risk measures and limits, the results of the validation of the risk models, the methodologies and models of calculation of impairment losses on credit assets, cut-offs used in the assessment of credit risk, loan receivables purchased by the Bank and individual loan transactions;
- issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.

**THE OPERATIONAL RISK AND
DATA QUALITY COMMITTEE**

- effective management of operational risk, improving the safety of the Bank's operating activities;
 - outsourcing risk management;
 - determining the directions of operational risk management development;
 - supervising the functioning of operational risk management, including tasks relating to ensuring the Bank's business continuity and the information and telecom security environment;
 - setting tasks in the event of failures putting the Bank's image at risk, which could lead to operating losses;
 - determining the directions of operations in the area of managing the quality of data and data architecture in the Bank, in the context of the Data Management System (DMS);
 - supervising the Data Management System, including assessing its effectiveness and actions of the Bank's particular organizational entities;
 - issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.
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**THE STRATEGY AND BUSINESS
INITIATIVES COMMITTEE**

- Specifying strategic direction planning and managing the Bank's strategy and the IT strategy;
- determining the directions and monitoring the implementation of initiatives related to the pursuit of the Bank's strategy and the IT strategy;
- determining the directions of change in the product offer and in the lending process;
- determining the directions of work on the products' profitability;
- managing the reputation risk and compliance risk;
- issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.

**GREEN COVERED BONDS
COMMITTEE**

- supervising the issue of Green Covered Bonds, including determining the directions of change with respect to the Green Bonds and assessing and selecting assets qualifying for funding with the Green Covered Bonds;
 - examining materials relating to the guidelines and principles set by the International Capital Markets Association (ICMA) for the Green Covered Bonds market, domestic regulations on the binding energy efficiency standards, reporting on the allocation of funds earned on emissions and the impact on the funding environment gained by issuing the Green Covered Bonds, in accordance with the rules for issuing the Green Covered Bonds in force at the Bank, investor information with respect to the Green Covered Bonds;
 - making decisions relating to the Bank's operations, among other things, in the scope of assessing and selecting qualified loans according to the methodology adopted by the Bank and adopting the rules for issuing the Green Covered Bonds by the Bank pursuant to appropriate guidelines;
 - issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.
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6.4. THE MANAGEMENT BOARD OF PKO BANK HIPOTECZNY SA

In the period from 1 January to 30 June 2022, the composition of the Management Board of PKO Bank Hipoteczny SA was as follows:

	Position	Position holding period
Daniel Goska	Vice President of the Management Board managing the Management Board's operations	01.10.2021 – 25.01.2022
	President of the Management Board	26.01.2022 – 31.07.2022
Piotr Kochanek	Vice President of the Management Board	01.01.2019 – until now
Katarzyna Surdy	Vice President of the Management Board	01.10.2021 – until now

On 26 January 2022 the PFSA unanimously gave its consent to the appointment of Daniel Goska to the position of President of the Management Board of PKO Bank Hipoteczny SA.

On 28 April 2022 the Ordinary General Shareholders' Meeting granted a vote of approval to the President of the Management Board Ms Paulina Strugała for the period from 1 January 2021 to 30 September 2021, to the Vice President of the Management Board Mr Daniel Goska for the period from 1 January 2021 to 31 December 2021, to the Vice President of the Management Board Mr Piotr Kochanek for the period from 1 January 2021 to 31 December 2021 and to the to the Vice President of the Management Board Ms Katarzyna Surdy for the period from 1 October 2021 to 31 December 2021.

On 25 July 2022 Mr Daniel Goska – President of the Bank's Management Board, resigned from membership on the Bank's Management Board as of 31 July 2022.

On 2 August 2022, the Bank's Supervisory Board delegated a Member of the Supervisory Board of PKO Bank Hipoteczny S.A., Mr Jakub Niesłuchowski, to act as a Member of the Management Board with the competences stipulated for the President of the Board.

The delegation described above is temporary, from 2 August 2022 to the date when a member of the Bank's Management Board is appointed, however, no longer than until 1 November 2022.

The Bank's Supervisory Board determined the following internal assignment of particular key competences of the Bank's Management Board:

DANIEL GOSKA	President of the Management Board responsible for supervising the internal audit unit, managing compliance risk , HR and supervising financial planning and financial controlling
Other functions performed:	Chairperson of the Strategy and Business Initiatives Committee Chairperson of the Asset and Liability Committee
PIOTR KOCHANEK	Vice-President of the Management Board responsible for supervision over all of the Bank's risks, with the exception of compliance and reputational risk, and supervision over the process of assessing creditability and determining the mortgage lending value of real estate, the restructuring and debt collection process and settling and confirming treasury transaction, as well as accounting and financial reporting issues
Other functions performed:	Chairperson of the Credit Committee Chairperson of the Operational Risk and Data Quality Committee Deputy Chairperson of the Asset and Liability Committee Member of the Strategy and Business Initiatives Committee Member of the Asset and Liability Committee
KATARZYNA SURDY	Vice-President of the Management Board responsible for supervision over reputational risk management, legal services, outsourcing, supervision over the creation and development of the product offer, coordination of product sales and acquiring loan receivables as well as the process of their further handling, functioning and effectiveness of IT resources, as well as issuing securities and raising funds
Other functions performed:	Chairperson of the Green Covered Bonds Committee Deputy Chairperson of the Strategy and Business Initiatives Committee Deputy Chairperson of the Operational Risk and Data Quality Committee Member of the Asset and Liability Committee Member of the Credit Committee

OTHER MANAGEMENT FUNCTIONS OF THE MANAGEMENT BOARD MEMBERS

	Position	Position holding period
Daniel Goska	Did not perform any additional functions as a member of the Management Board or of the Supervisory Board and did not hold any other directorial positions	Throughout the reporting period
Piotr Kochanek	Did not perform any additional functions as a member of the Management Board or of the Supervisory Board and did not hold any other directorial positions	Throughout the reporting period
Katarzyna Surdy	Did not perform any additional functions as a member of the Management Board or of the Supervisory Board and did not hold any other directorial positions	Throughout the reporting period

RECRUITMENT POLICY CONCERNING THE SELECTION OF MANAGEMENT BOARD MEMBERS AND EVALUATION OF MANAGEMENT BOARD MEMBERS

The process of selecting and evaluating candidates for members of the Management Board in PKO Bank Hipoteczny SA is carried out by the Remuneration and Nomination Committee of the Bank's Supervisory Board. The Committee takes into consideration the guidelines of the European Banking Authority (EUA Guidelines) and the Regulation of the Minister of Development and Finance of 10 March 2017 on information and documents concerning the founders and the management board of the bank to be submitted to the PFSA, as well as the Methodology for assessing the appropriateness of members of the bodies of entities supervised by the PFSA. During the candidate selection process, the Committee takes into account PKO Bank Hipoteczny SA's profile, scope and scale of operations. During the evaluation of a candidate, the Committee also verifies whether the candidate's experience and knowledge will strengthen the abilities of other members of the Bank's Management Board, and complement them, so as to ensure the coverage of all areas managed in the Bank. The purpose of examination of this criterion is to ensure variety in the selection of members of the managing body, its purposes, tasks and scope of operation.

Before their appointment, all members of the Management Board of PKO Bank Hipoteczny SA were subjected to an evaluation of their suitability, in accordance with the EBA and PFSA guidelines.

Members of the Management Board are subject to a continuous evaluation by the Supervisory Board's Remuneration and Nomination Committee and the Supervisory Board, beginning from the moment of recruitment and continuing through their entire term of office. Moreover, pursuant to Article 395 § 2(3) of the Commercial Companies Code, each year the Ordinary General Shareholders' Meeting grants each individual member of the Management Board a vote of approval. The granting of this vote of approval constitutes an evaluation of the Management Board members, which is independent of the approval of the Bank's Directors' Report by the General Shareholders' Meeting.

The process described above for appointments to perform functions on the Management Board and the positive evaluation of members of the Bank's Management Board constitutes confirmation of the proper performance of their duties, based on adequate knowledge, abilities and experience, in accordance with the requirements of Article 22aa of the Banking Law.

6.5. THE SUPERVISORY BOARD OF PKO BANK HIPOTECZNY SA

As at the date of this Report, the composition of the Supervisory Board of PKO Bank Hipoteczny SA was as follows:

	Function on the Supervisory Board	Appointment date	Date of dismissal / resignation	qualifications in finance	Independent member ²³	Audit and Finance Committee	Risk Committee	Remuneration and Nomination Committee	Commercial Committee
Mieczysław Król	Chairman	27.08.2021		✓				C	M
Paweł Metrycki	Deputy Chairman	07.10.2019	05.05.2022	✓					
	Member of the Supervisory Board	05.05.2022				D	C		D
Maciej Brzozowski	Member of the Supervisory Board	28.04.2022	05.05.2022	✓			D		
	Deputy Chairman	05.05.2022							
Piotr Kwiecień	Member of the Supervisory Board	18.10.2017	27.04.2022	✓	✓				
Jakub Niesłuchowski	Member of the Supervisory Board	28.04.2022		✓					M
Ilona Wołyniec	Member of the Supervisory Board	30.03.2019		✓			M	D	C
Lucyna Kopińska	Member of the Supervisory Board	01.09.2019		✓					M
Jadwiga Lesisz	Member of the Supervisory Board	01.09.2019		✓	✓	C			
Elżbieta Bugaj	Member of the Supervisory Board	28.04.2022			✓	M			

C – Chairperson of the Committee, D – Deputy Chairperson of the Committee, M – Member of the Committee

The composition of the Committees is presented as at 31 December 2021.

Pursuant to Article 395 § 2 item 3 of the Commercial Companies Code once a year the Ordinary General Shareholders' Meeting grants a vote of approval to each individual member of the Supervisory Board. Granting this vote of approval constitutes an evaluation of the Supervisory Board members, independent of the approval of the Supervisory Board's report on the Bank's operations by the General Shareholders' Meeting. On 28 April 2022 all members of the Bank's Supervisory Board received a vote of approval for the period ended 31 December 2021, by way of resolutions of the General Shareholders' Meeting.

The process described above for appointments to perform functions on the Management Board and the positive evaluation of members of the Bank's Management Board constitutes confirmation of the proper performance of their duties, based on adequate knowledge, abilities and experience, in accordance with the requirements of Article 22aa of the Banking Law.

²³ In accordance with the definition in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

INFORMATION ON THE AUDIT AND FINANCE COMMITTEE

In the first half of 2022, the composition of the Audit and Finance Committee of PKO Bank Hipoteczny SA was as follows:

	Position on the Audit and Finance Committee	Appointment date	Dismissal / resignation date	Independent member ²⁴	accounting and/or auditing knowledge and skills.	knowledge and skills in banking
Piotr Kwiecień	Member of the Committee	18.10.2017		✓	✓	✓
	Chairperson of the Committee	07.10.2019	27.04.2022			
Paweł Metrycki	Deputy Chairperson of the Committee	07.10.2019			✓	✓
Jadwiga Lesisz	Member of the Committee	07.10.2019		✓	✓	✓
	Chairperson of the Committee	05.05.2022				
Elżbieta Bugaj	Member of the Committee	05.05.2022		✓		

In the first half of 2022, two meetings of the Audit and Finance Committee took place.

²⁴ In accordance with the definition in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight.

7. CORPORATE GOVERNANCE AND INVESTOR INFORMATION

Representation in compliance with the rules for corporate governance
Audit firm
Other information

7.1. REPRESENTATION ON COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

The general rules for corporate governance adopted by the Bank, i.e. internal regulations for managing the Bank and controlling its operations follow from the generally binding legal regulations, in particular the Commercial Companies Code and the Banking Law, as well as the rules issued by the PFSA, i.e. the Principles of Corporate Governance for Supervised Institutions and Recommendation Z concerning the rules of internal governance.

The Bank has adopted the Principles of Corporate Governance for Supervised Institutions, as issued by the Polish Financial Supervision Authority, on the basis of the following decisions by the Bank's bodies:

- the Resolution of the Bank's Management Board of 15 December 2014 – in relation to the powers and duties of the Management Board, i.e. conducting the Bank's affairs and its representation, in accordance with the generally applicable laws and the Bank's Articles of Association;
- the Resolution of the Bank's Supervisory Board of 18 December 2014 – in relation to the powers and duties of the Supervisory Board, i.e. supervising the conduct of the Bank's affairs, in accordance with the generally applicable laws and the Bank's Articles of Association;
- the Resolution of the General Shareholders' Meeting of 22 December 2015 – in relation to the powers reserved for the General Shareholders' Meeting.

Pursuant to and to the extent arising from the aforementioned decisions, the Bank opted out of the following provisions of the Principles of Corporate Governance for Supervised Institutions:

- the provisions referring to the principles of cooperation and rights of multiple shareholders (§ 8 (4), § 9 (1) and (6), § 10 (3), § 11 (3) and § 31 (3)), which are not applied because the Bank only has a single shareholder;
- chapter 9, concerning the management of assets at the customer's risk, because the Bank does not conduct operations in this area;
- the principle described in § 22 (1), concerning the independence of Supervisory Board members, manifesting itself primarily in the lack of direct and indirect ties to the supervised institution, members of the management and supervisory bodies, significant shareholders and related parties; in addition, two members meeting the independence requirements set out in the Act of 11 May 2017 on statutory auditors, audit firms and public supervision were appointed as members of the Bank's Supervisory Board. (Journal of Laws 2022.1302, consolidated text).

In accordance with the requirement arising from § 27 of the Principles of Corporate Governance for Supervised Institutions, on 12 May 2022, the Bank's Supervisory Board evaluated the application of the said Principles in the Bank in 2021. The Supervisory Board positively evaluated the application of the Principles in the Bank confirming that the Principles adopted by the Bank and its authorities were applied adequately to the scale, nature of operations and the specific character of the Bank.

The text of the Principles is available on the website of the Polish Financial Supervision Authority:

https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf

In 2021 the Bank implemented and continues to apply Recommendation Z relating to internal governance in banks pursuant to the principle of proportionality and adequacy which follow from the scale, nature of operations and specificity of the Bank.

The Bank represents that when the scope of Recommendation Z coincides with the scope of the Rules for Corporate Governance for supervised institutions, the principles of Recommendation Z have priority. In the scope not regulated by Recommendation Z the Rules for Corporate Governance for supervised institutions apply.

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

PKO BANK HIPOTECZNY SA
DIRECTORS' REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2022



The text of Recommendation Z relating to corporate governance in banks is available on the website of the Polish Financial Supervision Authority:

https://www.knf.gov.pl/knf/pl/komponenty/img/Rekomendacja_Z_70998.pdf

MAIN CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM IN RELATION TO THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

To ensure the reliability and accuracy of the financial reporting process, the Bank designed and introduced a number of control mechanisms embedded in the reporting systems and the internal regulation of these processes. Such mechanisms involve, among other things, continued verification and reconciliation of reporting data with the books of account, subsidiary ledgers and other documents which provide the basis for the preparation of the financial statements.

The process of preparing the financial statements is verified regularly, in particular with regard to arithmetical correctness, technical analysis and reliability of information. In accordance with the internal regulations, the financial statements are approved by the Management Board of PKO Bank Hipoteczny SA and an opinion on them is issued by the Audit and Finance Committee of the Supervisory Board of PKO Bank Hipoteczny SA. The annual financial statements are additionally assessed by the Supervisory Board of PKO Bank Hipoteczny SA.

The Director of the Finance and Accounting Office is responsible for ensuring compliance with controls in the area of financial reporting, while the internal audit function reviews and independently evaluates the adequacy and effectiveness of controls over the financial reporting processes and evaluates risk management in these processes, in accordance with the approved internal audit plans. No issues which would cast doubt on the reliability of the financial reporting have been observed so far as part of the internal audit operations.

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

As at 30 June 2022 the share capital of PKO Bank Hipoteczny SA amounted to PLN 1,611.3 million and comprised 1,611,300,000 shares with PLN 1 nominal value. The shares are paid up in full. The amount of share capital did not change compared to the end of 2021. The PKO Bank Hipoteczny SA shares are non-preference shares. The holders of PKO Bank Hipoteczny SA shares do not have any control rights due to holding such shares. 100% of the shares of PKO Bank Hipoteczny SA are held by Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

Structure of the share capital of PKO Bank Hipoteczny SA as at 30 June 2022:

Series	Type of shares	Number of shares	Nominal value per share	Number of votes at the GSM	Amount paid in for the shares
A	Ordinary registered shares	300,000,000	PLN 1	300,000,000	PLN 300,000,000.00
B	Ordinary registered shares	200,000,000	PLN 1	200,000,000	PLN 200,000,000.00
C	Ordinary registered shares	200,000,000	PLN 1	200,000,000	PLN 200,000,000.00
D	Ordinary registered shares	100,000,000	PLN 1	100,000,000	PLN 100,000,000.00
E	Ordinary registered shares	150,000,000	PLN 1	150,000,000	PLN 150,000,000.00

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

Shareholder	30.06.2022		31.12.2021	
	Number of shares	Share of votes at GSM	Number of shares	Share of votes at GSM
Powszechna Kasa Oszczędności Bank Polski SA	1,611,300,000	100%	1,611,300,000	100%

DESCRIPTION OF THE RULES FOR APPOINTING AND DISMISSING MANAGERS

Members of the Management Board are appointed and dismissed by resolution of the Supervisory Board. When appointing Management Board members, the Supervisory Board determines their number. The appointment of two members of the Management Board, including the President and the member responsible for risk, requires the consent of the Polish Financial Supervision Authority. The terms of office of members of the Management Board expire on the date on which the General Shareholders' Meeting approves the financial statements for the last full financial year during which a member served, at the latest. Additionally, the term of office of a Management Board member also expires as a result of his/her death, resignation or dismissal from the Management Board, as of the date of the event causing the expiration, unless the resolution on dismissal provides a different date of expiration. Management Board members may be dismissed before the end of their term of office at any time.

The Supervisory Board notifies the Polish Financial Supervision Authority of the composition of the Management Board and of any changes in the composition thereof immediately after its appointment or after any changes in the composition thereof. The Supervisory Board also notifies the Polish Financial Supervision Authority of the members of the Management Board who, as a result of the segregation of duties, are in charge of the risk management and the internal audit unit. The Supervisory Board notifies the Polish Financial Supervision Authority of its intention to dismiss, and the reasons for dismissal of, a member of the Management Board who, as a result of the segregation of duties, is in charge of risk management and the internal audit unit, immediately after the relevant item has been placed on the agenda of the Supervisory Board meeting.

Additional information on the powers of management are provided in chapter 6. Organization and Governing Bodies of PKO Bank Hipoteczny SA.

DESCRIPTION OF AUTHORIZATIONS TO DECIDE ON SHARE ISSUES OR REDEMPTIONS

The powers of the General Shareholders' Meeting include adopting resolutions on establishing the share redemption procedures and the level of compensation for redeemed shares, approving the acquisition of the Bank's treasury shares for redemption, and approving the issue of bonds convertible into shares or other instruments giving the right to purchase or take up shares in the Bank.

Indication of any limitations on the transfer of ownership rights to the issuer's securities

There are no limitations on the transfer of ownership rights to the issuer's securities.

PRINCIPLES FOR AMENDING THE BANK'S ARTICLES OF ASSOCIATION

Amendments to the Bank's Articles of Association require a resolution of the General Shareholders' Meeting and must be entered in the Register of Businesses of the National Court Register. To the extent defined by Article 34 (2) of the Banking Law, an amendment to the Articles of Association requires the consent of the Polish Financial Supervision Authority.

COMPOSITION AND CHANGES DURING THE LAST FINANCIAL YEAR, AND A DESCRIPTION OF THE OPERATIONS OF THE MANAGEMENT, SUPERVISORY AND ADMINISTRATIVE BODIES OF THE ISSUER, AND OF THEIR COMMITTEES

Information concerning the description of the management, supervisory and administrative bodies of the issuer, their committees and their composition and changes during the last financial year is presented in Chapter 6. Organization and Governing Bodies of PKO Bank Hipoteczny SA.

THE GENERAL SHAREHOLDERS' MEETING AND RELATIONS WITH SHAREHOLDERS

The method of operation of the General Shareholders' Meeting and its key powers as well as a description of the shareholder rights and the method of their execution follow directly from the applicable laws and the Bank's Articles of Association. In consideration of the fact that all shares in the Bank's share capital are held by a single shareholder, i.e. PKO Bank Polski SA, the resolutions of the General Shareholders' Meeting are adopted without formally convening a General Shareholders' Meeting, in accordance with the principles arising from Article 405 of the Polish Commercial Companies Code.

7.2. AUDIT FIRM

In accordance with the Policy and Procedures for selecting an audit firm to perform an audit of the Bank's financial statements, on 29 October 2021 the Supervisory Board of PKO Bank Hipoteczny SA, based on § 18 (1)(4) of the Bank's Articles of Association and in accordance with the recommendation of the Audit and Finance Committee of the Supervisory Board, appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. as the audit firm to conduct audits and reviews of the Bank's financial statements for the years 2022 - 2023.

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. with its registered office in Warsaw, ul. Polna 11, is entered on the list of audit firms maintained by the Polish Agency for Audit Oversight with the number 144.

On 22 December 2021 a contract for conducting audits and reviews of the Bank's financial statements for the years 2020 - 2021 was concluded by and between PKO Bank Hipoteczny SA and PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k.

The policy for the appointment of an audit firm to audit the financial statements of the Bank stipulates that the Supervisory Board will conduct proceedings relating to commissioning the audit under an unlimited tender

procedure. The Audit and Finance Committee of the Bank's Supervisory Board submits its recommendations as to the appointment of the audit firm to the Supervisory Board. If this refers to renewal of an audit commission there should be no less than two recommendations with justification, and an indication of the preferred firm. The Bank's Supervisory Board appoints the audit firm based on the Audit and Finance Committee's recommendation. Clear and unbiased criteria are applied in the selection of the audit firm.

The policy for performing permissible services other than the audit to the Bank and the Bank's Group by the audit firm and its related entities, and a member of the audit firm's network assumes that the provision of permitted non-audit services by the audit firm performing the audit, its related entities and a member of the audit firm's network to the Bank require the consent of the Audit Committee of PKO Bank Polski SA's Supervisory Board.

7.3. OTHER INFORMATION

CHANGES IN THE HOLDING OF SHARES AND RIGHTS TO SHARES IN PKO BANK HIPOTECZNY SA BY INDIVIDUALS IN MANAGEMENT AND SUPERVISORY ROLES

In the first half of 2022 and in 2021 there were no changes in the holding of shares and rights to shares in PKO Bank Hipoteczny SA by individuals in management and supervisory roles. 100% of the shares are held by PKO Bank Polski SA.

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

In the first half of 2022 and in 2021 PKO Bank Hipoteczny SA did not issue any guarantees.

Financial liabilities with respect to loans granted and not disbursed as at 30 June 2022 stood at PLN 27.6 million, down by PLN 29.4 million compared to 31 December 2021.

OFF-BALANCE-SHEET LIABILITIES GRANTED TO RELATED PARTIES

In the first half of 2022 and in 2021 PKO Bank Hipoteczny SA did not grant any off-balance sheet liabilities to related parties.

LOANS TAKEN OUT AND LOAN AND GUARANTEE AGREEMENTS UNRELATED TO THE BANK'S OPERATIONS

In the first half of 2022 and in 2021 PKO Bank Hipoteczny SA did not take out any loans or enter into any loan or guarantee agreements unrelated to the Bank's operations.

GUARANTEE AGREEMENTS TO SUBSIDIARIES

In the first half of 2022 and in 2021 PKO Bank Hipoteczny SA did not grant any guarantees to its subsidiaries.

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

As at 30 June 2022, no proceedings were pending before courts, arbitration bodies or public administration authorities concerning liabilities or receivables of PKO Bank Hipoteczny SA whose value would be at least 10% of PKO Bank Hipoteczny SA's equity.

FACTORS WHICH WILL INFLUENCE FUTURE FINANCIAL PERFORMANCE OVER THE HORIZON OF AT LEAST ONE QUARTER

In the foreseeable future, the entering into force of the Act on crowdfunding for business ventures and assistance to borrowers will have a material impact on the Bank's results. Details of the impact of the Act is described in 'Subsequent events'.

Other significant factors and threats which may affect the Bank's results over at least the consecutive quarter include:

In the global economy:

- the war in Ukraine, business sanctions imposed on Russia and their business consequences, including mainly the likely limitations in availability of energy resources, which may lead to rationing energy supplies;
- reaction of the global economy to the ever more widespread process of tightening the monetary policy, including the decided increases in interest rates in the USA and the starting increases in interest rates in the Euro Area;
- possible maintenance or even increase in supply limitations (limitations in availability of production components, high prices of energy resources or limited access to them), which lead to increased cost pressure and limit the rate and scale of economic revival;
- possible further waves of the pandemic whose impact on the economies is difficult to predict.

In the Polish economy:

- the scale and direction of changes in the NBP interest rates and in the level of the mandatory reserve;
- the intensity and timescale of external factors which cause inflation increases;
- the reaction of the household sector to the increased NBP interest rates, including the consumer demand, the demand for loans and the ability to service the liabilities already incurred, and the potential higher cost of risk for the banks;
- the slowing of the economy which is the consequence of a drop in global demand, high inflation and tightening of the monetary policy;
- the trends in the situation on the residential real estate market and demand for residential loans, including likely weak speculative / investment demand for apartments in connection with the increase in the NBP interest rates.

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

In the first half of 2022 and in 2021, PKO Bank Hipoteczny SA did not grant any loan guarantees or other guarantees to a single entity or a subsidiary of such an entity with a total value equivalent to at least 10% of the Bank's equity.

INFORMATION ON AGREEMENTS FOR LOANS AND ADVANCES CONCLUDED AND TERMINATED DURING THE FINANCIAL YEAR

On 19 May 2022, PKO Bank Hipoteczny SA concluded an annexe to a medium-term current account overdraft facility agreement of up to PLN 150 million with an external financial institution, extending the repayment deadline until 15 June 2023.

On 10 May 2022, PKO Bank Hipoteczny SA and PKO Bank Polski SA concluded annexe no. 2 to the agreement dated 11 February 2022 on a non-revolving working capital loan in PLN increasing the maximum amount of the facility from PLN 1,000 million to PLN 2,000 million.

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The only binding version is the original Polish version.

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On 7 April 2022, PKO Bank Hipoteczny SA and PKO Bank Polski SA concluded annexe no. 1 to the agreement dated 11 February 2022 on a non-revolving working capital loan in PLN, increasing the maximum amount of the facility from PLN 400 million to PLN 1,000 million.

On 11 February 2022, PKO Bank Hipoteczny SA and PKO Bank Polski SA signed an Agreement on a non-revolving working capital loan in PLN of PLN 400 million for a period of 6 years. The loan will be disbursed over one year as of the date of the agreement, in tranches, each of which will be repaid within five years of drawing the loan. The tranches bear fixed interest rates determined separately for each tranche drawn.

INFORMATION ON TRANSACTION(S) WITH RELATED PARTIES CONCLUDED BY THE ISSUER OR ITS SUBSIDIARY, IF MATERIAL AND NOT CONCLUDED ON AN ARM'S LENGTH BASIS

PKO Bank Polski SA and PKO Bank Polski SA entities are the Bank's related parties in terms of equity.

In the first half of 2022 and in 2021 PKO Bank Hipoteczny SA did not conclude any material non-arm's length transactions with related parties.

INFORMATION ON CHANGES IN THE KEY PRINCIPLES OF MANAGING THE BANK'S ENTERPRISE

In the first half of 2022 and in 2021 there were no changes in the key principles of managing the Bank's enterprise in PKO Bank Hipoteczny SA.

FINANCIAL SUPPORT AGREEMENTS

PKO Bank Hipoteczny SA did not conclude financial support agreements with other entities subject to consolidated supervision operating within the same holding, or with closely related parties.

DEPOSITS, AND GUARANTEES AND SURETIES ISSUED

PKO Bank Hipoteczny SA does not accept any deposits or issue any guarantees or sureties.

INFORMATION ON THE VALUE OF SECURITY ESTABLISHED ON THE ACCOUNTS OR ASSETS OF BORROWERS

In the first half of 2022 and in 2021 PKO Bank Hipoteczny SA did not set up any security on the borrowers' accounts.

As at 30 June 2022, the value of collateral in respect of residential mortgage loans secured with real estate was PLN 63.8 billion.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Issue of Green Mortgage Bonds

On 4 July 2022, PKO Bank Hipoteczny SA issued series 8 green mortgage covered bonds in EUR with a nominal value of EUR 500 million. The subscription for these bonds took place on 27 June 2022. It was the first issue of green covered bonds secured exclusively with PLN-denominated high-quality mortgage loans carried out in Poland and in Central and Eastern Europe.

Impact of the Act on crowdfunding for business ventures and assistance to borrowers

On 14 July 2022, the President of the Republic of Poland signed the Act on crowdfunding for businesses and aid to borrowers (the "Act") which has enabled customers to suspend the repayment of mortgage loans granted in the Polish currency for two months per quarter between 1 August and 30 September 2022 and from 1 October to 31 December 2022 and for one month per quarter between 1 January and 31 December 2023. In connection with the above, the Bank estimated an adjustment reducing interest income as a result of modification of the expected future cash flows relating to loan agreements of PLN 644 million. As at the balance sheet date, no final and accurate estimation existed and the Bank used judgment and decided to recognize the impact of the Act immediately after its publication in the Journal of Laws.

Following the introduction of the Act, the Bank estimated its impact which, in accordance with paragraph B.5.4.6 of IFRS 9, requires adjusting the gross carrying amount of financial assets so that it reflects the actual and revised contractual cash flows. The Bank recalculated the gross carrying amount of the financial asset as the present value of the estimated future contractual cash flows which are discounted using the original effective interest rate of the financial instrument.

In the first step, the Bank estimated the maximum adjustment determined as the difference between the present value of estimated cash flows from loan agreements taking into account the suspension of instalment repayments and the present gross carrying amount of the loan portfolio. When calculating the maximum loss, it was assumed that all customers having active loan agreements with the Bank would apply for suspension of the repayment to the full extent (i.e. for 8 months). In such a case, the estimated adjustment would amount to approximately PLN 1,021 million.

Next, in order to determine the share of agreements in the case of which customers will apply for suspension of the repayment within the PKO Bank Polski Group, a behavioural model was developed, based on which it was estimated that 63% of the Bank's customers would take advantage of the repayment suspension. Consequently, the adjustment recognized amounted to PLN 644 million. The actual impact of the "credit vacation" option on the Bank's financial results will depend, inter alia, on the number of customers who will take advantage of this option and the number and date of installments suspended by each of these customers.

In spite of the recognition of the impact of the Act, and the expected net loss for 2022, the Bank's capital and liquidity position remains safe. It is estimated that the Tier 1 (T1) ratio and total capital ratio (TCR) will decrease by 4.9 pp, and the leverage ratio (LR) by 2.1 pp, as a result of the impact of the Act. Consequently, the Management Board of the Bank adopted a resolution not to undertake any corrective measures defined in the Group Correction Plan and notified the Office of the Polish Financial Supervision Authority and the Bank Guarantee Fund of that decision.

In the Bank's opinion, the possibility of suspending the repayment of loan instalments by customers will be a factor which mitigates a potential increase in the credit risk relating to strong increases in interest rates, by limiting the increase in the number of delinquent loans. Consequently, the impact of the Act has not been taken into account in the risk parameters as at the balance sheet date.

In addition, the Act obliged lenders to make additional contributions to the Borrowers Support Fund ("BSF") in the total amount of PLN 1.4 billion by 31 December 2022. The exact date of payment and the amount of the contribution for a given lender will be determined by a resolution by the Council of the BSF. The fee level for a given bank will be determined taking into account:

- the share of a given bank in the gross book value of the portfolio of mortgage loans where the delay in repayment of principal or interest exceeds 90 days compared to the entire banking sector in Poland;
- possible exemption from the obligation to make payments to the BSF by some lenders that do not meet the regulatory capital and liquidity requirements.

Given the limited availability of data on the above factors, the Bank is not able to reliably estimate its share in the additional contribution to the BSF.

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PKO BANK HIPOTECZNY SA
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Resignation of the President of the Management Board

On 25 July 2022, Mr. Daniel Goska submitted his resignation as a Management Board Member, effective as of 31 July 2022.

Delegation of a member of the Supervisory Board to temporarily act as member of the Management Board

On 2 August 2022 the Supervisory Board has delegated Mr Jakub Niesłuchowski, Member of the Supervisory Board of the Bank to temporarily perform the duties of the Management Board Member with the powers provided to the President of the Management Board. The above described delegation is temporary, from 2 August 2022 until the date of appointment of a Member of the Management Board of the Bank in charge of the work of the Management Board, but no longer than until 1 November 2022.

8. REPRESENTATION OF THE MANAGEMENT BOARD OF PKO BANK HIPOTECZNY SA

The Management Board of PKO Bank Hipoteczny SA represents that, to the best of their knowledge:

- The condensed interim financial statements of the PKO Bank Hipoteczny SA for the six months ended 30 June 2022 have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of PKO Bank Hipoteczny SA, and of its financial result;
- The Directors' Report on the activities of PKO Bank Hipoteczny SA in the six months ended 30 June 2022 includes a true reflection of the development and achievements, and of the position of PKO Bank Hipoteczny SA, including a description of the basic risks and threats.

The Management Board of PKO Bank Hipoteczny SA represents that the audit firm which conducted the audit of the financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2022 was selected in compliance with the applicable laws, and that both the entity and the statutory auditor who conducted the audit fulfilled all the criteria for providing an unbiased and independent audit report on the financial statements, in compliance with the applicable laws and professional standards.

This Directors' Report on the activities of PKO Bank Hipoteczny SA for the first half of 2022 comprises 56 sequentially numbered pages.

Signatures of all the Members of the Bank's Management Board

10 August 2022	Jakub Niestuchowski	Member of the Supervisory Board perform the duties of the Management Board Member	<i>signed with a qualified electronic signature</i> (signature)
10 August 2022	Piotr Kochanek	Vice President of the Management Board	<i>signed with a qualified electronic signature</i> (signature)
10 August 2022	Katarzyna Surdy	Vice President of the Management Board	<i>signed with a qualified electronic signature</i> (signature)