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# PKO Bank Hipoteczny SA Directors' Report for the six months ended 30 June 2021

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**PKO BANK HIPOTECZNY SA**  
**DIRECTORS' REPORT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2021**



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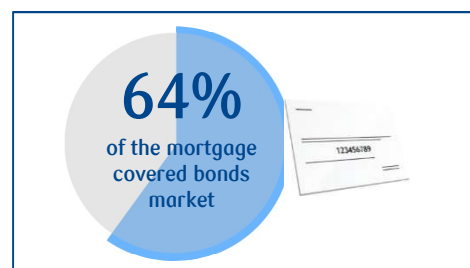
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## 1. INTRODUCTION

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

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 EUR-denominated mortgage-covered bonds, five issues in total as at 30 June 2021. The outstanding mortgage-covered bonds issued by the Bank account for approx. 64% of the total value of outstanding mortgage-covered bonds issued by Polish mortgage banks.



The Bank both grants new residential mortgage loans and purchases such loans from PKO Bank Polski SA. In the first half of 2021, the Bank's total assets exceeded PLN 26 billion, of which PLN 24 billion were a high quality portfolio of residential mortgage loans.



### THE COVID-19 PANDEMIC

In connection with the COVID-19 pandemic, in the first half of 2021, the Bank continued its actions undertaken in 2020 to increase the customers' and employees' safety, and ensure prudent management of PKO Bank Hipoteczny:

- In the first quarter of 2021, the Bank consistently applied the rotational shift working system. In the second quarter of 2021, as the third wave of the pandemic started to withdraw, the Bank gradually began to restore staff to office work, adapting the working procedures to the epidemical threat.
- In 2020, in connection with the COVID-19 pandemic, the Bank allowed its customers to suspend repayment of up to six subsequent principal or principal and interest loan instalments on the terms adopted by the banking sector in cooperation with the Association of Polish Banks. Applying this moratorium, called the non-statutory moratorium, does not automatically lead to changing the classification of the exposure and to including the actions as covered by restructuring, unless they had been classified as such previously. Throughout the period when the moratorium was offered and after its end the Bank assesses the probability of debtor default in accordance with standard procedures, with special emphasis on delays in repayment after the end of the suspension period. The moratorium was offered by 30 September 2020, therefore, until 31 March 2021 the Bank continued to suspend customers' instalments for those who availed themselves of the option when it was offered.

In addition, on 24 June 2020, the Bank made available to customers the possibility to suspend the performance of the loan contract in accordance with the Act on subsidization of interest on bank loans of 19 June 2020 granted to entities affected by COVID-19 and simplified procedures for approving composition proceedings in connection with COVID-19 ("Shield 4.0"). In the first half of 2021, a total of 24 loan contracts were subject to statutory moratoria, of which as at 30 June 2021 there were two such loans of PLN 1,015 thousand.

The developments related to the COVID-19 pandemic and its further impact on the Bank's operations are uncertain and difficult to estimate, therefore, the Bank is monitoring the situation and will appropriately adapt the actions taken.

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**PKO BANK HIPOTECZNY SA STRATEGY FOR THE YEARS 2020 – 2022**

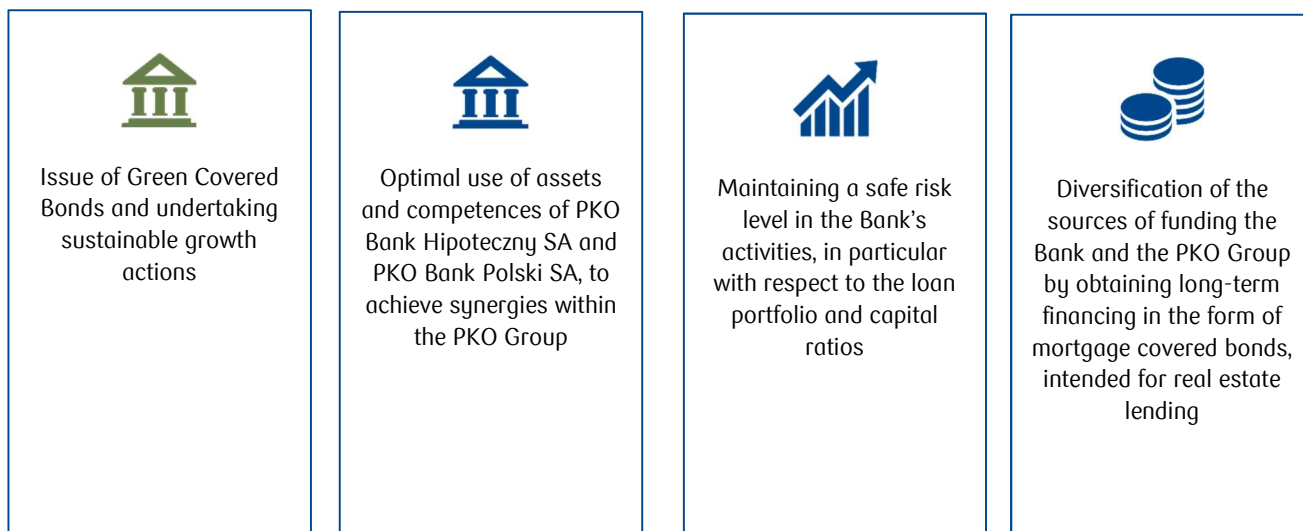
In the first quarter of 2020 the Company's Management Board adopted, and the Supervisory Board approved the updated Strategy of PKO Bank Hipoteczny SA for the years 2020 – 2022.

The Strategy covers the determination of:

- the Bank's mission and its strategic goals;
- the Bank's market position;
- the Bank's operating model;
- the Bank's strategic operating directions;
- the Bank's financial position in the years 2020 – 2022.

At the request of the Supervisory Board, the Bank developed an updated operating strategy for the years 2020 – 2022 due to:

- a) updating the PKO Bank Polski Group strategy which redefines the role of PKO Bank Hipoteczny within the Group;
- b) 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;
- c) 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 current state of epidemiological threat may have an impact on Poland's macroeconomic position and on the position of PKO Bank Hipoteczny SA, among other things by limiting revenue inflows, an increase in allowances set up and difficulties in access to funding. Therefore, the strategy will be reviewed annually and potentially updated, and annual financial plans will be adapted appropriately.

**MORTGAGE COVERED BONDS ISSUED**

In the first half of 2021 the Bank did not issue any mortgage covered bonds. As at the end of June 2021 the Bank was the leader of the Polish mortgage bank market in terms of the balance of outstanding mortgage covered bonds and the balance of residential mortgage loans. The value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA was PLN 15.9 billion as at 30 June 2021.

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## 2. EXTERNAL OPERATING CONDITIONS

|  |
|--|
| Macroeconomic environment<br>Residential real estate market<br>Residential loans market<br>Mortgage covered bonds market<br>Regulatory and legal environment |
|--|

### 2.1. MACROECONOMIC ENVIRONMENT

The Bank only operates in Poland.

Macroeconomic factors which form the national economy in the first half of 2021:

#### GROSS DOMESTIC PRODUCT

The GDP growth rate affects both the residential real estate market and the mortgage loan market. A sufficiently high GDP growth rate translates into new jobs and higher wages, and, consequently, into consumer purchasing power and creditworthiness.

In the first half of 2021 business activity was still to a large extent determined by the pandemic, but its negative impact on the economy weakened. Despite the increase in COVID-19 infections and retightening of restrictions, GDP (after adjusting for seasonality) increased by 1.1% (-0.9% y/y) in the first quarter. Already in the first three months of the year capital expenditure increased (+1.3% y/y, due to expenditure made by Polish enterprises), private consumption increased by 0.2% y/y. The end of the third wave of the pandemic and loosening of restrictions since May caused business activity to explode. Consumers fulfil deferred demand, which was made possible, among other things, thanks to the “compulsory” savings accumulated during the pandemic. Demand for services is recovering fast, including in the HoReCa (hotels, restaurants and catering) area. Global revival translates into solid increases in export. Industry is growing strongly, where in many industries demand exceeds manufacturing capabilities, reduced by limited access to some of the production components.

#### UNEMPLOYMENT AND WAGES AND SALARIES

The situation on the labour market in the first half of 2021 was stable, confirming immunity to further waves of the pandemic. Changes in registered unemployment rates followed the seasonal template, although due to the pandemic the drops noted in spring were a little smaller than in the previous years. The unemployment rate registered in June was 6.0% compared with 6.2% in December 2021. In the spring the difference between the average number of employees and the number of employees in the enterprise sector increased once again which suggested that the job protection mechanisms were used once again (the Anti-Crisis Shield), but on a much lower scale than in 2020. The annual rate of growth of wages and salaries, increased by base effects, exceeded 10%, however, the estimated growth trend is closer to 5-6% y/y. The rate of growth of wages and salaries is higher than inflation which causes them to increase also in real terms. Currently, the labour market has arrived at the “moment of trial” in connection with the settlement of the Financial Shield (the terms and conditions for stimulating maintenance of employment expire), however, this does not translate into the liquidation of jobs.

#### INFLATION

In the first half of 2021 inflation grew and quickly passed the acceptable bandwidth of deviations from the NBP target. In May inflation increased to 4.7% y/y and was equal to the “local peak” from before the pandemic in February 2020, and in June it dropped to 4.4% y/y. In the spring months inflation was augmented by base effects in fuel prices. In addition, the increase in inflation was also due to increases in administered prices. In the first half of the year food prices grew more than the seasonal benchmark, but their annual dynamics were also limited by the high base from the prior year. In general, the increase in prices relates to a wide range of goods and services, which indicates a general inflationary trend. Costs are on the rise, and strong demand causes businesses to increase prices.

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## INTEREST RATES

The National Bank of Poland (NBP) upheld its lenient approach to the monetary policy and its declaration that interest rates will not be changed (reference rate: 0.1%) is the most likely scenario for the upcoming quarters. However, in the second quarter of 2021 the manner of communicating the preferred interest rate path by the Monetary Policy Council (MPC) changed. In place of the unconditional declarations of lack of space to normalize the monetary policy in the foreseeable future, arguments were raised which if adopted could induce MPC to increase the rates. According to the MPC, interest rates may go up if (1) the uncertainty related to the epidemic ends; (2) inflation permanently exceeds 3.5% over the term of the projection; (3) exceeding the target will result from an increase in demand accompanied by a hot labour market. According to declarations, the potential increase in interest rates will be preceded by ending the QE (Quantitative Easing – purchase of assets by the NBP) program.

## 2.2. RESIDENTIAL REAL ESTATE MARKET

### RESIDENTIAL REAL ESTATE MARKET – IMPACT OF THE CORONAVIRUS PANDEMIC ON PRICES

The impact of the Coronavirus pandemic on the situation on the residential real estate market was much more limited than anticipated. Despite the deep economic crisis caused by limiting national and global business activities resulting from restrictions aimed at curbing the development of the pandemic, a growth trend was maintained in prices on the residential real estate market. Only the rate of growth decreased.

Directly after the outbreak of the first wave of the pandemic, as a result of introducing far-reaching restrictions which caused the freezing of some areas of business and social activities, the number of transactions on the residential real estate market dropped significantly. However, this drop was temporary, as already in the third and fourth quarter of 2020 turnover on both the primary and the secondary market started growing, to return to the high levels from before the pandemic, or even exceed them in the first quarter of 2021. It follows from the internal real estate database of the PKO BP Group that the turnover on the secondary market was even higher than in the first quarter. Similar signals are being sent by developers who confirm sales revival on the primary market in the second quarter of 2021.

### PRIMARY MARKET

According to the data provided by RedNet Property Group Sp. z o.o. about the situation on the six largest local markets<sup>1</sup> in the second quarter of 2020 (directly after the outbreak of the pandemic in Poland) the sales volume dropped by 45% compared with the corresponding period of the previous year, however, already in the third and fourth quarter of 2020 the drop in sales per annum was -11% and -8% respectively. In the first quarter of 2021 sales increased significantly and were 34% higher than in the first quarter of 2020 (which only to a really small extent suffered from the effects of the pandemic). Moreover, the sales volume approached the record result from the first quarter of 2017 (and was only 3% lower). The above data confirms that at the beginning of the current year the Polish residential real estate market experienced a significant revival.

Despite the revival of demand the rate of increase of residential real estate prices remained mediocre. According to Rednet the average transaction price on the six largest local markets in the first quarter of 2021 was 6% higher than in the corresponding quarter of the previous year. On the other hand, NBP reports show an 8-percent increase in the average price in the discussed market segment on an annual scale.

### SECONDARY MARKET

Internal data from the PKO BP Group database shows that the drop in sales after the outbreak of the pandemic (in the second quarter of 2020) was 40% per annum. In further quarters the market became more and more active, although the pace of growth was not as high as on the primary market. In the first quarter of 2021 the sales volume was 25% lower than in the first quarter of 2020, however, in the second quarter the scale of transactions was already nearly 5% higher than before the outbreak of the pandemic.

<sup>1</sup> Warsaw, Kraków, Poznań, Wrocław, Tricity, Łódź

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The data published by the NBP shows that the average prices on the secondary market in Warsaw in the fourth quarter of 2020 were 8% higher than in the previous year, and in the segment of the six largest cities<sup>2</sup> they were 9% higher. In the segment of 10 medium-sized cities<sup>3</sup> the prices increased a little faster, by 10% on an annual scale. Transactions recorded in the internal database of the PKO BP Group show that in the second quarter of 2021 the rate of price growth accelerated slightly and increased from 9.6% to 12.5% on a countrywide scale.

#### **SUPPLY AND DEMAND ON THE RESIDENTIAL REAL ESTATE MARKET**

Good residential real estate market conditions observed in the first half of 2021 were stimulated by the maintained strong demand both on the part of people who wanted to satisfy their needs for apartments and on the part of investors. Historically low interest rates and a stable situation on the labour market contribute to the demand which showed great resistance to crisis events caused by the pandemic. In addition, extinguishing the third wave of the pandemic and de-freezing the economy in the second quarter of 2021 improved consumer feelings – the values of consumer trust noted by Polish Statistics (GUS) gradually recover after the deep drops noted after the outbreak of the pandemic in the second quarter of 2020. In May and June 2021 consumers' readiness for making significant purchases, which is an important ratio for the residential real estate market (being part of the current consumer trust ratio).

The revival on the residential real estate market is also confirmed by the historically high volumes of apartments for the construction of which building permits were issued and those the construction of which is in progress. According to GUS data, the number of apartments for the construction of which building permits were issued was 32% higher during the first five months of the year than in the historical record 5 months of 2019. On the other hand, the number of apartments under construction increased by 23% during that period.

In the second half of 2021 strong demand is expected on the residential real estate market, stimulated by the low interest rates and growing GDP dynamics, supported by funds from the Reconstruction Fund. The price growth dynamics are likely to return to levels from before the pandemic (more than 10% per annum) accompanied by a high volume of sales.

### **2.3. RESIDENTIAL LOAN MARKET**

Based on NBP data, banks' receivables from residential loans in Poland were PLN 489.4 billion as at 30 June 2021, up 5.1% y/y. As at 30 June 2021, the balance of PLN loans was PLN 377.6 billion (77.2% of the total amounts due to banks in respect of residential loans in Poland) and increased by 10.4% y/y.

Total residential loans to GDP expressed in market prices as at the end of the first quarter of 2021 was 20.6%. This amount was significantly below the average for EU Member States, which according to 2019 data is 47.4%. This shows the large development potential of the residential loan market in Poland.

### **2.4. MORTGAGE COVERED BONDS MARKET**

As at 30 June 2021, 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 2021, the total value of outstanding mortgage covered bonds issued by Polish mortgage banks amounted to approx. PLN 24.7

<sup>2</sup> Kraków, Wrocław, Poznań, Gdynia, Gdańsk, Łódź

<sup>3</sup> Bydgoszcz, Białystok, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin, Zielona Góra

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billion, i.e. PLN 1.8 billion less than at 30 June 2020. As at the end of June 2021, outstanding mortgage covered bonds issued by Polish banks corresponded to 5.1% of the amount of residential loans granted by banks.

PKO Bank Hipoteczny SA is the largest issuer of mortgage covered bonds in Poland. The value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA was PLN 15.9 billion as at 30 June 2021, which was approx. 64% of the total value of outstanding mortgage-covered bonds issued by Polish mortgage banks.

In the first half of 2021 PKO Bank Hipoteczny SA did not issue any mortgage covered bonds.

## **2.5. REGULATORY AND LEGAL ENVIRONMENT**

In the first half of 2021, the following legal and regulatory solutions significantly affecting the operations of PKO Bank Hipoteczny SA came into force:

---

|                                       |  |
|---------------------------------------|--|
| <b>BANKING LAW</b>                    | The Act of 25 February 2021 on amending the Banking Law and certain other acts – the act adapts the Polish legal system to EU regulations relating to capital requirements for financial institutions, the so-called CRD V and CRR II. The amendments in respect of CRR II relate, among other things, to introducing a binding net stable funding ratio (NSFR). |
| <b>COUNTERACTING MONEY LAUNDERING</b> | The Act of 30 March 2021 on amending the act on counteracting money laundering and terrorism financing and certain other acts – the act introduces, among other things, changes to definitions of PEP, beneficial owner, responsible institution and reporting to GIIF.  |
| <b>RECOMMENDATION S</b>               | Recommendation S relating to good mortgage-secured loan exposures management issued by the PFSA became binding on 30 June 2021 – the recommendation is a set of best practices relating to limiting the risk of mortgage-secured loans and introduces new requirements in loan offers, products and credit risk.   |

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### 3. FINANCIAL PERFORMANCE AND CAPITAL ADEQUACY

Basic financial ratios 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. BASIC FINANCIAL RATIOS OF PKO BANK HIPOTECZNY SA

|   | 30.06.2021 | 31.12.2020 | 30.06.2020 |
|---|------------|------------|------------|
| Total assets (in PLN millions)          | 26,350.2   | 27,310.5   | 27,494.7   |
| ROA <sup>4</sup>                        | 0.3%       | 0.3%       | 0.3%       |
| ROE <sup>5</sup>                        | 3.3%       | 4.0%       | 3.5%       |
| Total capital ratio (TCR)               | 19.9%      | 18.7%      | 17.5%      |
| Leverage ratio (LR)                     | 7.8%       | 7.4%       | 7.0%       |
| Cost to income ratio (C/I) <sup>6</sup> | 24.7%      | 23.3%      | 23.0%      |

#### 3.2. STATEMENT OF FINANCIAL POSITION OF PKO BANK HIPOTECZNY SA

| in PLN million                          | 30.06.2021      | 31.12.2020      | 30.06.2020      |
|---|-----------------|-----------------|-----------------|
| Cash and balances with the Central Bank | 0.0             | 0.0             | 0.0             |
| Amounts due from banks                  | 0.0             | 0.0             | 0.0             |
| Derivative hedging instruments          | 827.7           | 1 154.7         | 758.1           |
| Securities                              | 1,492.5         | 1,241.8         | 1,240.5         |
| Loans and advances to customers         | 24,021.1        | 24,902.7        | 25,481.0        |
| Other assets <sup>7</sup>               | 8.9             | 11.3            | 15.1            |
| <b>TOTAL ASSETS</b>                     | <b>26,350.2</b> | <b>27,310.5</b> | <b>27,494.7</b> |

| in PLN million  | 30.06.2021      | 31.12.2020      | 30.06.2020      |
|---|-----------------|-----------------|-----------------|
| Amounts due to banks                                    | 4,138.3         | 3,575.1         | 5,937.0         |
| Derivative hedging instruments                          | 0.7             | 0.5             | 0.8             |
| Liabilities in respect of mortgage covered bonds issued | 15,946.6        | 17,205.6        | 16,817.1        |
| Liabilities in respect of bonds issued                  | 4,084.6         | 4,337.1         | 2,557.6         |
| Other liabilities and provisions <sup>8</sup>           | 106.3           | 99.0            | 119.6           |
| Equity  | 2,073.7         | 2,093.2         | 2,062.6         |
| <b>TOTAL LIABILITIES AND EQUITY</b>                     | <b>26,350.2</b> | <b>27,310.5</b> | <b>27,494.7</b> |

<sup>4</sup> Annualized ratio expressed as the quotient of the net profit (loss) for the given period and the average balance of assets at the beginning and end of the reporting period and of the interim monthly periods.

<sup>5</sup> Annualized ratio calculated by dividing the net profit (loss) for the year by the average level of total equity at the beginning and end of the reporting period and of the interim monthly periods.

<sup>6</sup> Annualized ratio excluding tax on certain financial institutions.

<sup>7</sup> Covers the following items of the statement of financial position: intangible assets, property, plant and equipment and other assets.

<sup>8</sup> Covers the following items of the statement of financial position: amounts due to customers, other liabilities, liabilities in respect of current income tax, deferred tax provisions and provisions.

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As at 30 June 2021, the balance sheet total of PKO Bank Hipoteczny SA was PLN 26,350.2 million, which is a 3.5% drop compared to the end of 2020. Residential mortgage 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 2021, amounted to PLN 24,021.1 million, of which new loans amounted to PLN 11,926.0 million, whereas loans purchased from PKO Bank Polski SA amounted to PLN 12,095.1 million.

As far as liabilities are concerned, the share of mortgage covered bonds dropped to 60.5% of the balance sheet total as at the end of June 2021. In the first half of 2021 PKO Bank Hipoteczny SA did not issue any mortgage covered bonds.

The carrying value of mortgage covered bonds was PLN 15,946.6 million as at the end of June 2021, which is a 7.3% drop compared with the end of 2020, due to the redemption of series 2 and 3 mortgage covered bonds with a total nominal value of PLN 1,000.0 million.

As at 30 June 2021, financial liabilities to PKO Bank Polski SA constituted a significant item of the Bank's equity and liabilities. They consisted of liabilities in the form of loans, limited overdraft facilities, liabilities in respect of the purchase of receivables, liabilities in respect of 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 4,172.5 million. Short- and medium-term bonds issued by the Bank were also a significant source of funding the Bank's operations. As at 30 June 2021, their balance was PLN 4,084.6 million, which is a 5.8% drop compared to the end of 2020.

### 3.3. INCOME STATEMENT OF PKO BANK HIPOTECZNY SA

| in PLN million   | 01.01.2021 –<br>30.06.2021 | 01.01.2020 –<br>30.06.2020 | Change y/y<br>(in PLN million) |
|--|----------------------------|----------------------------|--------------------------------|
| Net interest income  | 152.7                      | 173.2                      | (20.5)                         |
| Net fee and commission income  | (3.6)                      | (1.3)                      | (2.3)                          |
| 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)  | 0.0                        | 5.6                        | (5.6)                          |
| Net income/(expense) on modification   | 0.3                        | (1.5)                      | 1.8                            |
| Net allowances for expected credit losses  | (1.4)                      | (19.6)                     | 18.2                           |
| Net other operating income and expenses  | 0.1                        | (0.1)                      | 0.2                            |
| Administrative expenses  | (24.8)                     | (26.0)                     | 1.2                            |
| Net regulatory charges   | (24.6)                     | (25.2)                     | 0.6                            |
| Tax on certain financial institutions  | (42.8)                     | (45.2)                     | 2.4                            |
| <b>Operating profit/loss</b>   | <b>55.9</b>                | <b>60.0</b>                | <b>(4.1)</b>                   |
| <b>Profit before tax</b>   | <b>55.9</b>                | <b>60.0</b>                | <b>(4.1)</b>                   |
| Corporate income tax   | (22.0)                     | (24.5)                     | 2.5                            |
| <b>Net profit</b>  | <b>33.9</b>                | <b>35.5</b>                | <b>(1.6)</b>                   |

In the first half of 2021, PKO Bank Hipoteczny SA generated net profit of PLN 33.9 million, down PLN 1.6 million compared with the corresponding period of 2020.

In the analysed period, the Bank earned interest income of PLN 251.2 million. It comprised mainly interest income on residential mortgage loans of PLN 245.7 million and income on debt securities. In the same period, the Bank incurred interest expense of PLN 98.6 million. Interest expense resulted mainly from mortgage covered bonds issued and costs of hedging transactions. The related interest expense was PLN 73.9 million. The Bank also incurred, among other things, interest expense of PLN 13.3 million on loans and overdraft limits used, interest expense of PLN 10.6 million on bonds issued, and interest expense of PLN 0.7 million on the liability for the deferred payment for receivables purchased from PKO Bank Polski SA.

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The Bank's turnover in the first half of 2021 (understood as the total interest income and fee and commission income) amounted to PLN 255.1 million. The realized turnover was generated entirely by the Bank's operations in Poland.

In the first half of 2021, the Bank incurred net fee and commission expense of PLN 3.6 million. This item comprised, among other things, costs of the bond issue programme of PLN 3.0 million, costs of credit lines of PLN 2.5 million, costs of insuring loans of PLN 1.1 million, and costs of expert valuations of the mortgage lending value of real estate (MLV), as prepared by real estate appraisers, in the amount of PLN 0.4 million. The Bank also recognized fee and commission income from customers for, among other things, 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 fee and commission income was PLN 3.9 million.

In the first half of 2021, the Bank incurred administrative expenses of PLN 24.8 million. Non-personnel expenses of PLN 15.7 million, including costs related to services rendered by PKO Bank Polski SA of PLN 12.8 million under an outsourcing agreement, were a significant component of administrative expenses. Costs of employee benefits, whose amount during the reporting period was PLN 7.8 million, were also a significant component of administrative expenses.

In the first half of 2021, the Bank also incurred regulatory expenses totalling PLN 24.6 million. The main item of such expenses was the contribution to the mandatory resolution fund of the Bank Guarantee Fund of PLN 21.1 million, which is a PLN 1.5 million drop compared to the corresponding period of the previous year. The high level of regulatory charges had a negative impact on the Bank's profitability ratios.

Tax on certain financial institutions, which amounted to PLN 42.8 million in the reporting period, was a significant cost of the Bank's activities.

The Bank's costs resulting from allowances for expected credit losses amounted to PLN 1.4 million in the first half of 2021.

## THE BANK'S FINANCING STRUCTURE

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

|                               | 30.06.2021    | 31.12.2020    |
|-------------------------------|---------------|---------------|
| Equity                        | 7.9%          | 7.7%          |
| Funds from the parent         | 15.7%         | 12.5%         |
| Mortgage covered bonds issued | 60.5%         | 63.0%         |
| Bonds issued                  | 15.5%         | 15.9%         |
| Other                         | 0.4%          | 0.9%          |
| <b>Total</b>                  | <b>100.0%</b> | <b>100.0%</b> |

As at 30 June 2021 and as at 31 December 2020 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 – according to the basic indicator approach (BIA);
- market risk (foreign exchange risk only) – using basic methods.

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At 30 June 2021, 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                        | 30.06.2021   | 31.12.2020   |
|---|--------------|--------------|
| Credit risk (in PLN millions)                 | 752.2        | 790.1        |
| Operational risk (in PLN millions)            | 44.3         | 35.2         |
| Total own funds requirement (in PLN millions) | 796.5        | 825.3        |
| Common Equity Tier 1 capital ratio (CET1)     | 19.9%        | 18.7%        |
| Tier 1 capital ratio (T1)                     | 19.9%        | 18.7%        |
| <b>Total capital ratio (TCR)</b>              | <b>19.9%</b> | <b>18.7%</b> |

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

| 30.06.2021   | Gross exposure  | Exposure value <sup>9</sup> | Risk-weighted assets (RWA) | Own funds requirement |
|--|-----------------|-----------------------------|----------------------------|-----------------------|
| Retail exposures <sup>10</sup>                       | 2,393.8         | 2,348.5                     | 1,761.4                    | 140.9                 |
| Exposures secured by mortgages on immovable property | 21,733.5        | 21,697.4                    | 7,594.1                    | 607.5                 |
| Exposures to central governments or central banks    | 1,492.5         | 1,492.5                     | 0                          | 0                     |
| Exposures to institutions                            | 2,329.1         | 2,329.1                     | 0                          | 0                     |
| Exposures in default                                 | 48.1            | 36.1                        | 38.9                       | 3.1                   |
| Other exposures                                      | 8.6             | 8.6                         | 8.6                        | 0.7                   |
| <b>Total</b>   | <b>28,005.6</b> | <b>27,912.2</b>             | <b>9,403.0</b>             | <b>752.2</b>          |

| 31.12.2020   | Gross exposure  | Exposure value <sup>9</sup> | Risk-weighted assets (RWA) | Own funds requirement |
|--|-----------------|-----------------------------|----------------------------|-----------------------|
| Retail exposures <sup>10</sup>                       | 2,817.3         | 2,755.8                     | 2,066.9                    | 165.4                 |
| Exposures secured by mortgages on immovable property | 22,252.1        | 22,217.8                    | 7,776.2                    | 622.1                 |
| Exposures to central governments or central banks    | 1,241.8         | 1,241.8                     | 0.0                        | 0.0                   |
| Exposures to institutions                            | 1,686.1         | 1,686.1                     | 0.0                        | 0.0                   |
| Exposures in default                                 | 26.7            | 20.8                        | 22.3                       | 1.8                   |
| Other exposures                                      | 10.5            | 10.5                        | 10.5                       | 0.8                   |
| <b>Total</b>   | <b>28,034.5</b> | <b>27,932.8</b>             | <b>9,875.9</b>             | <b>790.1</b>          |

## 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.

<sup>9</sup> 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).

<sup>10</sup> 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.

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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 38.3 "Impairment of credit exposures" to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020.

#### 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 40 "Residual risk management" to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2020.

### 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 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 | 30.06.2021    | 31.12.2020    |
|-------------------------------|---------------|---------------|
| For credit risk               | 87.7%         | 89.0%         |
| For operational risk          | 5.2%          | 4.0%          |
| For liquidity risk            | 2.5%          | 2.3%          |
| For interest rate risk        | 4.4%          | 4.5%          |
| For model risk                | 0.2%          | 0.2%          |
| <b>Total</b>                  | <b>100.0%</b> | <b>100.0%</b> |

As at 30 June 2021, the relationship between the Bank's own funds and internal capital remained above the statutory and internal limits.

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:

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- 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;
- remuneration policy for those categories of personnel whose professional activities have a material impact on the Bank's risk profile;
- requirements referred to in Article 111a of the Banking Act and Recommendation H; Article 111a of the Banking Act 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 Hipoteczny SA Capital Adequacy Information Policies and other information to be published, which is available on the Bank's website ([www.pkobh.pl](http://www.pkobh.pl)).

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## 4. BUSINESS OF PKO BANK HIPOTECZNY SA

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

### 4.1. SALES OF RESIDENTIAL MORTGAGE LOANS UNDER THE AGENCY MODEL

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

In 2020, implementing the updated strategy for the years 2020 – 2022 pursuant to the recommendation of the Supervisory Board, the Bank limited sales of residential mortgage loans. This decision had no impact on the Group's total sales of residential mortgage loans. Therefore, in the first half of 2021, the Bank granted PLN 180.1 million worth of residential mortgage loans, which is a drop of 50% compared with the first half of 2020.

In accordance with the Act of 19 June 2020 on subsidization of interest on bank loans granted to entities affected by COVID-19 and simplified arrangement approval proceedings due to COVID-19 ("Shield 4.0"), the Bank continues the option to suspend the performance of loan agreements for borrowers who lost their jobs or other main sources of income after 13 March 2020 (so-called statutory moratoria). At the same time, at the end of the first quarter of 2021, the Bank ended suspending loan repayments (the so-called non-statutory moratoria) covering a total limit of 6 suspended instalments. However, Borrowers may continue to avail themselves once a year of so-called loan holidays to which they are entitled under the loan agreements concluded.

In accordance with Recommendation S of the PFSA, 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 where the loan amount 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% <sup>11</sup>  |
| Loan amount/mortgage lending value of the property | 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  |

In the years 2018–2019, the Bank introduced stage by stage, mortgage loans bearing an interest rate based on a five-year fixed base rate to its offer. In further years, the Bank worked on the option to transfer to interest rates based on the five-year fixed base rate for all loan contracts irrespective of the date of concluding the contract.

<sup>11</sup> The Bank allows granting loans where the loan-to-value ratio does not exceed 90%, if a low down payment insurance policy is used.

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As at the end of the first half of 2021 the Bank's offer includes newly issued loans bearing an interest rate based on a fixed five-year base rate, and allows changing the interest on loans during the lending period (annexes to the contracts) for the whole loan portfolio.

#### 4.2. PURCHASE OF RESIDENTIAL MORTGAGE LOAN RECEIVABLES

The purchase of mortgage residential 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 2021, PKO Bank Hipoteczny SA purchased a portfolio of residential mortgage loan receivables totalling PLN 158.0 million from PKO Bank Polski SA.

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

| CRITERIA   | POOLING MODEL  |
|--|--|
| Loan amount/mortgage lending value of the property | 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. INTERNAL CONTROL SYSTEM

##### 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 valuation<sup>12</sup> 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 | 30.06.2021  | 31.12.2020  |
|---|-------------|-------------|
| below 50%   | 53.9%       | 47.1%       |
| 51% - 60%   | 23.5%       | 23.8%       |
| 61% - 70%   | 15.8%       | 18.1%       |
| 71% - 80%   | 6.4%        | 9.4%        |
| 80% - 90%   | 0.4%        | 1.6%        |
| over 90%  | 0.0%        | 0.0%        |
| <b>Total, gross</b>   | <b>100%</b> | <b>100%</b> |
| Average LTV based on market valuation                             | 47.4%       | 50.0%       |

<sup>12</sup> The current LTV level, based on the value of the real estate at the moment the loan is granted, updated using statistical methods on the basis of a real estate market analysis.



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| Gross loans granted to customers at LtV based on mortgage lending value | 30.06.2021  | 31.12.2020  |
|---|-------------|-------------|
| below 50%   | 17.7%       | 16.5%       |
| 51% - 60%   | 11.0%       | 10.5%       |
| 61% - 70%   | 15.3%       | 14.4%       |
| 71% - 80%   | 22.3%       | 21.2%       |
| 80% - 90%   | 25.3%       | 25.4%       |
| over 90%  | 8.4%        | 12.0%       |
| <b>Total, gross</b>   | <b>100%</b> | <b>100%</b> |
| Average LtV based on MLV  | 68.6%       | 70.0%       |

In the first half of 2021, the average LtV based on the market valuation of the loan portfolio dropped by 2.6 p.p. (in the first half of 2020, it dropped by 3.1 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

In its offer the Bank has loans bearing an interest rate based on WIBOR 6M and a five-year fixed base rate. At the same time, the Bank has a historical loan portfolio based on WIBOR 3M.

In its lending activities the Bank uses base reference interest rates WIBOR 3M and WIBOR 6M, which in the first half of 2021 amounted to 0.21% and 0.25% respectively. In addition, the average five-year fixed base rate was 1.19% 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 issued by the Bank are also a significant source of funding the Bank's operations.

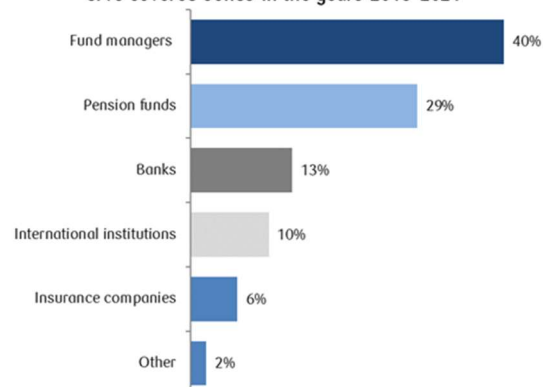
##### DOMESTIC ISSUES OF MORTGAGE COVERED BONDS

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) as at the end of June 2021 was PLN 3,355.0 million.

All series of domestic mortgage covered bonds issued are traded on the Warsaw Stock Exchange regulated 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 in the years 2015-2021



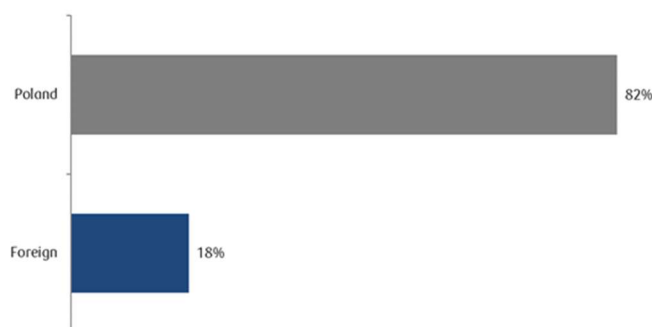
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In the first half of 2021 PKO Bank Hipoteczny SA did not issue any mortgage covered bonds. In the same period, the Bank redeemed Series 2 and 3 mortgage covered bonds with a total nominal value of PLN 1,000.0 million.

Chart: Geographical distribution of domestic issues of PKO Bank Hipoteczny SA's covered bonds in the years 2015-2021



The PLN-denominated mortgage covered bonds of PKO Bank Hipoteczny SA issued and outstanding until 30 June 2021:

| Series | Mortgage covered bond number (ISIN) | Issue date | Redemption date | Series value (in PLN million) | Interest rate  | Currency | Rating of issue | Listing                       |
|--------|-------------------------------------|------------|-----------------|-------------------------------|----------------|----------|-----------------|-------------------------------|
| 4      | PLPKOHP00041                        | 28.04.2017 | 18.05.2022      | 500                           | WIBOR3M +0.69% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 5      | PLPKOHP00058                        | 22.06.2017 | 10.09.2021      | 265                           | 2.69%          | PLN      | Aa1             | Bondspot, WSE parallel market |
| 6      | PLPKOHP00066                        | 27.10.2017 | 27.06.2023      | 500                           | WIBOR3M +0.60% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 7      | PLPKOHP00074                        | 27.04.2018 | 25.04.2024      | 700                           | WIBOR3M +0.49% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 8      | PLPKOHP00082                        | 18.05.2018 | 29.04.2022      | 100                           | WIBOR3M +0.32% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 9      | PLPKOHP00090                        | 27.07.2018 | 25.07.2025      | 500                           | WIBOR3M +0.62% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 10     | PLPKOHP00108                        | 24.08.2018 | 24.08.2028      | 60                            | 3.4875%        | PLN      | Aa1             | Bondspot, WSE parallel market |
| 11     | PLPKOHP00116                        | 26.10.2018 | 28.04.2025      | 230                           | WIBOR3M +0.66% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 12     | PLPKOHP00132                        | 10.06.2019 | 30.09.2024      | 250                           | WIBOR3M +0.60% | PLN      | Aa1             | Bondspot, WSE parallel market |
| 13     | PLPKOHP00199                        | 02.12.2019 | 02.12.2024      | 250                           | WIBOR3M +0.51% | PLN      | Aa1             | Bondspot, WSE parallel market |

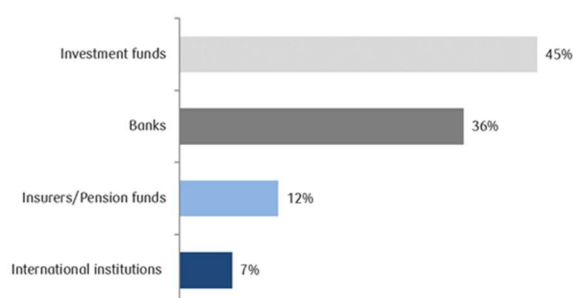
**INTERNATIONAL ISSUES OF MORTGAGE COVERED BONDS**

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 placement issues.

The total value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA for the international markets (at the nominal value) as at the end of June 2021 was EUR 2,779.0 million.

All series of international mortgage covered bonds issued are traded on the Luxembourg Stock Exchange and, except for series 2 and 5, on the

Chart: Purchasers of EUR-denominated issues of PKO Bank Hipoteczny SA's covered bonds in the years 2016-2021



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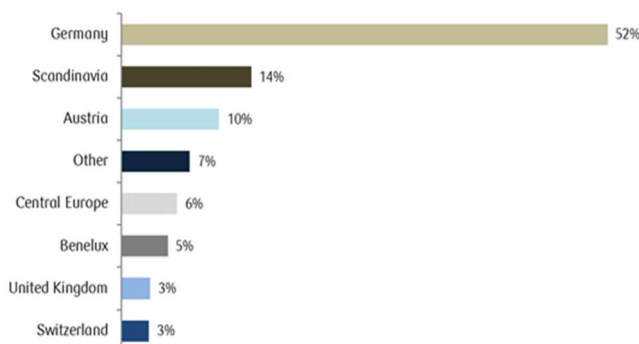
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parallel market of the Warsaw Stock Exchange. They are also accepted in repo transactions by the European Central Bank.

In the first half of 2021 PKO Bank Hipoteczny SA did not issue any international mortgage covered bonds.

Chart: Geographical distribution of purchasers of EUR-denominated covered bonds of PKO Bank Hipoteczny SA's in the years 2016-2021



EUR-denominated mortgage covered bonds of PKO Bank Hipoteczny SA issued and outstanding up to 30 June 2021:

| Series              | Mortgage covered bond number (ISIN) | Issue date | Redemption date | Series value (in EUR million) | Coupon | Price    | Currency | Rating of issue | Listing                    |
|---------------------|-------------------------------------|------------|-----------------|-------------------------------|--------|----------|----------|-----------------|----------------------------|
| 1                   | XS1508351357                        | 24.10.2016 | 24.06.2022      | 500                           | 0.125% | 99.702%  | EUR      | Aa1             | LuxSE, WSE parallel market |
| 1<br>2nd<br>tranche | XS1508351357                        | 08.03.2019 | 24.06.2022      | 100                           | 0.125% | 99.489%  | EUR      | Aa1             | LuxSE, WSE parallel market |
| 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 market |
| 4                   | XS1690669574                        | 27.09.2017 | 27.08.2024      | 500                           | 0.75%  | 99.906%  | EUR      | Aa1             | LuxSE, WSE parallel 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 market |
| 7                   | XS1935261013                        | 28.01.2019 | 23.11.2021      | 500                           | 0.250% | 99.933%  | EUR      | Aa1             | LuxSE, WSE parallel market |
| 7<br>2nd<br>tranche | XS1935261013                        | 01.03.2019 | 23.11.2021      | 100                           | 0.250% | 100.145% | EUR      | Aa1             | LuxSE, WSE parallel market |

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

**BOND ISSUES – BOND ISSUE PROGRAMME AGREEMENT CONCLUDED WITH PKO BANK POLSKI SA**

On 30 September 2015, PKO Bank Hipoteczny SA concluded a Bond Issue Programme Agreement with PKO Bank Polski SA. In the first half of 2021 the Bank issued bonds with a total nominal value of PLN 3,699.0 million under the Programme, and at the same time the Bank redeemed bonds with a total nominal value of PLN 3,552.5 million.

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The balance of the short-term bonds issued as at 30 June 2021 Was PLN 3,923.0 million. The Bank intends to continue obtaining funding under this Programme.

In the second quarter of 2021 the amount of the Programme was increased from PLN 4,000.0 million to PLN 6,000.0 million.

#### **BOND ISSUES – THE PUBLIC BOND ISSUE PROGRAMME**

On 12 October 2020, in connection with the Polish Financial Supervision Authority approving the Base Bond Issue Prospectus on 8 October 2020, PKO Bank Hipoteczny SA signed a Programme Agreement, relating to the Public Bond Issue Programme established on 11 April 2019, with PKO Bank Polski SA also acting through its branch, the Brokerage Office in Warsaw.

In the first half of 2021, PKO Bank Hipoteczny SA did not issue bonds under the Public Bond Issue Programme; during the period, the Bank redeemed PLN 50.0 million of bonds which had been issued under this Programme.

The balance of issued and outstanding bonds was PLN 165.0 million as at 30 June 2021. All the series were admitted and introduced to trading on the WSE regulated market (the parallel market). The Bank intends to continue to obtain funding under this Programme.

The PLN-denominated bonds of PKO Bank Hipoteczny SA issued and outstanding under the Programme until 30 June 2021:

| Series | Bond number (ISIN) | Issue date | Redemption date | Series value (in PLN million) | Coupon         | Currency | Rating of issue | Listing             |
|--------|--------------------|------------|-----------------|-------------------------------|----------------|----------|-----------------|---------------------|
| 1      | PLPKOHP00140       | 11.07.2019 | 12.07.2021      | 50                            | WIBOR3M +0.60% | PLN      | None            | WSE parallel market |
| 3      | PLPKOHP00165       | 28.08.2019 | 30.08.2021      | 45                            | WIBOR3M +0.60% | PLN      | None            | WSE parallel market |
| 4      | PLPKOHP00173       | 17.10.2019 | 18.10.2021      | 40                            | WIBOR3M +0.60% | PLN      | None            | WSE parallel market |
| 5      | PLPKOHP00181       | 18.12.2019 | 20.12.2021      | 30                            | WIBOR3M +0.60% | PLN      | None            | WSE parallel market |

#### **BOND ISSUES – OTHER**

On 24 February 2021, PKO Bank Hipoteczny SA redeemed unsecured bonds issued under an agreement with a European financial institution with a total nominal value of PLN 350.0 million.

#### **GREEN COVERED BONDS**

In the second quarter of 2019, PKO Bank Hipoteczny SA published the Green Covered Bond Framework (GCBF). In June 2019, PKO Bank Hipoteczny SA, as the first issuer in Poland, received a certificate granted by the international agency Climate Bonds Initiative for green covered bonds that satisfy the highest international standards with respect to the criteria for financing low emission projects. Through its participation in the financing of environmentally-friendly residential projects, the Bank will be able to obtain access to additional sources of financing from issues of Green Covered Bonds.

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 should 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 transparency, disclosure and reporting, which promote the consistency of the green bond market.

In June 2019, PKO Bank Hipoteczny SA obtained a second party opinion of a specialized, certified international institution Sustainalytics, which confirmed that the Bank's GCBF complies with the key GCB principles.

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At least once a year, the Bank publishes an allocation report and a report on the impact of the green covered bonds on the environment.

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

<https://coveredbondlabel.com/issuer/161/>

#### 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/161/>

#### ENERGY EFFICIENT MORTGAGE LABEL

In February 2021, PKO Bank Hipoteczny joined the Energy Efficient Mortgage Label initiative, whose aim is to support the European Green Deal and climate neutrality until 2050 and to adapt products to regulatory changes.

Standards for disclosing information relating to green assets are to be developed under this initiative.

### 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 financing the granting of residential mortgage 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 six times the Bank's own funds.

In the Management Board's opinion, as at 30 June 2021, there were no indicators of a risk of late payment of the liabilities incurred by the Bank. In the first half of 2021, the Bank did not exceed any of the liquidity limits. Details of the levels of the Bank's liquidity limits are provided in Note 30 "Liquidity risk management" to the condensed interim financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2021.

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 in 2017 and 2018. 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.

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#### **4.6. RATINGS OF THE BANK AND ITS MORTGAGE COVERED BONDS**

As at the date of this Report, PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

|  | <b>Rating</b> | <b>Outlook</b> | <b>Date of initial rating/rating confirmation date</b> |
|--|---------------|----------------|--|
| Long-term issuer rating                      | Baa1          | Stable         | 19.12.2017   |
| Short-term issuer rating                     | P-2           | n/a            | 19.12.2017   |
| Long-term counterparty risk rating           | A3            | n/a            | 18.06.2018   |
| Long-term counterparty risk rating           | P-2           | n/a            | 18.06.2018   |
| Long-term counterparty risk assessment (CR)  | A3(cr)        | n/a            | 19.12.2017   |
| Short-term counterparty risk assessment (CR) | P-2(cr)       | n/a            | 19.12.2017   |

As at the date of this Report, the mortgage covered bonds of PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

|   | <b>Rating</b> | <b>Date of initial rating</b> | <b>Rating confirmation date</b> |
|---|---------------|-------------------------------|---------------------------------|
| Mortgage covered bonds denominated in PLN | Aa1           | 07.12.2020                    | 09.12.2020                      |
| Mortgage covered bonds denominated in EUR | Aa1           | 07.12.2020                    | 09.12.2020                      |

The rating assigned to the mortgage covered bonds of PKO Bank Hipoteczny SA is the highest rating achievable for Polish securities. The limit for the ratings is the Polish country ceiling<sup>13</sup> for debt instruments, which is currently at the level of Aa1.

<sup>13</sup> Maximum country rating for Poland.

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## 5. INTERNAL OPERATING CONDITIONS

|  |
|--|
| Qualified staff<br>Lending process and cooperation with PKO Bank Polski SA<br>Internal control system<br>Risk management<br>Measurement of residential mortgage loan collateral<br>Cover pool for mortgage covered bonds<br>Cover pool monitor<br>Statutory limits |
|--|

### 5.1. QUALIFIED STAFF

The Bank implements tools and procedures to guarantee that the Bank's staff has the highest qualifications in the Bank's 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.

### 5.2. 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 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 portfolios of receivables in respect of residential mortgage loans 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.

### 5.3. 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;

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- 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 and the Head Office'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 risk-generating operational tasks and operate under internal regulations;
- the second level is composed of 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 ensure effective functioning with respect to risk mitigation, support risk management and measurement, and to ensure the effectiveness of operations. This level comprises the activities of the compliance function, as well as identification, measurement or estimation, control, monitoring and reporting of risks material to the Bank, and identified threats and irregularities;
- 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.

In the first half of 2021, the reporting within the internal control system and the remedial actions taken have indicated that the internal control system in PKO Bank Hipoteczny SA was effective and adequate to 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 control of the risk level in a changing macroeconomic and legal environment, control of the risk level, and to ensure it is maintained



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within the risk tolerance established by the Bank and the system of limits that is in place. The assumed level of risk constitutes an important component of the planning and decision-making process.

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:

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**MATERIAL RISKS**

- Credit risk
- Liquidity risk, including financing risk
- Interest rate risk
- Model risk.
- Operational risk

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**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 2021, 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. It also includes important information on the

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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.

## **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:

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|  |   |
|--|---|
| <b>PREPARATION OF THE MLV<br/>EXPERT OPINION</b>   | 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 |
| <b>VERIFICATION OF THE MLV<br/>OPINION</b>   | PKO Bank Polski SA under the Outsourcing Agreement, or a dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office  |
| <b>REVIEW OF THE MLV OF REAL<br/>ESTATE EXPERT OPINION AND<br/>DETERMINING THE MORTGAGE<br/>LENDING VALUE OF THE REAL<br/>ESTATE</b> | A dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office   |

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

|  |   |
|--|---|
| <b>CONFIRMATION OF THE PROPERTY'S LEGAL STATUS</b>   | PKO Bank Polski SA, under the outsourcing agreement   |
| <b>PREPARATION OF AN INSPECTION PROTOCOL OF THE PROPERTY, TOGETHER WITH MARKET RESEARCH</b>                          | Appraiser with appropriate experience and the ability to estimate banking risk in the area of securing residential mortgage loans |
| <b>PREPARATION OF THE MLV EXPERT OPINION</b>   | A dedicated organizational unit of the Bank: the Collateral Valuation Team at the Loan Office                                     |
| <b>REVIEW OF THE MLV OF REAL ESTATE EXPERT OPINION AND DETERMINING THE MORTGAGE LENDING VALUE OF THE REAL ESTATE</b> | 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 first mortgage. Certain bank 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 Organisation 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 included in the cover pool and constituting collateral for issues of mortgage covered bonds as at 30 June 2021 stood at PLN 22,660.2 million. The nominal value of the over-collateralization in the form of securities issued by the State Treasury, denominated in PLN, stood at PLN 170 million. As at 31 December 2020, these figures were PLN 23,106.6 million and PLN 250 million respectively. The cover pool also takes into account CIRS transactions hedging foreign exchange risk and the interest rate risk on EUR-denominated mortgage covered bonds, FX-Forward transactions hedging the foreign exchange risk of issued EUR-denominated mortgage covered bonds and IRS transactions hedging the interest rate risk of PLN-denominated mortgage covered bonds issued on a fixed-rate basis.

In the first half of 2021 and in previous years, the cover pool did not include asset-backed securities that do not meet the requirements described in Article 80 paragraph 1 of 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).

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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 of 2003, No 99, item 919, as amended);
- 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.

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 2021 and 31 December 2020:

|  | 30.06.2021      | 31.12.2020       |
|--|-----------------|------------------|
| <b>Total cover pool, including (in PLN million):</b>                 | <b>22,830.2</b> | <b>23,356.6,</b> |
| <i>loans secured by mortgages (in PLN million)</i>                   | 22,660.2        | 23,106.6         |
| <i>other assets<sup>14</sup> (in PLN million)</i>                    | 170.0           | 250.0            |
| Liquidity buffer <sup>15</sup> (in PLN million)                      | 74.3            | 74.4             |
| Nominal value of hedging transactions <sup>16</sup> (in PLN million) | 12,885.0        | 13,146.1         |
| Number of loans  | 122,692         | 123,096          |
| Average loan value (PLN thousand)                                    | 184.7           | 187.7            |
| Average weighted time since loan issuance (seasoning) (months)       | 59.6            | 54.8             |
| Average maturity (months)  | 252.0           | 254.9            |
| Average LTV (loan amount to market value)                            | 46.7%           | 49.2%            |
| Average weighted loan to mortgage lending value of real estate       | 68.4            | 69.7%            |
| Over-collateralization <sup>17</sup>                                 | 47.5%           | 41.4%            |

## 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       | -                               |

<sup>14</sup> Article 18(3) of the Act on Mortgage Covered Bonds and Mortgage Banks.

<sup>15</sup> Article 18(3)(a) of the Act on Mortgage Covered Bonds and Mortgage Banks.

<sup>16</sup> The nominal value of the hedging transaction corresponds to the issue price of the mortgage covered bond.

<sup>17</sup> It includes the net value of hedging transactions but excludes NPL.

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## 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 2021 and 31 December 2020 were as follows:

| Limit  | Legal basis      | Limit level | Actual level |            |
|--|------------------|-------------|--------------|------------|
|  |                  |             | 30.06.2021   | 31.12.2020 |
| 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%      | 16.0%        | 17.0%      |
| 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  | Art. art.14.     | ≤100.0%     | 68.3%        | 71.4%      |
| 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%       |
| Total value of loans and advances taken out and bonds issued, in proportion to the Bank's own funds  | Article 15(2)    | ≤600.0%     | 413,8%       | 408.7%     |
| 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%     | 34.2%        | 31.7%      |
| Total nominal value of mortgage covered bonds outstanding, in proportion to the Bank's own funds and general risk provision  | Article 17.      | ≤4000.0%    | 801.2%       | 888.6%     |
| 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%     | 147.5%       | 141.4%     |
| 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%      | 142.1%       | 134.4%     |
| 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%     | 23.0%        | 26.7%      |

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|   |                                  |         |        |        |
|---|----------------------------------|---------|--------|--------|
| 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 months   | Article 18(3a)                   | ≥100.0% | 161.0% | 142.0% |
| 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%  | 5.8%   | 8.4%   |
| 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.

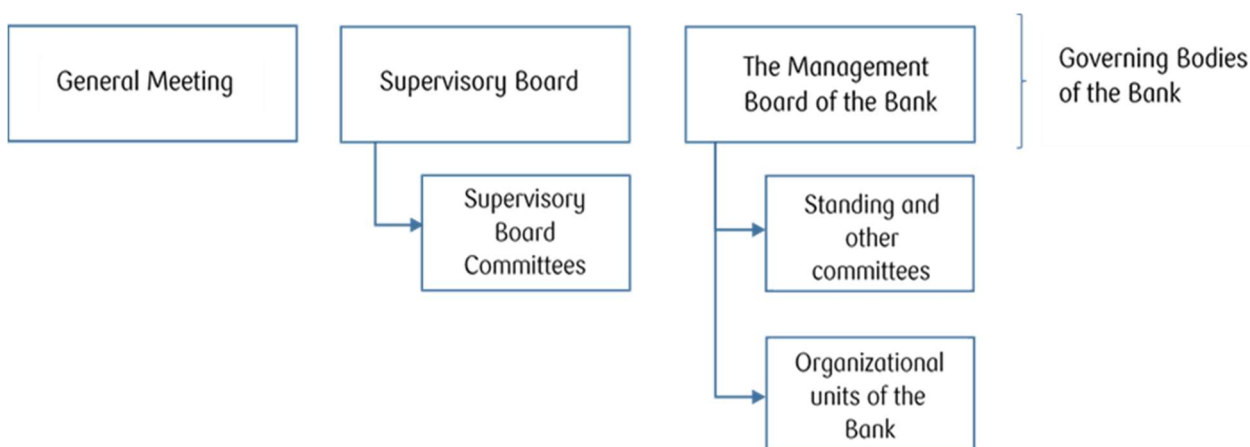
As at the end of June 2021, the Bank obtained positive results of the liquidity tests and coverage balance tests conducted.

## 6. ORGANIZATION AND GOVERNING BODIES OF PKO BANK HIPOTECZNY SA

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

### 6.1. 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.



### 6.2. 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;
- establishing the procedure for the redemption of shares and the level of compensation for the redeemed shares and the expression of consent to the purchase of the Bank's shares for the purpose of their redemption;
- 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's 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;

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- 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 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.

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 assumptions underlying the introduction of a new product to the Bank's offer;
- 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 approval by the PFSA;
- affirming the Code of Ethics and 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;
- proving 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 off-setting of losses and presenting, to the General Shareholders' Meeting, a written annual report on the results of these assessments;
- 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;



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- applying to the PFSA for consent to appoint two members of the Management Board, including the Chairman 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;
- 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 unit and the 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 2021, the following **Supervisory Board committees** operated:

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**AUDIT AND FINANCE  
COMMITTEE**

- monitoring and expressing periodic opinions on the adequacy and effectiveness of the internal control system, 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, the application of the Corporate Governance Principles for Supervised Institutions, the adequacy and effectiveness of the whistleblowing policy and the ethical procedures and standards in force at the Bank;
- developing the policy of selecting an audit firm, submitting to the Supervisory Board a recommendation of an audit firm to conduct an audit of the Bank's financial statements;
- monitoring the financial reporting process, including reviewing the interim and annual financial statements of the Bank and expressing an opinion on them;
- monitoring financial audit proceedings and the independence of the statutory auditor and the entity authorized to audit the financial statements;
- giving opinions on Management Board information relating to the operation of the internal control system, the approval of which is the responsibility of the Supervisory Board.

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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;
  - monitoring compliance of the Bank's policy in the area of taking on risk with the strategy and financial plan;
  - analysing periodic risk-related reports, including the utilization of strategic risk tolerance limits, and developing appropriate guidelines on the basis thereof, as well as reviewing periodically the implementation 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.
-

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REMUNERATION AND  
NOMINATION  
COMMITTEE

- 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;
- 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;
- reviewing 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.

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COMMERCIAL  
COMMITTEE

- reviewing 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.
- 

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 committee with the corresponding unit of PKO BP 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;

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- approving the operating rules of the compliance unit, determining the cooperation principles of the internal audit committee with the corresponding unit of PKO BP and giving opinions on the annual operating plan of the compliance unit;
- establishing internal capital estimation and equity. The Bank's Management Board established the following standing committees: 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 the following standing committees:

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|  |  |
|--|--|
| <b>THE ASSET AND LIABILITY COMMITTEE</b>   | <ul style="list-style-type: none"><li>• 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;</li><li>• managing of the Bank's capital adequacy;</li><li>• reviewing documents concerning capital adequacy, equity, internal capital, stress testing, the risks mentioned above and the risk tolerance limits for those risks;</li><li>• making decisions concerning the Bank's operations, particularly regarding the risk measures and limits, and launching capital and liquidity emergency measures;</li><li>• 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.</li></ul>   |
| <b>CREDIT COMMITTEE</b>  | <ul style="list-style-type: none"><li>• supporting the functions that manage credit, concentration and residual risks, as well as the risk of the models measuring such risks;</li><li>• 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;</li><li>• 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;</li><li>• 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.</li></ul> |
| <b>THE DATA QUALITY COMMITTEE</b><br><b>(UNTIL 30.06.2021)</b>                     | <ul style="list-style-type: none"><li>• determining the strategic 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);</li><li>• supervising the DMS operations, which includes assessing its effectiveness and the operations of the individual Head Office organizational units;</li></ul>  |
| <b>THE OPERATIONAL RISK AND DATA QUALITY COMMITTEE</b><br><b>(FROM 01.07.2021)</b> | <ul style="list-style-type: none"><li>• effective management of operational risk, improving the safety of the Bank's operating activities;</li><li>• managing outsourcing risk;</li><li>• determining the directions of operational risk management development;</li><li>• supervising the functioning of operational risk management, including tasks relating to ensuring business continuity and the information and telecom security environment;</li></ul>  |

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- 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.

#### THE STRATEGY AND BUSINESS INITIATIVES COMMITTEE

- supporting the operational,\* reputation and compliance risk management functions as well as the risk of the models measuring such risks;
- examining materials on the risks mentioned above, directions of the Bank's development, the Bank's strategy and IT strategy, initiatives related to the implementation of the Bank's strategy and IT strategy together with the operational risk analysis\*, product offer, product profitability, lending process;
- making decisions concerning the Bank's operations, particularly regarding the management of these risks and the models of their measurement, as well as the risk measures and limits;
- 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.

\* as of 1 July 2021 this competency was transferred to the objectives and tasks of the Operational Risk and Data Quality Committee

#### THE 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;
- making decisions relating to the Bank's operation, 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.

### 6.3. THE MANAGEMENT BOARD OF PKO BANK HIPOTECZNY SA

In the period from 1 January to 30 June 2021, the composition of the Management Board of PKO Bank Hipoteczny SA was as follows:

|                  | Position                               | Position holding period |
|------------------|--|-------------------------|
| Paulina Strugała | President of the Management Board      | 16.04.2018 – until now  |
| Daniel Goska     | Vice-President of the Management Board | 01.10.2020 – until now  |
| Piotr Kochanek   | Vice-President of the Management Board | 01.01.2019 – until now  |

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On 13 April 2021, the Ordinary General Shareholders' Meeting granted discharge of duties to the President of the Management Board Ms Paulina Strugała for the period from 1 January 2020 to 31 December 2020, to the Vice-President of the Management Board, Mr Piotr Kochanek for the period from 1 January 2020 to 31 December 2020, to the Vice-President of the Management Board Ms Agnieszka Krawczyk for the period from 1 January 2020 to 30 September 2020 and to the Vice-President Mr Daniel Goska from 1 October 2020 to 31 December 2020.

The Bank's Supervisory Board has established the following internal division of key competences within the Bank's Management Board:

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|                            |   |
|----------------------------|---|
| <b>PAULINA STRUGAŁA</b>    | <b>President of the Management Board</b> responsible for supervising compliance and reputation risk, the internal audit function, human resources management, communication and legal services  |
| Other functions performed: | Chairperson of the Strategy and Business Initiatives Committee<br>Chairperson of the Asset and Liability Committee  |
| <b>DANIEL GOSKA</b>        | <b>Vice President of the Management Board</b> responsible for supervising the development, creation and functioning of the product offer for individuals and business entities, as well as for coordinating activities in respect of sales of mortgage products in all distribution channels, supervising the acquisition of loan receivables, creating principles for and supervising the process of handling the loans granted and acquired, operation and effectiveness of IT resources, creating the principles for outsourcing and exercising the outsourcing process, as well as supervising financial planning and financial control issues, accounting and financial reporting, issuing securities and obtaining the respective funds |
| Other functions performed: | Chairperson of the Green Covered Bonds Committee<br>Deputy Chairperson of the Strategy and Business Initiatives Committee<br>Deputy Chairperson of the Operational Risk and Data Quality Committee (as of 1 July 2021)<br>Member of the Credit Committee<br>Member of the Asset and Liability Committee   |
| <b>PIOTR KOCHANEK</b>      | <b>Vice President of the Management Board</b> responsible for supervising the management of all risks relating to the Bank's operations except compliance risk and reputation risk, supervising restructuring and debt collection, supervising the lending decisions in respect of the credit risk and supervising the verification and assessment of real estate constituting collateral for loans granted or receivables acquired   |
| Other functions performed: | Chairperson of the Credit Committee<br>Chairperson of the Data Quality Committee (to 30 June 2021)<br>Chairperson of the Operational Risk and Data Quality Committee (as of 1 July 2021)<br>Deputy Chairperson of the Asset and Liability Committee<br>Deputy Chairperson of the Green Covered Bonds Committee<br>Member of the Strategy and Business Initiatives Committee   |

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**OTHER MANAGEMENT FUNCTIONS OF THE MANAGEMENT BOARD MEMBERS**

|                  | <b>Position</b>   | <b>Position holding period</b>  |
|------------------|---|---------------------------------|
| Paulina Strugała | Member of the Supervisory Board of PKO BP Finat Sp. z o.o.  | Throughout the reporting period |
| Daniel Goska     | Did not perform any additional functions as 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 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 Nominations Committee of the Bank's Supervisory Board. The Committee takes into consideration the guidelines of the European Banking Authority dated 21 March 2018 regarding evaluating the qualifications of members of a management body and persons performing key functions (the EBA 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. 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 guidelines.

Members of the Management Board are subject to continuous evaluation by the Supervisory Board's Remuneration and Nominations Committee, beginning from the moment of recruitment and continuing through their entire term of office. In addition, in accordance with 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.

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#### 6.4. THE SUPERVISORY BOARD OF PKO BANK HIPOTECZNY SA

As at the date of signing these financial statement, 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 <sup>18</sup> | Audit and Finance Committee | The Risk Committee | The Remuneration and Nominations Committee | The Commercial Committee |
|-------------------------|-----------------------------------|--------------------------|---------------------------------|---------------------------|----------------------------------|-----------------------------|--------------------|--|--------------------------|
| Jakub Papierski         | Chairperson                       | 06.10.2014               | 13.04.2021                      | ✓                         |                                  |                             |                    | C  | C                        |
| Jan Emeryk Rościszewski | Member<br>Chairperson             | 13.04.2021<br>30.04.2021 | 29.04.2021                      | ✓                         |                                  |                             |                    | C  | M                        |
| Justyna Borkiewicz      | Member                            | 28.10.2016               | 07.07.2021                      | ✓                         |                                  |                             | M                  |  |                          |
| Piotr Kwiecień          | Member                            | 18.10.2017               |                                 | ✓                         | ✓                                | C                           |                    |  | M                        |
| Paweł Metrycki          | Member<br>Deputy Chairperson      | 30.03.2019<br>07.10.2019 | 06.10.2019                      | ✓                         |                                  | D                           | C                  |  | D                        |
| Ilona Wołyniec          | Member                            | 30.03.2019               |                                 | ✓                         |                                  |                             | D                  | D  | C                        |
| Lucyna Kopińska         | Member                            | 01.09.2019               |                                 | ✓                         |                                  |                             |                    |  | M                        |
| Jadwiga Lesisz          | Member                            | 01.09.2019               |                                 | ✓                         | ✓                                | M                           |                    |  |                          |
| Dariusz Odzioba         | Member                            | 01.09.2019               |                                 | ✓                         |                                  |                             |                    |  |                          |

*C – Chairperson, D – Deputy Chairperson, M – Member*

The composition of the Committees is presented as at the date of signing this Directors' Report.

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 13 April 2021 all members of the Bank's Supervisory Board received a vote of approval for the period ended 31 December 2020, by way of resolutions of the General Shareholders' Meeting.

This constitutes confirmation that members of the Supervisory Board duly performed their duties, based on adequate knowledge, abilities and experience, in accordance with the requirements of Article 22aa of the Banking Law.

<sup>18</sup> as defined in the Act of 11 May 2017 on registered auditors, audit firms and public oversight.

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**INFORMATION ON THE AUDIT AND FINANCE COMMITTEE**

In the first half of 2021, 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 <sup>19</sup> | accounting and/or auditing knowledge and skills | mortgage banking knowledge and skills |
|----------------|---|--------------------------|------------------------------|----------------------------------|---|---------------------------------------|
| Piotr Kwiecień | Chairperson of the Committee                | 18.10.2017<br>07.10.2019 |                              | ✓                                | ✓   |                                       |
| Paweł Metrycki | Deputy Chairperson of the Committee         | 07.10.2019               |                              |                                  | ✓   | ✓                                     |
| Jadwiga Lesisz | Member of the Committee                     | 07.10.2019               |                              | ✓                                | ✓   |                                       |

In the first half of 2021, the Audit and Finance Committee met twice.

<sup>19</sup>as defined in the Act of 11 May 2017 on registered auditors, audit firms and public oversight.



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## 7. CORPORATE GOVERNANCE AND INFORMATION FOR INVESTORS

|  |
|--|
| Representation on compliance with the rules for corporate governance |
| Audit firm   |
| Other information  |

### 7.1. REPRESENTATION ON COMPLIANCE WITH THE RULES FOR CORPORATE 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 competences 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 Supervisory Board of 18 December 2014 – in relation to the competences 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 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 of 2020, item 1415, consolidated text).

In accordance with the requirement arising from § 27 of the Principles of Corporate Governance for Supervised Institutions, on 30 April 2021, the Bank's Supervisory Board evaluated the application of the said Principles in the Bank in 2020. 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](https://www.knf.gov.pl/knf/pl/komponenty/img/knf_140904_Zasady_ladu_korporacyjnego_22072014_38575.pdf)

### MAIN CHARACTERISTICS OF THE INTERNAL CONTROL SYSTEM AND THE RISK MANAGEMENT SYSTEM IN RELATION TO THE PROCESS OF PREPARING THE FINANCIAL STATEMENTS

To ensure the reliability and accuracy of the financial reporting process, the Bank introduced a number of control mechanisms to the reporting system and the internal regulation of this process. 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

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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 2021 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 2020. 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 2021:

| 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 300,000,000.0             |
| B      | Ordinary registered shares | 200,000,000      | PLN 1                   | 200,000,000                | PLN 200,000,000.0             |
| C      | Ordinary registered shares | 200,000,000      | PLN 1                   | 200,000,000                | PLN 200,000,000.0             |
| D      | Ordinary registered shares | 100,000,000      | PLN 1                   | 100,000,000                | PLN 100,000,000.0             |
| E      | Ordinary registered shares | 150,000,000      | PLN 1                   | 150,000,000                | PLN 150,000,000.0             |
| F      | Ordinary registered shares | 150,000,000      | PLN 1                   | 150,000,000                | PLN 150,000,000.0             |
| G      | Ordinary registered shares | 100,000,000      | PLN 1                   | 100,000,000                | PLN 100,000,000.0             |
| H      | Ordinary registered shares | 95,000,000       | PLN 1                   | 95,000,000                 | PLN 95,000,000.0              |
| I      | Ordinary registered shares | 100,000,000      | PLN 1                   | 100,000,000                | PLN 100,000,000.0             |
| J      | Ordinary registered shares | 131,500,000      | PLN 1                   | 131,500,000                | PLN 131,500,000.0             |
| K      | Ordinary registered shares | 84,800,000       | PLN 1                   | 84,800,000                 | PLN 84,800,000.0              |
|        | TOTAL                      | 1,611,300,000    |                         | 1,611,300,000              | PLN 1,611,300,000.0           |

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| Shareholder                                 | 30.06.2021       |                                 | 31.12.2020       |                                 |
|---|------------------|---------------------------------|------------------|---------------------------------|
|   | Number of shares | Share in number of votes at GSM | Number of shares | Share in number 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, is 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 competences 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. Pursuant to Article 34 (2) of the Banking Law, an amendment to the Articles of Association requires the consent of the Polish Financial Supervision Authority.

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**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 Section 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 Procedure for selecting an audit firm to perform an audit of the Bank's financial statements, pursuant to § 18 (1) of the Bank's Articles of Association and in accordance with the recommendation of the Audit and Finance Committee of the Supervisory Board, the Supervisory Board of PKO Bank Hipoteczny SA selected PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. as the audit firm to conduct the audits and reviews of the Bank's financial statements for the years 2020 - 2021.

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 National Council of Statutory Auditors with the number 144.

On 26 April 2019 a contract for conducting an audit and review 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 assumes that the Bank's Supervisory Board will conduct proceedings relating to commissioning the audit of the Bank and the Bank's Group under an unlimited tender procedure. The Audit and Finance Committee of the Bank's Supervisory Board submits its recommendation as to the appointment of the audit firm to the Supervisory Board. If this refers to the renewal of an audit commission there should be no less than two recommendations with a justification, and an indication of the preferred firm. The Bank's Supervisory Board appoints the audit firm based on the Audit and Finance Committee of the Bank's Supervisory Board's recommendation. The offers made by audit firms are assessed based on transparent and non-discriminatory selection criteria.

In accordance with the policy for providing permitted non-audit services to the Bank by the audit firm conducting the audit, its related entities and members of its network, the provision of non-audit services by the audit firm conducting the audit, its related entities and members of its network to the Bank requires the consent of the Audit and Finance Committee of the Bank's Supervisory Board and of the Audit Committee of the Supervisory Board of PKO Bank Polski SA.

## **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 2021, as in 2020, there were no changes in the holdings of shares and rights to shares of PKO Bank Hipoteczny SA by individuals in management and supervisory roles. 100% of the shares are held by PKO Bank Polski SA.

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#### **EVALUATION OF PKO BANK HIPOTECZNY SA'S FINANCIAL CREDIBILITY**

On 27 March 2015, the Bank requested the rating agency Moody's Investors Service ("Moody's") to assign ratings to the Bank and to the mortgage covered bonds issued by PKO Bank Hipoteczny SA.

On 7 September 2015, Moody's assigned Baa1/P-2 long- and short-term issuer ratings to PKO Bank Hipoteczny SA, with a stable outlook. On 19 December 2017, Moody's announced that the ratings had been maintained.

On 8 September 2015, Moody's assigned a long-term (P) rating (a provisional rating) of Aa3 to PKO Bank Hipoteczny SA's PLN-denominated mortgage covered bonds. This rating was confirmed by the agency on 11 December 2015, i.e. immediately after PKO Bank Hipoteczny SA conducted its first issue of mortgage covered bonds. The rating was maintained for all issues of PLN-denominated mortgage covered bonds of PKO Bank Hipoteczny SA.

On 29 September 2016, Moody's assigned a long-term (P) rating (a provisional rating) of Aa3 to PKO Bank Hipoteczny SA's EUR-denominated mortgage covered bonds. This rating was confirmed by the agency on 24 October 2016, i.e. immediately after PKO Bank Hipoteczny SA conducted its first issue of EUR-denominated mortgage covered bonds. The rating was maintained for all issues of EUR-denominated mortgage covered bonds of PKO Bank Hipoteczny SA.

The rating assigned to the mortgage covered bonds of PKO Bank Hipoteczny SA is the highest rating achievable for Polish securities. The limit for the ratings is Polish country ceiling for debt instruments, which currently is at a level of Aa3.

On 18 June 2018, Moody's Investors Service assigned new counterparty risk ratings (CRR) to the Bank. The long-term counterparty risk rating was set at A3, and the short-term counterparty risk rating – at P-2. The new ratings were assigned in connection with updating the bank rating methodology by the agency in June 2018. At the same time, new ratings were assigned to 32 other banks in Central and Eastern Europe. Counterparty risk ratings reflect the entity's ability to settle an unsecured portion of the counterparty's financial liabilities not related to debt (CRR liabilities) and the expected financial losses in the case of failing to settle such liabilities.

On 9 December 2020 Moody's increased the long-term rating for the mortgage covered bonds issued by PKO Bank Hipoteczny from Aa3 to Aa1. The change relates both to mortgage covered bonds denominated in PLN and in EUR.

The change in the ratings was related to Moody's increasing the country ceiling for Polish bonds to Aa1 on 7 December 2020. The rating assigned to the mortgage covered bonds of PKO Bank Hipoteczny SA is the highest rating achievable for Polish securities.

#### **FINANCIAL AND GUARANTEE COMMITMENTS GRANTED**

In the first half of 2021, as in 2020, PKO Bank Hipoteczny SA did not issue any guarantees.

Financial liabilities with respect to loans granted and not disbursed as at 30 June 2021 stood at PLN 74.9 million, down by PLN 40.6 million compared to 31 December 2020.

#### **OFF-BALANCE-SHEET LIABILITIES GRANTED TO RELATED PARTIES**

In the first part of 2021, as in 2020, 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 2021, as in 2020, Bank Hipoteczny SA did not take out any loans or enter into any loan or guarantee agreements unrelated to the Bank's operations.

#### **UNDERWRITING AGREEMENTS**

In the first half of 2021, as in 2020, PKO Bank Hipoteczny SA did not grant any underwriting agreements to its subsidiaries.

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

As at 30 June 2021, no proceedings were pending before courts, arbitration bodies or public administration bodies concerning liabilities or receivables whose value constituted at least 10% of PKO Bank Hipoteczny SA's equity.

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

Among the significant factors and threats which may affect the Bank's results over the consecutive quarter of 2021, the following should be mentioned:

in the global economy:

- acceleration of COVID-19 inoculations, which will allow lifting restrictions and normalizing business activity;
- the process of revival of the global economy after the deep recession caused by the pandemic, including those countries which are the key export markets for Polish enterprises;
- continuation of the expansionary monetary policy by leading central banks by maintaining interest rates at historical lows;
- risk of further mutations of the virus, which could reduce the effectiveness of the inoculations and lead to further waves of the pandemic and the tightening of anti-pandemic restrictions;
- risk of a wave of state bankruptcies;
- the situation on the foreign mortgage covered bonds markets.

in the Polish economy:

- fast revival of business activities supported by, among other things, the nature of the fiscal impulse and a drop in savings which had been enforced by the pandemic;
- the process of adapting the economy to post-pandemic conditions – restructuring employment and operations in the industries most affected by the long-tail negative effects of the pandemic, which due to the revival of demand at the macro level should have the nature of “creative destruction”, but in the short run may lead to disruptions on the local labour markets;
- starting to pay back the reimbursable portion of aid under the Financial Shield;
- probable stabilization of NBP interest rates at record lows, possible further activity of the NBP on the currency markets;
- the situation on the residential market in Poland;
- the situation on the residential loan market in Poland;
- the situation on the Polish mortgage covered bonds market;
- investor demand for mortgage covered bonds and unsecured bonds issued by the Bank;
- PKO Bank Polski SA Group's policy concerning managing the financing structure and liquidity management.

**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 2021 and in 2020, PKO Bank Hipoteczny SA did not warrant any loan or advance and did not grant any 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 9 June 2021, PKO Bank Hipoteczny SA concluded an annexe to a medium-term current account overdraft facility agreement with an external financial institution of up to PLN 150 million extending the repayment deadline until 14 June 2022.

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On 23 June 2021, PKO Bank Hipoteczny SA and PKO Bank Polski SA concluded annexe no. 4 to the agreement dated 10 July 2019 on the revolving current account overdraft facility extending the term of the facility to 1 July 2025. The amount of the limit is PLN 4,000 million.

Moreover, as at 30 June 2021, the Bank had a liability arising from purchased receivables of PLN 158.5 million resulting from the purchase of residential mortgage loan receivable portfolios from PKO Bank Polski SA, as described in Note 12 to the condensed interim financial statements. The repayment date of the liability resulting from the purchase of receivables is agreed by the parties each time in the Receivables Sale Agreement. For the receivables purchased in the first half of 2021, the parties agreed that the payment would be due no later than 18 months from the date of transfer. If the liability is not settled within 1 month from the date of transfer, the principal amount is subject to interest.

**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 2021 and in 2020, 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 2021 and in 2020, 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 2021 and in 2020, PKO Bank Hipoteczny SA did not set up any security on the borrowers' accounts.

As at 30 June 2021, the value of collateral in respect of residential mortgage loans secured with real estate was PLN 61.2 billion.

**SUBSEQUENT EVENTS**

**RESIGNATION OF A MEMBER OF THE BANK'S SUPERVISORY BOARD**

On 7 July 2021, Ms Justyna Borkiewicz submitted her resignation as member of the Bank's Supervisory Board.

**CHANGE IN THE BANK'S RATING**

On 13 July 2021, Moody's Investors Service ("Moody's") informed of changing the rating of PKO Bank Hipoteczny SA. The long-term rating of the issuer was increased from Baa1 to A3, the long-term counterparty risk was increased from A3 to A2, the short-term counterparty risk was increased from P-2 to P-1, the long-term counterparty risk assessment was increased from A3(cr) to A2(cr), the short-term counterparty risk assessment was increased from P-2(cr) to P-1(cr). The short-term issuer rating remains unchanged at P-2. The rating outlook remains unchanged as Stable.

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Moody's informed that the change in the ratings was the consequence of changing the "Banks Methodology" on 9 July 2021.

The ratings assigned reflect Moody's reassessment of mutual relations between the Bank and its parent – PKO Bank Polski SA – and recognizing the low probability of the parent granting a lower priority to fulfilling the obligations of the Bank compared to fulfilling its own obligations in the event of financial stress of the parent or the Group.



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## 8. STATEMENT OF THE MANAGEMENT BOARD OF PKO BANK HIPOTECZNY SA

The Management Board of PKO Bank Polski SA declares that, to the best of their knowledge:

- the condensed interim financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2021 and comparative data have been prepared in accordance with the applicable accounting policies and give a true, fair and clear view of the financial position of PKO Bank Hipoteczny SA and of the results of its operations;
- the PKO Bank Hipoteczny SA Directors' Report for the six months ended 30 June 2021 gives a true view of the development and achievements as well as of the position of PKO Bank Hipoteczny SA, including a description of the key risks and threats.

The Management Board of PKO Bank Hipoteczny SA declares that the audit firm which conducted the review of the condensed interim financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2021 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 opinion 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 six months ended 30 June 2021 comprises 49 sequentially numbered pages.

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

|                |                  |  |  |
|----------------|------------------|--|--|
| 10 August 2021 | Paulina Strugała | President of the Management Board      | <i>signed on Polish original</i><br>.....<br>(signature) |
| 10 August 2021 | Piotr Kochanek   | Vice-President of the Management Board | <i>signed on Polish original</i><br>.....<br>(signature) |
| 10 August 2021 | Daniel Goska     | Vice-President of the Management Board | <i>signed on Polish original</i><br>.....<br>(signature) |