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**PKO Bank Hipoteczny SA
Directors' Report
for the six months ended
30 June 2023**

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PKO BANK HIPOTECZNY SA

DIRECTORS' REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2023



SELECTED FINANCIAL DATA FOR THE PERIOD FROM 1 JANUARY 2023 TO 30 JUNE 2023

INCOME STATEMENT in PLN M	01.01.2023 – 30.06.2023	01.01.2022 – 30.06.2022	Y/y change (in PLN M)
Net interest income	169.7	165.4	4.3
Net fee and commission income	(1.0)	0.3	(1.3)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	0.0	0.0	0.00
Net foreign exchange gains/(losses)	(4.8)	0.2	(5.0)
Net allowances for expected credit losses	(5.2)	0.2	(5.4)
Net other operating income and expenses	0.1	0.1	0.0
Administrative expenses	(23.3)	(21.7)	(1.6)
Regulatory charges	(22.2)	(31.0)	8.8
Tax on certain financial institutions	(29.6)	(37.0)	7.4
Operating profit	83.7	76.5	7.2
Profit before tax	83.7	76.5	7.2
Corporate income tax	(24.0)	(25.7)	1.7
Net profit	59.7	50.8	8.9

STATEMENT OF FINANCIAL POSITION IN PLN M	30.06.2023	31.12.2022
Cash and balances with the Central Bank	0.2	60.7
Amounts due from banks	0.1	0.1
Derivative hedging instruments	76.7	508.1
Securities	944.0	1,017.4
Loans and advances to customers	18,441.1	18,955.4
Other assets ¹	69.8	138.8
TOTAL ASSETS	19,531.9	20,680.5
Amounts due to banks	6,281.2	5,635.9
Derivative hedging instruments	203.8	25.7
Liabilities in respect of mortgage covered bonds issued	9,820.1	12,063.6
Liabilities in respect of bonds issued	1,704.1	1,495.9
Other liabilities and provisions ²	69.3	55.1
Equity	1,453.4	1,404.3
TOTAL LIABILITIES AND EQUITY	19,531.9	20,680.5

¹ It covers the following items of the statement of financial position: intangible assets, property, plant and equipment, current income tax receivable, deferred tax asset and other assets.

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

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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 both in terms of total assets and the balance of residential mortgage loans. The Bank is also Poland's largest issuer of mortgage covered bonds on the Polish market with a share of 53.8% of the total outstanding mortgage covered bonds issued by mortgage banks operating in Poland. It was the only issuer in Poland to carry out benchmark issues of euro-denominated mortgage covered bonds, and the first one in the CEE to issue green mortgage bonds.

As at 30 June 2023, the outstanding total nominal value of 12 series of the Bank's mortgage covered bonds amounted to PLN 9.8 billion.

As at the end of June 2023, the Bank's total assets exceeded PLN 19.5 billion, of which PLN 18.4 billion were a high quality portfolio of residential mortgage loans.

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

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

As at 30 June 2023, PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

	Rating	Outlook	Data of initial rating/rating confirmation date
Long-term issuer rating	A3	Stable	
Short-term issuer rating	P-2	n/a	
Opinion on long-term counterparty risk	A2(cr)	n/a	20.12.2022
Opinion on short-term counterparty risk	P-1(cr)	n/a	
Long-term counterparty risk rating	A2	n/a	
Short-term counterparty risk rating	P-1	n/a	

The ratings given reflect Moody's assessment of the Bank's mutual relations with its Parent company – PKO Bank Polski SA – and the low risk of the Parent reducing the priority of the Bank's carrying out its obligations in the event of the Parent's or the Group's financial difficulties.

As at 30 June 2023, PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

	Rating	Rating confirmation date
Mortgage covered bonds denominated in PLN	Aa1	28.06.2023
Mortgage covered bonds denominated in EUR	Aa1	07.07.2022

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

MORTGAGE COVERED BONDS ISSUED

In the first half of 2023, PKO Bank Hipoteczny SA conducted two issues of Series 9 and 10 mortgage covered bonds denominated in PLN. The issues were made under an international programme for issuing mortgage covered bonds, and their total nominal value amounted to PLN 1 billion.

BORROWERS SUPPORT

In connection with a cycle of interest rate increases in 2022, PKO Bank Hipoteczny SA is continuing actions aimed at increasing the security of its customers.

With respect to borrowers support, in connection with the provisions of the Act on crowdfunding for business ventures and assistance to borrowers, the Bank enabled customers:

- to suspend loan repayments for up to 8 months in the years 2022 – 2023;
- to use the programme being part of the Borrowers Support Fund according to the new service principles.

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

In connection with the lasting military conflict close to the Polish border, the Bank identifies the influence of the geopolitical risk which has or may have an indirect impact on the Bank's operations as an issuer.

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

PKO BANK POLSKI SA'S STRATEGY FOR THE YEARS 2023 – 2025

In the first quarter of 2023 the Bank's Management Board adopted and the Supervisory Board approved a new Strategy of PKO Bank Hipoteczny SA for the years 2023 – 2025.

The Bank's strategic goals under the new strategy comprise:



³ Maximum country rating.

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SELECTED PROJECTS

Implementation of the WIRON index

In connection with the planned reform of the interest reference rate (WIBOR), in 2022 a task team for the reform of reference rates was appointed in the Bank.

The strategic goal of the team is to implement a new interest reference rate.

In the first half of 2023 the team's work focused on:

- adapting the Bank's internal systems to operate according to the rates based on the WIRON index;
- reviewing and verifying the contractual fallback clauses⁴ for the current portfolio of WIBOR-based loan agreements;
- updating the Bank's internal document in the form of the Plan in event of material changes or discontinuing the use of a reference ratio.

Implementing a new mortgage loan and treasury products based on WIRON is planned for the fourth quarter of 2023.

Implementation of a modified offer for funding "green" residential real estate

The project is performed as part of sustainable operations in the context of ESG. The strategic goal of the initiative is to create an offer of "green" mortgage loans within the PKO BP Group in the context of building potential for issuing "green" mortgage bonds.

The Bank prepared a proposal for changing the price conditions in the event of the borrowers providing energy performance certificates which meet the criteria specified in the loan agreement, in accordance with the EU Taxonomy.⁵ In cooperation with PKO Bank Polski SA, the Bank is continuing work on implementing the change.

At the same time, the Bank is the leader in developing a comprehensive green product offer by establishing a centre of excellence for mortgage loans within the PKO BP Group.

Centre of excellence in the ESG area in PKO Bank Hipoteczny SA

The Centre of Excellence in the area of ESG is another aspect of achieving the Bank's strategic goals for the years 2023 – 2025 with respect to sustainable activities.

The purpose of the Centre of Excellence is to ensure the necessary, complete and up-to-date knowledge from the ESG area, which should enable the performance of the assumed business goals in compliance with the dynamically developing regulatory environment in the area of sustainable growth.

In the first half of 2023 work was in progress on the knowledge base in the area of ESG.

Implementation of external communication to educate customers

In the first half of 2023, PKO Bank Hipoteczny began actions related to educating customers by publishing articles in the *Bankomania* service:

- "Energy efficiency certificate – check whether you need one. You may be fined if you don't have one!";
- "How do you read the energy efficiency certificate? What is primary, final and usable energy?";
- "I have taken out a loan and I am in difficulties – what should I do?";

as well as entries to the bank's LinkedIn profile.

Optimization and automation of processes

⁴ Fallback clause – A contractual provision indicating a permanent substitute for a Reference ratio (within the meaning of the BMR) or specifying a process according to which an agreed Alternative reference ratio may be determined if a regulatory event occurs.

⁵ The EU Taxonomy, pursuant to the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020.

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The strategic goal of the initiative is the digitization and simplification of the Bank's processes. The Bank, among other things, participates in the PKO BP Group's project "The Digital Mortgage", which aims at optimizing and digitizing the process of granting and servicing mortgage loans, and regularly implements enhancements and automates actions in other processes.

The Bank's adaptation to the requirements of CRR III

In connection with the planned coming into force of the provisions amending Regulation No. 575/2013 and Directive 2013/36/EU (the so-called CRR III and CRD VI) as of 1 January 2025, aimed at the full implementation of the international standards agreed by the Basel Committee on Banking Supervision in the aquis of the European Union, the Bank started respective adaptation work.

Development of a uniform template for residential real estate loan agreements

The strategic goal of this project is to develop template clauses of a mortgage loan agreement to improve its understanding and limit the risks related to mortgage products. The clauses will be further consulted with representatives of the Polish Financial Supervision Authority, the Financial Ombudsman and the Office of Competition and Consumer Protection ("UOKiK"), in the context of interesting the supervisory and control authorities in supporting the sanctioning of the template containing adequate clauses.

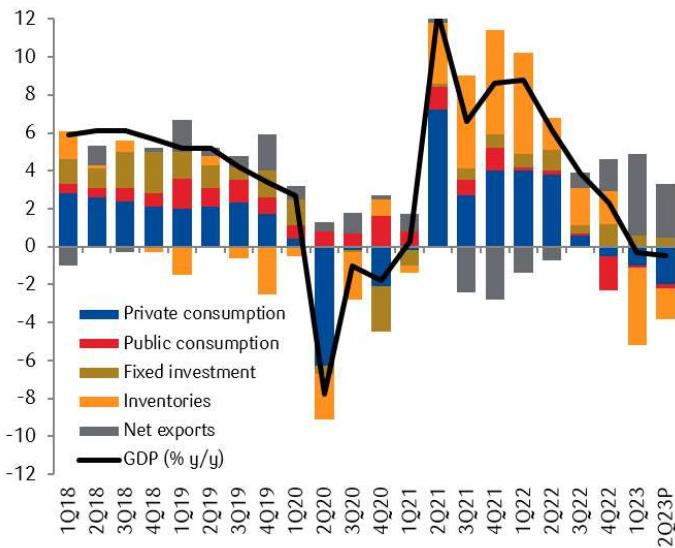
2. EXTERNAL OPERATING CONDITIONS

Macroeconomic environment
Residential real estate market
Residential loan market
Mortgage covered bonds market
Regulatory and legal environment

2.1. MACROECONOMIC ENVIRONMENT

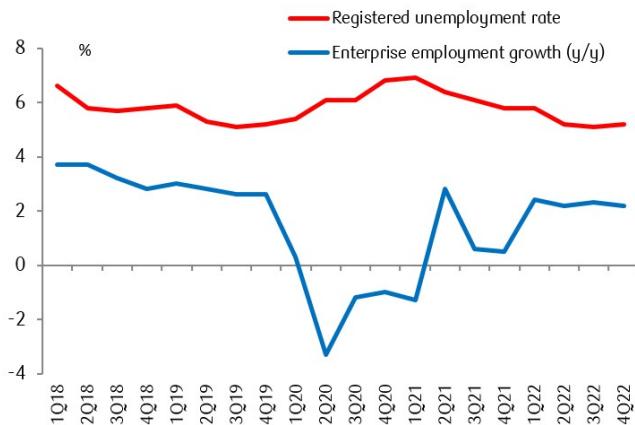
Macroeconomic factors which shaped the national economy in the first half of 2023 are presented below.

THE ECONOMY IS AT ITS LOWEST POINT OF ACTIVITY



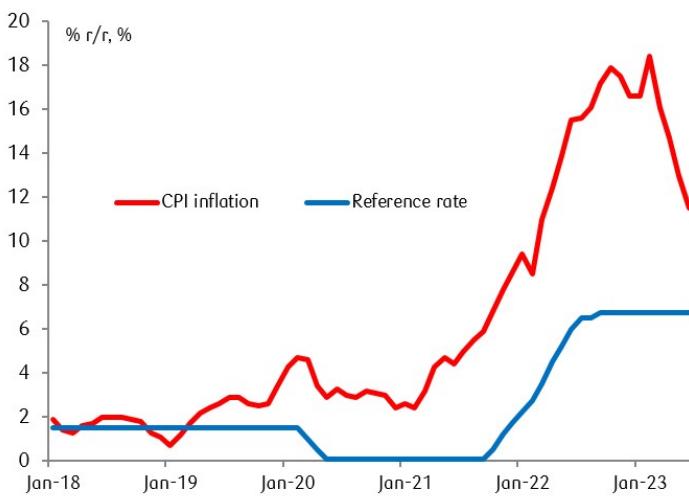
The beginning of 2023 was a period of declining activity in the national economy. In the first quarter GDP was 0.3% lower than in the corresponding period of 2022, and the forecast for the second quarter indicates a further drop. The decrease in real incomes of the population had a negative impact on consumer expenses; as a result, consumer demand has remained in recession for three consecutive quarters. Inventories also had a negative impact on the changes in GDP, as their abnormally high accumulation was one of the drivers of economic growth at the turn of 2021 and 2022. In the first half of the year investments were positively surprising, especially enterprises' capital expenditure on vehicles and plant and equipment, which led to continuing small increases in total investments. Net exports also contributed to growth. This was the outcome of two factors – a drop in imports related to a weakening of consumption and reduced growth in inventories, and the solid performance of the export sector which maintained an increase in sales despite the unfavourable external environment and the decline in global trade. The sudden improvement in the terms-of-trade (a rapid decline in import price dynamics with smaller changes in export prices) was conducive to a rapid reduction in the current account balance, which highlighted the fact that the Polish economy was not dependent on external funding.

LABOUR MARKET IMMUNE TO BAD ECONOMIC CONDITIONS



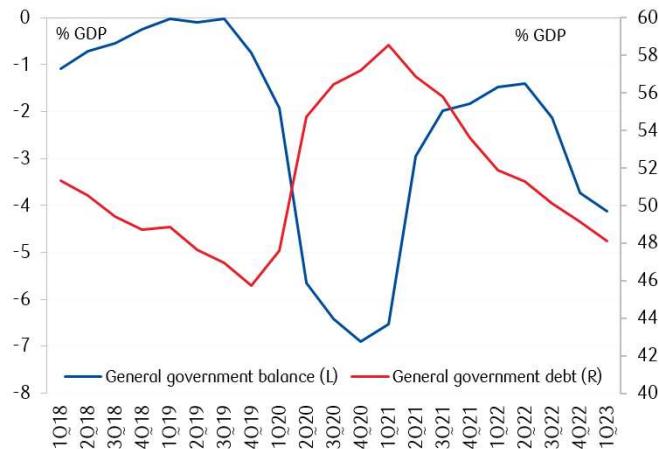
The domestic labour market remains resilient to the economic slow-down. The market adapts to the lower level of economic activity by reducing vacancies and companies' lower recruitment activity, with the unemployment rate at a record low. In June, the rate of registered unemployment was 5.0%, compared with 5.2% in December 2022, and the slight increase observed in the first quarter was of a seasonal nature. The number of registered unemployed was 785 thousand and was the lowest since July 1990. In the first half of the year wages in the enterprise sector increased at a solid, two-digit rate, which however, until the end of May remained below inflation. In June, after 10 months of decline, wages increased in real terms – their nominal growth was 11.9% y/y, whereas inflation was at 11.5% y/y. The renewed growth of wages in real terms, accompanied by good conditions on the labour market and improving consumer sentiments, is the basis for the revival of consumer demand expected in the second half of 2023, which will provide the impetus for the entire economy to return to an upward trajectory.

PROGRESSIVE DECREASE IN INFLATION



In February 2023 the increase in prices of goods and services peaked at the level of 18.4% y/y, after which inflation started to drop rapidly. Within four months CPI fell by nearly 7 p.p. and in June it stood at 11.5% y/y. The normalization of fuel and food prices, and a small decline in base inflation were the reasons for the drop in inflation. In June CPI inflation net of food and energy was 11.1% y/y compared to 12.3% y/y in March 2023. So far disinflationary tendencies are more visible in the prices of goods than in the prices of services. In June PPI inflation dropped to 0.5% y/y from 2.8% y/y in May.

PUBLIC FINANCE FACING CRISIS CHALLENGES



The fiscal deficit (ESA) increased to 4.1% of GDP after the first quarter of 2023 compared with 3.7% of GDP after the fourth quarter of 2022. The public finance sector spending continued to be elevated and included the burden of tackling the energy crisis, support for Ukraine and increased defence expenditure. At the same time, in the first quarter of 2023 we saw an improvement in income. Thanks to maintaining solid nominal economic growth, the ratio of public debt to GDP remains on a downward trajectory.

CYCLE OF INTEREST RATE HIKES

In the first half of 2023 the Monetary Policy Council (MPC) did not change NBP base interest rates. Throughout the first half of the year the MPC did not officially end the cycle of interest rate hikes, under which from October 2021 to September 2022 the NBP reference rate was increased by a total of 665 b.p. The official end of the cycle was announced after the MPC meeting in July 2023. This was accompanied by an announcement of the first decreases in interest rates conditioned by a fall in current inflation below 10% y/y and the prospects of further reductions in price increases.

NBP interest rates:

Interest rate	Q2 2023 [%]
reference	6.75
rediscount of bills of exchange	6.80
discount of bills of exchange	6.85
Lombard	7.25
deposit	6.25

2.2. RESIDENTIAL REAL ESTATE MARKET

SITUATION ON THE RESIDENTIAL REAL ESTATE MARKET IN POLAND

According to RedNet Property Group Sp. z o.o. (RedNet), in the segment of six largest markets⁶ dropped by 46% compared to the previous year. In the first quarter of 2023 a rebound on the market was clearly visible – the volume of apartments sold grew at a rate of almost 30% quarter-to-quarter. According to data from the Jones Lang LaSalle (JLL) Report in the second quarter of 2023 sales amounted to 15.5 thousand apartments, thus confirming a continuation of the sales rebound against the weak 2022 results.

Despite the rebound in sales in the first half of 2023, the volume of new supply remains low. The number of apartments that developers started building in the first half of 2023 (47.9 thousand), published by GUS (Polish

⁶ Warsaw, Kraków, Poznań, Wrocław, Tricity, Łódź

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Statistics) attests to this as it is 33% lower than in the corresponding period of the previous year and only 10% higher compared to the worst result in the second half of 2022.

The first quarter of the current year has already seen a marked reduction in price growth, which on the six largest markets was no more than 5% according to RedNet, and at a similar level of 6% over the year according to the NBP. The price report [rynekpierwotny.pl](#) confirms the stabilization or continuation of the relatively low growth dynamics of apartment prices also in the second quarter of this year in the majority of large cities.

It should be noted that the continuation of the trend of recovery in the demand for apartments, with a simultaneous slowdown in the supply of new apartments on offer may lead to another wave of increases in residential real estate prices in the second half of the year to two-digit numbers on an annual basis, particularly in view of the fact that the weakening inflation may lead to a decrease in interest rates. It was the high interest rates that were the main reason for the deterioration in economic conditions on the real estate market.

SECONDARY MARKET

The secondary market usually reacts with some delay compared with the primary market. In the first quarter of 2023 the growth of transaction prices in the largest agglomerations (Warsaw, Wrocław, Kraków, Poznań, Łódź, Gdańsk, Szczecin) slowed down significantly y/y, while in the case of smaller voivodeship capitals (Białystok, Bydgoszcz, Katowice, Kielce, Olsztyn, Lublin, Opole, Rzeszów, Zielona Góra) prices increased significantly.

The NBP's hedonic index, illustrating changes in the prices of residential real estate of similar characteristics and quality, for a group of seven largest cities (Warsaw, Kraków, Łódź, Wrocław, Poznań, Gdańsk, Gdynia) in the first quarter of 2023 indicates a slow down in price increases y/y on the secondary market.

SUPPLY AND DEMAND ON THE RESIDENTIAL REAL ESTATE MARKET

The conditions on the residential real estate market translated into a decline in activity in the residential construction sector. According to Polish Statistics, the number of applications or consents residential real estate construction in 2022 was 13% lower than in 2021. In the first half of this year the number of applications and permits for residential real estate construction fell by 11% compared with the second half of 2022.

Similar trends were observed with respect to residential real estate whose construction was in progress. Throughout 2022, the drop amounted to -28% y/y, and in the second half of the year -39% y/y. However, in this case the first half of 2023 did not see a worsening of drops as the volume of the residential real estate in progress was 6% higher than in the second half of 2022.

Purchases of residential real estate are financed with mortgage loans and household savings. According to NBP data, the estimated share of cash purchases of apartments on six most liquid primary local markets, in view of the availability of residential loans increased from 51% in the first quarter of 2022 to 82% in the first quarter of 2023.

RESIDENTIAL LOAN MARKET

Based on NBP data, the banks' receivables in respect of residential loans in Poland were PLN 481 billion as at 30 June 2023, down by 6.1% y/y. As at 30 June 2023, the balance of loans in PLN was PLN 392.5 billion (81.6% of the total amounts due to banks in respect of residential loans in Poland) and dropped by 2.9% y/y. The lending activity in the first half of 2023 was limited by high interest rates and regulatory requirements; however, June brought about the first increase in PLN residential loans taken out by private individuals in 13 months (of 0.2% m/m), supported in part by the announcement of the launching of the government's Safe Loan programme.

The total balance of residential loans in relation to Gross Domestic Product estimated by PKO Bank Polski expressed in market prices stood at 14.8% at the end of the second quarter of 2023. This amount was significantly below the average for EU Member States, which was approx. 38% as at the end of 2022. This shows the high further development potential of the residential loan market in Poland.

2.3. MORTGAGE COVERED BONDS MARKET

As at 30 June 2023, 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 2023, the total value of outstanding mortgage covered bonds issued by Polish mortgage banks amounted to PLN 18.2 billion, i.e. PLN 1.4 billion less than at 30 June 2022. As at the end of June 2023, outstanding mortgage covered bonds issued by Polish banks corresponded to 3.8% of the amount of residential loans granted by banks.

PKO Bank Hipoteczny SA is Poland's largest issuer of mortgage covered bonds on the Polish market. The value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA amounted to PLN 9.8 billion as at 30 June 2023, which corresponded to 53.8% of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks.

2.4. REGULATORY AND LEGAL ENVIRONMENT

In the first half of 2023, the following legal and regulatory solutions significantly affecting the operations of PKO Bank Hipoteczny SA came into force:

SOLUTION	IMPACT
MORTGAGE LOANS	
Act of 26 May 2023 on State support in saving for residential purposes	<p>Implementing the provisions for granting residential loans with a right to co-funding loan instalments, called "safe 2% loans". Despite PKO Bank Hipoteczny not currently granting loans under the programme, the act has a significant impact on the mortgage loan market.</p> <p>Restricting the right to assign amounts due under a developer agreement to a third party. The act enforces the need to update contract templates relating to assignments constituting collateral for the loan.</p>
CREDIT RISK	
Resolution No. 242/2023 of the Polish Financial Supervision Authority dated 19 June 2023, amending the resolution on issuing Recommendation S relating to good practices in the management of loan exposures secured with mortgages.	<p>Differentiating the buffer taken into account in the creditworthiness assessment process depending on the lending offered by the bank.</p> <p>Accounting for government programmes – guaranteed residential loan, Safe 2% Loan (mitigation of provisions).</p> <p>Indicating expectations regarding the consideration of models estimating the risk of early repayment of loans.</p> <p>Indicating expectations regarding the information provided to customers on the risks of taking out a mortgage loan.</p> <p>The PFSA expects the banks to adapt their operations to these changes by 1 July 2024.</p>
PERSONNEL ISSUES	
Act of 1 December 2022 on amending the Act on the Labour Law and certain other acts	Implementing the statutory regulation of remote work, the term "occasional remote work" – up to 24 days a year, rights to control the sobriety of employees.
Act of 9 March 2023 on amending the Act on the Labour Law and certain other acts	<p>The Act implements the "Work-Life Balance" Directive.</p> <p>Changes relating to the form of employment, working conditions and termination of employment.</p> <p>Introducing additional rights – carer's leave, Force Majeure leave and extension of parental leave.</p>

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3. FINANCIAL PERFORMANCE AND CAPITAL ADEQUACY

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

3.1. KEY FINANCIAL INDICATORS OF PKO BANK HIPOTECZNY SA

	30.06.2023	31.12.2022	30.06.2022
Total assets (in PLN million)	19,531.9	20,680.5	22,459.8
ROA ⁷	0.6%	-	0.4%
ROE ⁸	8.5%	-	5.0%
Total capital ratio (TCR)	19.5%	18.9%	22.7%
Leverage ratio (LR)	8.0%	7.7%	9.0%
Cost to income ratio (C/I) ⁹	-	-	23.7%

3.2. STATEMENT OF FINANCIAL POSITION OF PKO BANK HIPOTECZNY SA

in PLN million	30.06.2023	31.12.2022	30.06.2022
Cash and balances with the Central Bank	0.2	60.7	0.3
Amounts due from banks	0.1	0.1	4.4
Derivative hedging instruments	76.7	508.1	594.2
Securities	944.0	1,017.4	1,059.8
Loans and advances to customers	18,441.1	18,955.4	20,784.5
Other assets ¹⁰	69.8	138.8	16.6
TOTAL ASSETS	19,531.9	20,680.5	22,459.8

in PLN million	30.06.2023	31.12.2022	30.06.2022
Amounts due to banks	6,281.2	5,635.9	8,408.3
Derivative hedging instruments	203.8	25.7	10.0
Liabilities in respect of mortgage covered bonds issued	9,820.1	12,063.6	9,923.4
Liabilities in respect of bonds issued	1,704.1	1,495.9	2,088.3
Other liabilities and provisions ¹¹	69.3	55.1	91.6

⁷ The ratio expressed as the ratio of the net profit for a given period and the average assets balance as at the beginning and as at the end of the reporting period and the interim monthly periods.

⁸ The ratio calculated by dividing the net profit/(loss) for the given period by the average balance of total equity as at the beginning and as at the end of the reporting period and the interim monthly periods.

⁹ The ratio without accounting for the tax on other financial institutions. The Bank does not present the value of the ratio for 2023 due to the realized financial loss in 2022.

¹⁰ It covers the following items of the statement of financial position: intangible assets, property, plant and equipment, current income tax receivable, deferred tax asset and other assets.

¹¹ It covers the following items of the statement of financial position: amounts due to customers, other liabilities, deferred income tax provision and provisions.

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in PLN million	30.06.2023	31.12.2022	30.06.2022
Equity	1,453.4	1,404.3	1,938.2
TOTAL LIABILITIES AND EQUITY	19,531.9	20,680.5	22,459.8

As at 30 June 2023 total assets of PKO Bank Hipoteczny SA amounted to PLN 19,531.9 million. 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 2023, amounted to PLN 18,441.1 million, of which loans granted by PKO Bank Hipoteczny SA amounted to PLN 9,818.4 million, whereas loans purchased from PKO Bank Polski SA amounted to PLN 8,622.7 million.

As at the end of June 2023, the carrying amount of mortgage covered bonds was PLN 9,820.1 million, which is 50.3% of total assets. This is an 8 p.p. drop compared with the end of 2022, caused by the redemption of mortgage covered bonds maturing in the first half of 2023 and the impact of the EUR/PLN exchange rate on the measurement of EUR-denominated mortgage covered bonds.

As at 30 June 2023, financial liabilities to PKO Bank Polski SA constituted a significant item of the Bank's liabilities and equity. They consisted of liabilities in the form of loans, limited overdraft facilities, liabilities in respect of the mortgage covered bonds and unsecured bonds acquired by PKO Bank Polski SA and other liabilities to PKO Bank Polski SA. Their total balance was PLN 6,501.0 million. Unsecured bonds issued by the Bank also constituted a significant source of funding the Bank's operations. As at 30 June 2023 they amounted to PLN 1,704.1 million, which is a 13.9% increase compared with the end of 2022.

3.3. INCOME STATEMENT OF PKO BANK HIPOTECZNY SA

in PLN million	01.01.2023 – 30.06.2023	01.01.2022 – 30.06.2022	Y/y change (in PLN M)
Net interest income	169.7	165.4	4.3
Net fee and commission income	(1.0)	0.3	(1.3)
Net gain/(loss) on financial instruments measured at fair value through profit or loss	0.0	0.0	0.00
Net foreign exchange gains/(losses)	(4.8)	0.2	(5.0)
Net allowances for expected credit losses	(5.2)	0.2	(5.4)
Net other operating income and expenses	0.1	0.1	0.0
Administrative expenses	(23.3)	(21.7)	(1.6)
Regulatory charges	(22.2)	(31.0)	8.8
Tax on certain financial institutions	(29.6)	(37.0)	7.4
Operating profit	83.7	76.5	7.2
Profit before tax	83.7	76.5	7.2
Corporate income tax	(24.0)	(25.7)	1.7
Net profit	59.7	50.8	8.9

In the first half of 2023, PKO Bank Hipoteczny SA generated a net profit of PLN 59.7 million, up PLN 8.9 million compared with the corresponding period of 2022.

In the period analysed, the Bank earned interest income of PLN 838.3 million. This comprised mainly interest income on residential mortgage loans of PLN 800.4 million and income on debt securities. In the period analysed, the Bank incurred interest expense of PLN 665.5 million. This related mainly to the mortgage covered bonds issued and the costs of hedging transactions. The respective interest expense totalled PLN 383.7 million. The Bank also incurred, among other things, interest expense of PLN 227.0 million on loans and overdraft limits used, and PLN 54.7 million on bonds issued.

The Bank's turnover in the first half of 2023 (understood as the total value of interest income and fee and commission income) amounted to PLN 838.3 million. The realized turnover was generated entirely from the Bank's operations in Poland.

In the first half of 2023 the Bank incurred administrative expenses of PLN 23.3 million. Non-personnel costs of PLN 12.8 million, including costs related to services rendered by PKO Bank Polski SA under an outsourcing agreement of PLN 9.6 million, were a significant component of administrative expenses.

In the first half of 2023, the Bank also incurred regulatory expenses totalling PLN 22.2 million. The main item of such expenses was the contribution to the mandatory resolution fund of the Bank Guarantee Fund of PLN 18.5 million, which is a PLN 9.0 million decrease compared with the corresponding period of 2022.

Tax on certain financial institutions, which amounted to PLN 29.6 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 5.2 million in the first half of 2023, which translated into a credit risk cost ratio of 0.06%. The cost of risk ratio is at a very low level due to maintaining a high level of credit risk control, which translates into the very good quality of the credit portfolio.

PAYMENT OF DIVIDEND

In the first half of 2023, the Bank did not pay out dividend.

THE BANK'S FUNDING STRUCTURE

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

	30.06.2023	31.12.2022
Mortgage covered bonds issued	50.3%	58.3%
Funds from the parent entity	32.2%	26.6%
Bonds issued	8.7%	7.2%
Equity	7.4%	6.8%
Other	1.4%	1.1%
Total	100.0%	100.0%

As at 30 June 2023 and as at 31 December 2022 the Bank had no liabilities in respect of which it would be in contractual default.

IMPACT OF THE ACT ON CROWDFUNDING FOR BUSINESS VENTURES AND ASSISTANCE TO BORROWERS ON THE BANK'S FINANCIAL RESULTS

The Bank adjusts the gross carrying amount of residential loans measured at amortized cost by the so-called statutory loan repayment holidays recognized in the second half of 2022 which were described in detail in the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2022 in Note 4.1. "Loan Repayment Holidays".

By the end of June 2023, 68.9 thousand of the Bank's customers filed applications for suspending repayment of one or more instalments of the mortgage loan, which amounts to 60% of the total number and 72% of the total value of loans which are to be covered by loan repayment holidays. As at 30 June 2023 of the total number of applications for suspension of repayment was 484 thousand (of which 114.8 thousand related to suspensions for the second half of 2023), which is 53% of the maximum number of instalments to be suspended for all entitled customers.

As at 30 June 2023 the Bank assessed the adequacy of the level of loss recognized as a result of the loan repayment holidays in terms of value and adopted the following assumptions:

- the degree of customers' participation in the loan repayment holidays in the second half of 2023 will be similar to the level of use to date - this analysis is based on a classification of customers into four groups;
- for the group of customers who applied for loan repayment holidays in 2022, but at the end of 2022 had not applied for suspending principal and interest instalments for 2023, the effect of remeasurement of interest rates was taken into consideration, calculated based on the change in base rates between the date of recognizing the loss on loan repayment holidays and 31 December 2022;
- the loss on all the realized suspensions of principal and interest instalments in 2022 and in the first half of 2023, and all applications for such suspensions for the second half of 2023 was reduced by the effect of prepayments

observed based on the customer behaviour in the second half of 2022 and in the first half of 2023, and forecast for the second half of 2023. The ratio forecast for the second half of 2023 was designated based on the prepayments made in the first half of 2023 and adjusted prudently due to the observed down trend in prepayments and uncertainty as to the future;

- based on monthly data on the inflow of new applications in 2022 and in the first half of 2023, using the extrapolation function, the application trend for the period to the end of the programme was determined, based on which the potential loss was assessed using interest rates as at 30 June 2023.

The results of the above analysis confirmed the adequacy of the loss resulting from the loan repayment holidays at a level of PLN 667.8 million recognized by the Bank. The Bank will continue monitoring this issue.

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.

At 30 June 2023 and as at 31 December 2022, the own fund requirements in respect of the risk of credit valuation adjustment, settlement and delivery, and market risk were nil, therefore, the total requirement in respect of own funds comprised the requirements for credit and operational risk.

Own funds requirements	30.06.2023	31.12.2022
Credit risk (in PLN millions)	590.4	614.5
Operational risk (in PLN millions)	47.3	47.0
Total own funds requirement (in PLN millions)	637.8	661.5
Core Tier 1 capital ratio (CET1)	19.5%	18.9%
Tier 1 capital ratio 1 (T1)	19.5%	18.9%
Total capital ratio (TCR)	19.5%	18.9%

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

30.06.2023	Gross exposure	Exposure value ¹²	Risk-weighted assets (RWA)	Own funds requirement
Retail exposures ¹³	1,904.5	1,864.7	1,398.5	111.9
Exposures secured by mortgages on real estate	16,614.5	16,568.0	5,798.8	463.9
Exposures to central governments or central banks	990.6	990.6	116.0	9.2
Exposures to institutions	582.1	582.1	-	-
Exposures in default	68.0	41.8	44.0	3.5
Other exposures	23.3	23.3	23.3	1.9
Total	20,183.0	20,070.6	7,380.6	590.4

¹² The value of balance-sheet and the balance-sheet equivalent of liabilities and contingent transactions after accounting for the adjustments for specific credit risk and CCF (Credit Conversion Factor).

¹³ They result from the portion of the exposure which is not fully and completely secured, i.e. which exceeds 80% of MLV or is in a transitory period, i.e. until the collateral is fully set up.

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31.12.2022	Gross exposure	Exposure value ¹⁴	Risk-weighted assets (RWA)	Own funds requirement
Retail exposures ¹⁵	1,864.8	1,834.1	1,375.6	110.1
Exposures secured by mortgages on real estate	17,152.4	17,108.7	5,988.0	479.0
Exposures to central governments or central banks	1,170.8	1,170.7	232.2	18.6
Exposures to institutions	1,417.9	1,417.9	-	-
Exposures in default	61.7	38.1	39.3	3.1
Other exposures	45.9	46.0	45.9	3.7
Total	21,713.5	21,615.5	7,681.0	614.5

CREDIT RISK ADJUSTMENTS

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

The approach applied by the Bank to identifying exposures at risk of impairment and methods for estimating allowances for expected credit losses and provisions for financial liabilities granted are described in Note 40.2 "Impairment of credit exposures" to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2022.

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 42 "Residual risk management" to the financial statements of PKO Bank Hipoteczny SA for the year ended 31 December 2022.

3.5. INTERNAL CAPITAL (PILLAR II)

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

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

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

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

¹⁴ The value of balance-sheet and the balance-sheet equivalent of liabilities and contingent transactions after accounting for the adjustments for specific credit risk and CCF (Credit Conversion Factor).

¹⁵ They result from the portion of the exposure which is not fully and completely secured i.e. which exceeds 80% of MLV or is in a transitory period, i.e. until the security is fully set up.

The internal capital required 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 necessary to cover all the risks material for the Bank.

Structure of internal capital	30.06.2023	31.12.2022
For credit risk	73.0%	76.1%
For liquidity risk	3.5%	2.7%
For operational risk	5.8%	5.8%
For interest rate risk	7.8%	5.1%
For business risk	9.7%	10.1%
For model risk	0.2%	0.2%
Total	100%	100.0%

As at 30 June 2023 the proportion of own funds to the Bank's internal capital was above both the statutory and internal limit.

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:¹⁶

- risk management objectives and strategies;
- own funds for capital adequacy purposes;
- capital buffers;
- financial leverage;
- capital requirements;
- credit risk adjustments;
- credit risk mitigation techniques used;
- the Bank's remuneration policies, pursuant to Recommendation Z;
- the key provisions of the Rules of managing conflicts of interest, pursuant to Recommendation Z;
- the requirements referred to in Article 111a of the Banking Law and Recommendation H;
- operational risk in accordance with Recommendation M;
- credit risk and information on financial assets impairment in accordance with Recommendation R and IFRS 9;
- liquidity risk management system and the liquidity position, in accordance with Recommendation P;
- impact of implementing temporary solutions related to the implementation of International Financial Reporting Standard 9 (IFRS 9) on capital adequacy.

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

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

<https://www.pkobh.pl/o-banku/informacje-wymagane-przepisami-prawa/polityka-informacyjna-w-zakresie-adekwatnosci-kapitalowej-oraz-innych-informacji-podlegajacych-ogloszaniu/>

¹⁶Pursuant to PKO Bank Hipoteczny SA's Capital Adequacy Information Policies and other information to be published, the disclosure requirements pursuant to Recommendation R and Z are binding as of 1 January 2022.

4. BUSINESS OF PKO BANK HIPOTECZNY SA

Sales of residential mortgage loans under the agency model
Acquisition of residential mortgage loan receivables
Structure of the residential mortgage loan portfolio
Mortgage covered bonds
Financial market operations
Bonds – Bond Issue Programme Agreement concluded with PKO Bank Polski SA

4.1. SALES OF RESIDENTIAL MORTGAGE LOANS UNDER THE AGENCY MODEL

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

In the first half of 2023, the Bank granted PLN 346 million worth of mortgage loans.

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

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

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

The Bank offers both variable-interest loans and loans bearing interest based on a five-year fixed base rate. It also allows the option of changing the variable rate to fixed-interest rate in a period of five years.

4.2. ACQUISITION OF RESIDENTIAL MORTGAGE LOAN RECEIVABLES

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

In the first half of 2023, PKO Bank Hipoteczny SA purchased a portfolio of residential mortgage loan receivables with a total value of PLN 325.2 million from PKO Bank Polski SA.

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

CRITERIA	POOLING MODEL
Loan amount/mortgage lending value of the real estate	Max 100%
Legal title to the real estate	Ownership or perpetual usufruct

¹⁷ Where a low down payment insurance policy is used, the Bank approves loans for which this ratio is no higher than 90%.

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Loan collateral	Mortgage recorded as the first in Section IV of the Land and Mortgage Register
Currency	PLN
Days past due or impairment indicators	None
Purpose	Residential

4.3. STRUCTURE OF THE RESIDENTIAL MORTGAGE LOAN PORTFOLIO

PORTFOLIO STRUCTURE BY LTV

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

Gross loans granted to customers at LTV based on market valuation	30.06.2023	31.12.2022
below 50%	85.2%	82.6%
51% - 60%	10.9%	13.8%
61% - 70%	2.3%	2.9%
71% - 80%	1.2%	0.6%
81% - 90%	0.4%	0.1%
over 90%	0.0%	0.0%
Total, gross	100%	100%
Average LTV based on market valuation	36.3%	37.4%

Gross loans granted to customers at LTV based on MLV	30.06.2023	31.12.2022
below 50%	23.1%	21.8%
51% - 60%	13.1%	12.7%
61% - 70%	17.1%	16.8%
71% - 80%	22.1%	22.5%
81% - 90%	21.8%	23.1%
over 90%	2.8%	3.1%
Total, gross	100%	100%
Average LTV based on MLV	64.3%	65.1%

In the first half of 2023, the average LTV based on the market valuation of the loan portfolio dropped by 1.1 p.p. (in the first half of 2022 it dropped by 3.6 p.p.), which is the effect of the depreciation of the portfolio accompanied by further growth in the market values of the real estate constituting the collateral for the loans granted by the Bank. With respect to LTV based on MLV the drop is a little smaller (-0.8 p.p.) and results exclusively from the depreciation of the portfolio. MLV determined as at the moment of granting the loans did not require updating – in the Bank's opinion it is at a safe level, lower than the market value, and meets the requirements of the Rules for Setting the MLV by PKO Bank Hipoteczny SA.

INTEREST ON LOANS

The Bank offers loans bearing an interest rate based on WIBOR 6M and a periodically fixed interest rate. In the past, the Bank also offered loans based on WIBOR 3M.

The base reference rates used for the Bank's loans are the WIBOR 6M, WIBOR 3M, and a fixed base rate, which in average amounted to 6.98%, 6.92% and 6.35% respectively in the first half of 2023.

¹⁸ The current LTV level is determined according to the value of the real estate from the moment of granting the loan updated using statistical methods based on an analysis of the real estate market.

4.4. MORTGAGE COVERED BONDS

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

ISSUES OF MORTGAGE COVERED BONDS UNDER THE DOMESTIC PROGRAMME OF COVERED BOND ISSUANCE

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. These issues were conducted under the Domestic Issues of Mortgage Covered Bond Programme of PKO Bank Hipoteczny SA.

The total value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA for the domestic market (at the nominal value) was PLN 1,990 million as at 30 June 2023.

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

Currently, the Bank conducts issue activities with respect to mortgage covered bonds exclusively under the International Issues of Mortgage Covered Bond Programme, and its activities under the Domestic Issues of Mortgage Covered Bond Programme has been discontinued.

In the first half of 2023, PKO Bank Hipoteczny SA redeemed one series of mortgage covered bonds with a total nominal value of PLN 500 million.

Chart: Purchasers of domestic issues of PKO Bank Hipoteczny SA's covered bonds in the years 2015-2023

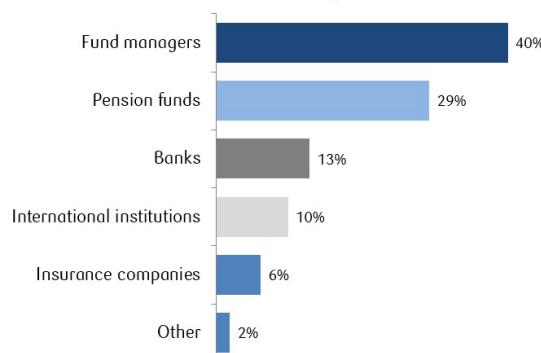
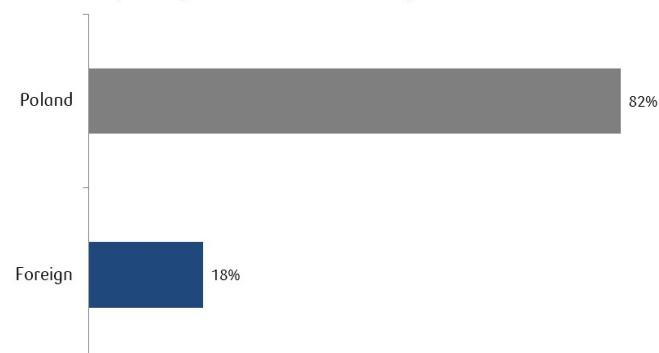


Chart: Geographical distribution of domestic issues of PKO Bank Hipoteczny SA's covered bonds in the years 2015-2023



PLN-denominated mortgage covered bonds of PKO Bank Hipoteczny SA issued and outstanding until 30 June 2023:

Series	Mortgage covered bond number (ISIN)	Issue date	Redemption date	Series value (in PLN million)	Interest rate	Currency	Rating of the issue	Listing
7	PLPKOHP00074	27.04.2018	25.04.2024	700	WIBOR3M +0.49%	PLN	Aa1	Bondspot, WSE parallel regulated market
9	PLPKOHP00090	27.07.2018	25.07.2025	500	WIBOR3M +0.62%	PLN	Aa1	Bondspot, WSE parallel regulated market
10	PLPKOHP00108	24.08.2018	24.08.2028	60	3.4875%	PLN	Aa1	Bondspot, WSE parallel regulated market
11	PLPKOHP00116	26.10.2018	28.04.2025	230	WIBOR3M +0.66%	PLN	Aa1	Bondspot, WSE parallel regulated market

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Series	Mortgage covered bond number (ISIN)	Issue date	Redemption date	Series value (in PLN million)	Interest rate	Currency	Rating of the issue	Listing
12	PLPKOHP00132	10.06.2019	30.09.2024	250	WIBOR3M +0.60%	PLN	Aa1	Bondspot, WSE parallel regulated market
13	PLPKOHP00199	02.12.2019	02.12.2024	250	WIBOR3M +0.51%	PLN	Aa1	Bondspot, WSE parallel regulated market

ISSUES OF MORTGAGE COVERED BONDS UNDER THE INTERNATIONAL PROGRAMME OF COVERED BOND ISSUANCE

From the beginning of its operations, PKO Bank Hipoteczny SA has issued ten series of mortgage covered bonds under the International Issues of Mortgage Covered Bond Programme, including eight issues denominated in EUR and two denominated in PLN.

Chart: Purchasers of EUR-denominated issues of PKO Bank Hipoteczny SA's covered bonds in the years 2016-2023

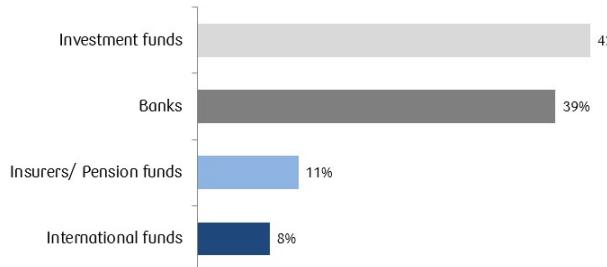


Chart: Geographical distribution of purchasers of EUR-denominated covered bonds of PKO Bank Hipoteczny SA's in the years 2016-2023

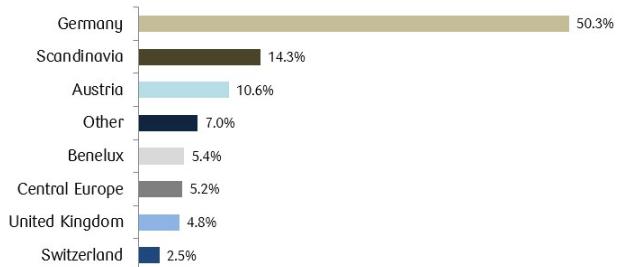


Chart: Purchasers of PKO Bank Hipoteczny SA's PLN covered bonds issues in 2023

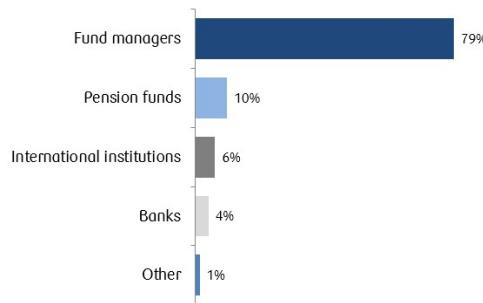


Chart: Geographical distribution of PLN covered bonds of PKO Bank Hipoteczny SA's in 2023



The total value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA for the international market (at the nominal value), denominated in EUR and PLN was EUR 1,525 million and PLN 1,000 million as at 30 June 2023 respectively, which totals PLN 7,786.7 million.

All series of international mortgage covered bonds issued are traded on the Luxembourg Stock Exchange and in addition series 4, 6, 8 and, 9 on the parallel regulated market of the Warsaw Stock Exchange. They are also accepted in repo transactions by the European Central Bank. Moreover, the Bank has applied to admit sales of series 10 to trading on the Warsaw Stock Exchange.

In the first half of 2023, PKO Bank Hipoteczny SA issued two series of PLN-denominated mortgage covered bonds with a total nominal value of PLN 1,000 million.

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In the first half of 2023, PKO Bank Hipoteczny SA redeemed one series of EUR-denominated mortgage covered bonds with a total nominal value of EUR 500 million.

EUR-denominated mortgage covered bonds of PKO Bank Hipoteczny SA issued and outstanding under the International Issues of Mortgage Covered Bond Programme until 30 June 2023:

Series	Mortgage covered bond number (ISIN)	Issue date	Redemption date	Series value (million)	Coupon	Currency	Rating of the issue	Listing
2	XS1559882821	02.02.2017	02.02.2024	25	0.82%	EUR	Aa1	LuxSE
4	XS1690669574	27.09.2017	27.08.2024	500	0.75%	EUR	Aa1	LuxSE, WSE parallel regulated market
6	XS1795407979	22.03.2018	24.01.2024	500	0.75%	EUR	Aa1	LuxSE, WSE parallel regulated market
8	XS2495085784	04.07.2022	25.06.2025	500	2.125%	EUR	Aa1	LuxSE, WSE parallel regulated market
9	XS2583335943	09.02.2023	09.02.2026	500	WIBOR 3M + 0.85%	PLN	Aa1	LuxSE and parallel WSE market
10	XS2641919639	28.06.2023	29.06.2026	500	WIBOR 3M + 0.78%	PLN	Aa1	LuxSE ¹⁹

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

PREMIUM LABEL

Pursuant to Article 7d of the Polish Covered Bonds and Mortgage Banks Act of 29 August 1997, mortgage covered bonds may be labelled as European Covered Bonds or European Covered Bonds (premium). Mortgage covered bonds of PKO Bank Hipoteczny are labelled as European Covered Bonds (premium). The "premium" label allows easy and unequivocal identification of whether the mortgage covered bonds meet the requirements of Article 129 of the CRR, which is to facilitate assessment of their quality by investors and therefore increase their attractiveness as an investment instrument both in the EU and in other countries.

The list of mortgage covered bonds issued on which European Mortgage Bonds and European Mortgage Bonds (premium) are included is on the PFSA website:

https://www.knf.gov.pl/podmioty/Podmioty_sektora_bankowego/banki_hipoteczne_wykaz_emisji_listow_zastawnych

THE COVERED BOND LABEL

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

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

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

ENERGY EFFICIENT MORTGAGE LABEL

The Energy Efficient Mortgage Label was created by the European Mortgage Federation – European Bond Council (EMF-ECBC) as a clear and transparent quality label for consumers, lenders and investors, aimed at identifying energy-efficient residential mortgage loans.

¹⁹ The first day of listing on the WSE will be on 27 July 2023.

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PKO Bank Hipoteczny was the first Polish bank to join the Energy Efficient Mortgage Label in 2021. This initiative is aimed at supporting the Green Deal and climate neutrality by 2050, and at adapting the product portfolio to regulatory changes such as the new EU taxonomy.

The Bank's details on the website of The Energy Efficient Mortgage Label are available at:

<https://www.energy-efficient-mortgage-label.org/issuers/directory>

GREEN COVERED BONDS

In 2019, PKO Bank Hipoteczny SA for the first time published the Green Covered Bond Framework – GCBF. In June 2022 the GCBF was published by the Bank in an updated version, in connection with the planned issue of Green Covered Bonds. The GCBF specifies, among other things, the principles for selecting assets to secure the Green Covered Bond issues. Green issues by PKO Bank Hipoteczny SA are secured with mortgages that meet the highest energy efficiency and CO2 emissions standards.

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

In June 2019 and in June 2022 PKO Bank Hipoteczny SA obtained a second party opinion for its Green Covered Bond Framework from Sustainalytics, a specialized and certified international institution. PKO Bank Hipoteczny SA's Green Covered Bonds are certified by the Climate Bond Initiative (CBI – the latest post-issuance certification was in May 2023. The CBI certificate is awarded to bonds and mortgage covered bonds which meet the highest standards with regard to having a positive impact on the environment.

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

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

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

4.5. FINANCIAL MARKET OPERATIONS

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

For the purpose of funding the granting of residential loans and the purchase of receivables for residential loans granted by PKO Bank Polski SA, PKO Bank Hipoteczny SA issues mortgage covered bonds and unsecured bonds, utilizes credit lines and assumes liabilities for purchased receivables.

In the Management Board's opinion, as at 30 June 2023, there were no indicators of a risk of late payment of the liabilities incurred by the Bank. As at 30 June 2023, the Bank complied with all internal and regulatory liquidity limits. Details of the levels of the Bank's liquidity limits are provided in Note 33 "Liquidity risk management" to the financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2023.

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 the court, the CIRS transactions will be automatically extended by 12 months on the terms and conditions set on the transaction date. 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 under which it 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. BONDS – BOND ISSUE PROGRAMME AGREEMENT CONCLUDED WITH PKO BANK POLSKI SA

On 30 September 2015, PKO Bank Hipoteczny SA concluded an agreement for an Own Bonds Issue Programme with PKO Bank Polski SA, based on which zero coupon bonds, floating coupon bonds and fixed coupon bonds with maximum tenors up to 36 months may be issued.

In the first half of 2023, the Bank issued bonds with a total nominal value of PLN 1,539.0 million. At the same time, it redeemed bonds with a total nominal value of PLN 1,319.5 million. The balance of bonds issued under the Programme was PLN 1,739.0 million as at 30 June 2023. The Bank intends to continue to seek funding under this Programme.



5. INTERNAL OPERATING CONDITIONS

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

5.1. LENDING PROCESS AND COOPERATION WITH PKO BANK POLSKI SA

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

- agency model;
- pooling model.

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

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

5.2. INTERNAL GOVERNANCE

An effective and transparent internal governance system is operative in the Bank, as specified in PKO Bank Hipoteczny SA's Articles of Association and the adopted internal regulations, which comprises:

- the Bank's management system;
- the Bank's organization; and
- operating principles, rights, duties and responsibilities, and mutual relationships between the Bank's particular authorities and business units, including the Supervisory Board, Management Board and key employees.

The key elements of internal governance, its goals and relationships between them and the basic principles of the Bank's organization are defined in the Bank's Management Strategy.

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

The Bank conducts its activities in a responsible manner, taking into consideration the principles of internal governance, guided by the need to take the highest diligence, professionalism and ethics. The Bank discharges its duties under the binding legal regulations, complies with the requirements for regulated institutions imposed by the Polish Financial Supervision Authority in the form of recommendations and good practices addressed to the banking sector, the Corporate Governance Framework for supervised institutions, and guidelines specified by the European Banking Authority adopted in the Polish supervisory practice in the scope relating to the Bank's operations and the adopted business model, in consideration of the scale, specificity and nature of the Bank's operations. The above rules support the Bank in its endeavours to reinforce operating transparency and maintain the safety of its operations.

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

The Bank's Supervisory Board oversees the implementation and functioning of the internal governance and assesses its adequacy and effectiveness. The assessment takes into account in particular all the elements comprising the internal governance and – should they occur – material changes in internal and external factors which may have an impact on the Bank's operations.

Pursuant to Recommendation Z of the PFSA, the Bank's Management Board analysed the results of the periodical reviews and evaluations of particular areas comprising the internal governance functioning within the Bank within the scope of the year 2022. The internal governance was evaluated based on a set of periodic reports prepared under the Bank's Management Information System. The results of the analysis were summarized in the "Report on the assessment of the functioning of internal governance in PKO Bank Hipoteczny SA for the year 2022". No oversights or non-compliance with the legal regulations and regulatory requirements were noted with respect to the Bank's internal governance. Particular assessments of the internal governance components indicate the adequate and effective application of internal governance principles, which allows the Management Board to recommend a positive opinion on the assessment of the Bank's internal governance to the Supervisory Board.

Taking into account the recommendation of the Management Board and the results of periodical reviews and evaluations of particular fields comprising the Bank's internal governance disclosed in the comprehensive "Report on the assessment of the functioning of internal governance in PKO Bank Hipoteczny SA for the year 2022", the Supervisory Board assessed the internal governance implemented in the Bank as satisfactory, which means that it is adequate to the business model adopted by the Bank and functions effectively with respect to its particular components.

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 risk management policy;
- compliance of the Bank's operations with the generally applicable laws, internal regulations and market standards adopted by the Bank, taking into account regulatory recommendations.

The Bank's internal control system includes:

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

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

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



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

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

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

Reporting under the internal control system and actions taken to enhance its functioning showed that in the first half of 2023 the internal control system in PKO Bank Hipoteczny SA was effective and commensurate with the business model and the scale of the Bank's operations.

5.4. RISK MANAGEMENT

The risk management process is a key process in PKO Bank Hipoteczny SA. Its purpose is to ensure the Bank's financial stability, protect the values and safety of the mortgage covered bonds issued and to ensure that the funds derived from the issue of bonds and the Bank's other funding sources are secure by striving to maintain the risk level within the adopted tolerance level. The purpose of the risk management system is also to ensure proper and possibly the most complete information about the risk taken in decision-making, and effective placement of risk management in the Bank's organizational culture. The assumed level of risk plays an important role in the planning and decision-making processes.

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

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

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

MATERIAL RISKS	<ul style="list-style-type: none">• Credit risk• Liquidity risk including funding risk• Interest rate risk• Model risk• Business risk, including macroeconomic risk• Operational risk
MONITORED RISKS	<ul style="list-style-type: none">• Concentration risk• Residual risk• Currency risk• Derivatives risk• Compliance risk• Reputation risk• Capital adequacy risk, including excessive leverage risk

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 2022, in connection with introducing the so-called loan repayment holidays, the strategic limit for the C/I ratio was exceeded. This exceeding of the strategic limit was caused by a one off event resulting directly from the provisions of the Act and has no negative impact on the Bank's further ability to generate profits. As at 30 June 2023 the C/I ratio still exceeded the strategic limit. In the first half of 2023, as well as during the whole period of the Bank's activities, none of the other ratios 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 2022, in the chapter "Objectives and principles of risk management". These financial statements also provide important information on the level of financial risk in the Bank's operations, together with the methods of hedging significant types of planned transactions for which hedge accounting is applied.

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 Covered 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 by the Polish Financial Supervision Authority. The Rules take into account the provisions of Recommendation F concerning

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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.

MLV 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. MLV 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 of property appraisers.

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

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

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

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

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 manner of maintaining the cover pool is governed by:

- the Polish Act on Covered Bonds and Mortgage Banks of 29 August 1997 (Journal of Laws of 2003, No 99, item 581, as amended) (hereinafter: the "Act")

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

- invested in securities issued or guaranteed by the National Bank of Poland, the European Central Bank, governments and central banks of members of the European Union and/or the Organization for Economic Cooperation and Development, excluding countries that are restructuring or have restructured their foreign debt in the past five years;
- deposited with the National Bank of Poland;
- deposited in domestic banks or the credit institution referred to in Article 18.3(3) of the Act.

The nominal value of loans entered in the Bank's cover pool representing collateral for the mortgage covered bonds issued totalled PLN 17,526.1 million at 30 June 2023. The nominal value of the over-collateralization in the form of securities issued by the State Treasury, denominated in PLN, stood at PLN 285 million. As at 31 December 2022 it amounted to PLN 18,560.2 million and PLN 285 million respectively. The Bank's mortgage bonds cover pool also included CIRS hedging foreign exchange risk and interest rate risk of the mortgage covered bonds denominated in EUR and IRS transactions hedging the interest rate risk of fixed rate mortgage covered bonds issued in PLN.

In the first half of 2023 and in the previous years the cover pool did not include asset-backed securities (ABS), which do not meet the requirements specified in paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast).

The following table presents basic data on the cover pool as at 30 June 2023 and 31 December 2022:

	30.06.2023	31.12.2022
Total cover pool, including (in PLN million):	17,811.05	18,845.2
<i>loans secured by mortgages (in PLN million)</i>	17,526.1	18,560.2
<i>other assets²⁰(in PLN million)</i>	285.0	285.0
Liquidity buffer ²¹ (in PLN million)	226.9	268.1
Nominal value of hedging transactions ²² (in PLN million)	6,841.78	9,551.2
Number of loans	102,497	107,171
Average loan value (in PLN thousand)	171.0	173.2
Average weighted time since loan issuance (seasoning) (months)	79.7	74.8
Average maturity (months)	242.3	245.1
Average LtV (loan amount to market value) (%)	35.5	36.9
Average LtMLV (loan to MLV) (%)	64.1	64.8
Over-collateralization ²³ (%)	83.1	62.8

²⁰ Article 18.3 of the Act on Covered Bonds and Mortgage Banks.

²¹ Article 18.3a of the Act on Covered Bonds and Mortgage Banks.

²² The nominal value of a hedging transaction corresponds to the issue price of a mortgage covered bond.

²³ In consideration of the net value of hedging transactions and net of NPL (Non-performing loans).

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 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, and the functions are again held by the same persons:

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

5.8. STATUTORY LIMITS

Acting under the Act on 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.

On 8 July 2022 the amended Act on Covered Bonds and Mortgage Banks came into force. By that date the Bank made necessary amendments to its internal regulations to ensure compliance with the amended Act.

The statutory limits and the level to which they have been met as at 30 June 2023 and 31 December 2022 were as follows:

Limit	Legal basis	Limit level	Actual level	
			30.06.2023	31.12.2022
Value of funds received from the issue of mortgage bonds designated for refinancing loans secured by mortgages or receivables on such loans acquired from other banks, in proportion to 80% of the mortgage lending value of particular residential properties that constitute the collateral	Article 14	≤100%	53.8%	63.7%
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%
Total value of loans and advances taken out and bonds issued, in proportion to the Bank's own funds	Article 15.2	≤1000%	514.4%	471.6%
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 mortgages	Article 15.3	≤100%	43.4%	37.9%
Total nominal value of mortgage covered bonds outstanding, in proportion to the Bank's own funds and general risk provision	Article 17	≤4000%	628.6%	791.3%
Ratio of nominal amounts due secured with mortgages and amounts of the Bank's additional rights and funds entered to the cover pool, which constitute the basis for issuing mortgage covered bonds to the total nominal value of the mortgage covered bonds in circulation (including hedging instruments)	Article 18.1	≥105%	183.1%	162.8%
Ratio of nominal amounts due secured with mortgages, which constitute the basis for issuing mortgage covered bonds to the total nominal value of the mortgage covered bonds in circulation	Article 18.1	≥85%	179.3%	154.8%

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Limit	Legal basis	Limit level	Actual level	
			30.06.2023	31.12.2022
Ratio of interest expense on mortgage covered bonds in circulation (overnight interest as at the date of account transfer) to interest income on mortgage-secured amounts due and amounts of the Bank's additional rights and funds entered to the cover pool (overnight interest as at the date of transfer of the account), with the exception of assets in default within the meaning of Article 18.2a of the Act	Article 18.2	≤100%	33.5% ²⁴	30.2% ²⁴
Ratio of the Bank's funds constituting the excess referred to in Article 18.3a and c of the Act to the maximum cumulative outflows of net liquidity over the following 180 days. Outflow of net liquidity constitutes outflows of payments maturing on the given payment date including payments of the nominal value of mortgage covered bonds plus interest and payments with respect to derivative instruments under the mortgage covered bonds programme, after deducting inflows of payments from assets securing the mortgage covered bonds maturing on the same date. To calculate the amount of payment of the nominal value of a mortgage covered bond, the period to maturity of the mortgage covered bonds extended by 12 months is used	Article 18.3a, 3aa, 3b and 3d	≥100%	4,812.7%	5,541.3%
Ratio of the value of amounts due secured by mortgages set up during a construction process to the total value of amounts due in respect of mortgage covered bonds constituting the basis for issuing mortgage covered bonds	Article 23.1 sentence 1	≤10%	1.7%	1.6%
Ratio of amounts due secured with mortgages set up on real estate earmarked for development, in accordance with the local zoning plan to the value of amounts due secured with mortgages set up during the performance of the construction projects, constituting the basis for issuing mortgage covered bonds	Article 23.1 sentence 2	≤10%	0.0%	0.0%

The Bank obtained positive results of the liquidity tests and coverage balance tests conducted as at 30 June 2023 and at the end of 2022.

²⁴ Calculation of overnight interest on amounts due secured with mortgage on the basis of average interest flow in a 12-month horizon. In the calculation based on interest for a given day the level of limit used was 35.0% as at 30 June 2023 and 69.3% as at 31 December 2022 respectively.

6. ORGANIZATION AND GOVERNING BODIES OF PKO BANK HIPOTECZNY SA

Qualified staff

Organizational structure of PKO Bank Hipoteczny SA

Competences of the governing bodies and committees of PKO Bank Hipoteczny SA

The Management Board of PKO Bank Hipoteczny SA

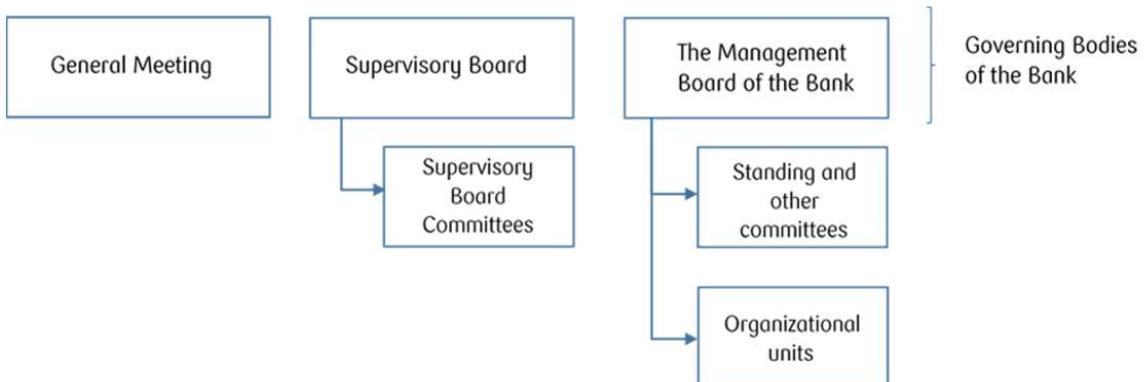
The Supervisory Board of PKO Bank Hipoteczny SA

6.1. QUALIFIED STAFF

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

6.2. ORGANIZATIONAL STRUCTURE OF PKO BANK HIPOTECZNY SA

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



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

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

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



- assessing whether the remuneration policy used by the Bank contributes to the development and safety of the Bank's operations;
- granting consent to manage intangible fixed assets, property, plant and equipment, including making contributions to a company or cooperative if the market value of the assets exceeds 5% of total assets determined on the basis of the latest approved financial statements, and offering these assets for use to another entity, for a period longer than 180 days in a calendar year, based on a legal transaction, if the market value of the subject matter of the legal transaction exceeds 5% of total assets;
- granting consent to purchasing property, plant and equipment with a value exceeding PLN 100,000,000 or 5% of total assets determined on the basis of the latest approved financial statements;
- assessing the adequacy of internal regulations relating to the functioning of the Supervisory Board and assessing the effectiveness of the operations of the Supervisory Board.

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

- approving the Bank's annual financial plan and long-term development plans (in particular the Bank's strategy);
- approving the compliance policies of the Bank;
- approving the Bank's management strategy, the risk management strategy, including the general level of risk at the Bank, the policy for estimating internal capital and capital management and reviewing the internal capital assessment strategies and procedures and capital management procedures;
- approving the policies for creating and changing the Bank's products;
- approving the audit charter, the internal audit function's strategy, the annual and long-term internal audit plans and the principles for cooperation with the internal audit function at PKO Bank Polski SA and the statutory auditor;
- approving and periodically reviewing the remuneration policy concerning persons whose professional activities significantly affect the Bank's risk profile;
- approving the operating principles of internal controls, the criteria for assessing the adequacy and effectiveness of the internal control system and the principles for classifying irregularities discovered by the internal controls;
- approving the Management Board regulations;
- approving the Regulations for Setting the Mortgage Lending Value of real estate, which take effect after the approval by the PFSA;
- affirming the Code of Ethics and the Rules for the Management of Conflicts of Interest;
- approving the framework organizational structure of the Bank, adjusted to the scale and profile of the risk taken on by the Bank;
- approving and reviewing the performance of the cooperation agreements concluded with PKO Bank Polski SA;
- adopting the Supervisory Board Rules;
- appointing and dismissing individual members of the Management Board, including specifying the detailed principles and procedures of conducting qualification procedures for Management Board members;
- for important reasons, suspending particular or all of the members of the Management Board in their functions and delegating members of the Supervisory Board to temporarily perform the functions of the members of the Management Board who were suspended, have resigned or cannot perform their functions for other reasons, for a period of no longer than three months;
- giving consent to a member of the Management Board to conduct competitive activities or participate in a competitive company as a partner in a civil law partnership or general partnership, or as a member of the authorities of a commercial company, or to participate in another competitive legal person or member of its authorities;
- giving consent to creating and winding up the Bank's branches and other business units of the Bank in Poland and abroad, granting prior permission to the Management Board to acquire, encumber or sell real estate, interest in real estate or the right of perpetual usufruct therein; the permit is not required if the acquisition of the real estate, interest in the real estate or its perpetual usufruct being sold is conducted under executory, bankruptcy, composition proceedings or another type of arrangement with the Bank's debtor;

- giving opinions on entertainment expenses and expenses on legal, marketing, PR and social communication, and management advisory services;
- giving consent for the Bank to conclude a contract and for amending a contract concluded by the Bank for legal, marketing, public relations and management advisory services, if the amount of the total remuneration stipulated with respect to the provision of such services in the given contract or in other contracts concluded with the same entity exceeds PLN 500,000 net during one year and in which the maximum remuneration is not defined;
- granting consent to purchasing property, plant and equipment with a value exceeding PLN 20 000 or 0.1% of total assets determined on the basis of the latest approved financial statements;
- giving consent for the conclusion of a loan forgiveness agreement or another agreement with a similar effect exceeding PLN 50,000 or 0.1% of the value of total assets determined based on the latest approved financial statements;
- providing opinions on the use of good practices;
- representing the Bank in agreements with members of the Management Board;
- approving the policy and procedures for selecting an audit firm responsible for auditing the Bank's financial statements and the policy for providing permitted non-audit services by the audit firm performing the audit, its related entities and members of its network;
- selecting an audit firm to conduct an audit or review of the Bank's financial statements;
- assessing the Directors' Report on the Bank's activities and the financial statements for the previous financial year in terms of their consistency with the books of account and documents, and the status quo, and the proposals of the Management Board concerning the distribution of profit or the offsetting of losses and presenting a written annual report on the results of these assessments to the General Shareholders' Meeting;
- assessing the adequacy and effectiveness of the internal control system operating in the Bank, including the control function, the compliance unit and the internal audit units, as well as assessing the adequacy and effectiveness of the risk management system;
- assessing the effectiveness of managing the compliance risk by the Bank;
- assessing the adequacy and effectiveness of the whistleblowing procedure with respect to violations of the law and of the procedures and ethical standards in force at the Bank;
- supervising the implementation of the management system and assessing the adequacy and effectiveness of the system;
- applying to the PFSA for consent to appoint two members of the Management Board, including the President of the Management Board and the member of the Bank's Management Board responsible for managing risks material to the Bank's operations, and to entrust the function of the member of the Management Board responsible for supervising the management of risks material to the Bank's operations to an appointed member of the Management Board;
- informing the PFSA about including on the agenda of a Supervisory Board meeting items concerning: (i) dismissing the President of the Management Board, (ii) dismissing a member of the Management Board supervising material risk management or entrusting his/her duties to another member of the Management Board;
- applying to the PFSA for consent to the appointment of a Bank cover pool monitor and deputy cover pool monitor;
- granting consent to appointing and removing the person managing the compliance and internal audit unit;
- granting consent to changing the registered office or location (address) of the Bank;
- assessing the functioning of the Bank's remuneration policy and submitting relevant reports to the General Shareholders' Meeting;
- assessing the application of the Principles of Corporate Governance for Supervised Institutions by the Bank.

In the first half of 2023, the **Supervisory Board committees** which operated in the Bank had, in particular, the following competences:

AUDIT AND FINANCE

COMMITTEE

- monitoring and expressing periodic opinions:
on (i) the adequacy and effectiveness of the risk management system and internal audit, including financial reporting; (ii) the effectiveness of the Bank's compliance risk management and the adequacy of the compliance unit; (iii) the application of the Corporate Governance Principles for Supervised Institutions and implementation and application of internal governance, and its adequacy and effectiveness; (iv) the adequacy and effectiveness of the whistleblowing procedure and the ethical procedures and standards in force at the Bank, using the information obtained from the Bank, the Risk Committee, independent statutory auditor and from other sources;
- giving opinions on the proposed annual and tri-annual internal audit plans;
- giving opinions on Management Board information relating to the operation of the internal control system, the manner of ensuring independence of the internal audit and the compliance units, and ensuring funds for the purpose of performing tasks and improving qualifications and skills of the units' staff;
- monitoring the financial reporting process including the review of the Bank's interim and annual financial statements, and expressing opinions on them;
- monitoring financial audit proceedings, in particular the audits performed by external audit firms, in consideration of all the conclusions and determinations of the Audit Supervision Commission following from the inspection of the audit firm;
- controlling and monitoring the independence of the statutory auditor and the audit firm, in particular when other, non-audit services are provided to the Bank by the audit firm;
- obtaining a representation confirming the independence of the audit firm and of the auditors performing the audit of the Bank's financial statements;
- developing a policy for selecting an audit firm to conduct the audit and providing the Supervisory Board with recommendations as to the policy adopted;
- developing a procedure for selecting the audit firm to conduct an audit and providing the Supervisory Board with recommendations as to the procedure adopted;
- developing a policy for providing permitted non-audit services by the audit firm which conducts the audit, its related entities, and by a member of the audit firm's network, and presenting recommendations on adopting the policy to the Supervisory Board;
- providing the Supervisory Board with recommendations as to the appointment of the audit firm to conduct the audit of the Bank's financial statements;
- giving consent for the provision of permitted non-audit services by the auditor, the audit firm which conducts the audit, and in the event that the auditor or audit firm are part of a network – for every member of such a network;
- assessing the reasons for terminating a contract with the audit firm conducting the audit;
- agreeing the policies for conducting audit activities by the audit firm performing the audit, in consideration of the proposed audit plan;
- informing the Supervisory Board of the audit results and explaining how the audit contributed to the fairness of the Bank's financial reporting and what was the role of the Committee in the audit process;
- analysing the effectiveness of functioning of the internal controls and credit risk management system with respect to the correct determination of the allowances for expected credit losses;
- assuring compliance with all the requirements relating to the independence of a statutory auditor by external audit firms participating in the development of the IFRS 9 models and the processes of estimating allowances for expected credit losses;

- submitting to the Management and Supervisory Boards an additional audit report referred to in Article 11 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014;
- submitting recommendations aimed at ensuring fairness of the Bank's financial reporting to the Supervisory Board;
- giving opinions on the Bank's strategic and financial plans;
- giving opinions on Management Board resolutions with respect to the internal control system, the approval of which is the responsibility of the Supervisory Board;
- analysing information and periodic reports in the area of particular internal control components;
- meeting with the manager of the finance and accounting function at least once a year;
- meeting with the manager of the internal audit unit and the manager of the compliance unit at least once a year – without the participation of members of the Bank's Management Board;
- giving opinions on appointing and dismissing, as well as on the remuneration of the manager of the internal audit unit and of the compliance unit.

RISK COMMITTEE

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

**REMUNERATION AND
NOMINATION
COMMITTEE**

- annually assessing the structure, size, composition and effectiveness of the Management Board's functioning, and recommending potential changes to the Supervisory Board;

- annually assessing the knowledge, competences and experience of the Management Board as a whole, and of particular members of the Board, and informing the Management Board of the results of the assessment;
- periodically reviewing the Policy on assessing the appropriateness of candidates for members of the Management Board and key employees, and presenting respective recommendations to the Management Board;
- recommending candidates for members of the Management Board and the scope of their responsibilities;
- 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;
- supporting the Supervisory Board in the process of giving opinions on the functioning of the Bank's remuneration policy and respective reporting to the General Shareholders' Meeting;
- evaluating and monitoring the variable remuneration components of individuals whose activities have a significant impact on the Bank's risk profile, second-level risk management, the compliance unit manager and the internal audit unit manager;
- giving opinions on the amount of fixed remuneration for the manager of the internal audit unit and of the compliance unit;
- giving opinions on the detailed rules and procedures for recruiting members of the Bank's Management Board and assessing the suitability of members of the Bank's Management Board;
- preparing and carrying out, with potential support from external independent entities, the programme for raising the qualifications of members of the Supervisory Board.

**COMMERCIAL
COMMITTEE**

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

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 prudential and stable management of the Bank;
- determining the annual financial plan of the Bank, including the terms and conditions for its performance;
- setting the Bank's annual financial plan, including the conditions for its execution;
- creating and dissolving the Bank's standing committees and determining their responsibilities;

This document is a translation of a document originally issued in Polish.

The only binding version is the original Polish version.

PKO BANK HIPOTECZNY SA

DIRECTORS' REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2023



Bank Hipoteczny

- adopting Regulations: (i) for managing special funds created from net profit, (ii) organizational regulations and the principles for segregating duties, (iii) of the Management Board, (iv) for determining the Mortgage Lending Value of Real Estate;
- appointing proxies and determining the principles for their appointment in the Bank;
- determining the principles of operation of internal controls and annual internal audit plans;
- creating, transforming and winding up the Bank's branches and other business units in Poland and abroad;
- deciding on issues of mortgage covered bonds;
- determining the operating principles of the management system, including in particular: (i) the principles of capital adequacy information policy, (ii) the assumptions of the compliance risk management policy, (iii) the principles of managing capital adequacy and equity which relate to the estimation of internal capital, capital management, capital planning and dividend policy, (iv) the rules for managing particular risks;
- periodically assessing and verifying compliance with the Bank's internal governance, including assessing the adequacy of the Bank's internal regulations governing the operations of the Management Board and their effectiveness;
- determining changes in accounting policies;
- approving the Bank's annual financial statements;
- developing a remuneration policy;
- specifying the Bank's products;
- determining the principles of the Bank's participation in companies and other organizations;
- deciding on payment of interim dividend to the shareholders;
- deciding on the Bank's conclusion of contracts with third parties the value of which equals or exceeds PLN 500,000.00 (in words: five hundred thousand zlotys) or the total value of which equals or exceeds PLN 2,000,000.00 (in words: two million zlotys);
- convening the General Shareholders' Meetings, making the announcements in the manner specified in legal regulations and notifying of circumstances which are subject to the duty of entering to the National Court Register;
- making decisions on issues requested by a member of the Management Board or submitted for review by the Supervisory Board.

The Bank's Management Board appointed the following standing committees with the following competences as at 31 December 2023:

THE ASSET AND LIABILITY COMMITTEE

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

CREDIT COMMITTEE

- supporting the functions that manage credit, concentration and residual risks, as well as the risk of the models measuring such risks;

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PKO BANK HIPOTECZNY SA

DIRECTORS' REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2023



Bank Hipoteczny

- 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 real estate market;
- making decisions concerning the Bank's operations, particularly regarding the risk measures and limits, the results of the validation of the risk models, the methodologies and models of calculation of impairment losses on credit assets, cut-offs used in the assessment of credit risk, loan receivables purchased by the Bank and individual loan transactions;
- issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.

THE OPERATIONAL RISK AND DATA QUALITY COMMITTEE

- effective management of operational risk, improving the safety of the Bank's operating activities;
- outsourcing risk management;
- determining the directions of operational risk management development;
- supervising the functioning of operational risk management, including tasks relating to ensuring the Bank's business continuity and the information and telecom security environment;
- setting tasks in the event of failures putting the Bank's image at risk, which could lead to operating losses;
- determining the directions of operations in the area of managing the quality of data and data architecture in the Bank, in the context of the Data Management System (DMS);
- supervising the Data Management System, including assessing its effectiveness and actions of the Bank's particular organizational entities;
- issuing recommendations for the relevant governing bodies of the Bank, business 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

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

GREEN COVERED BONDS COMMITTEE

- supervising the issue of Green Covered Bonds, including determining the directions of change with respect to the Green Bonds and assessing and selecting assets qualifying for funding with the Green Covered Bonds;
- examining materials relating to the guidelines and principles set by the International Capital Markets Association (ICMA) for the Green Covered Bonds market, domestic regulations on the binding energy efficiency standards, reporting on the allocation of funds earned on emissions and the impact on the funding environment gained by issuing the Green Covered Bonds, in accordance with the rules for issuing the Green Covered Bonds in force at the Bank, investor information with respect to the Green Covered Bonds;

- making decisions relating to the Bank's operations, among other things, in the scope of assessing and selecting qualified loans according to the methodology adopted by the Bank and adopting the rules for issuing the Green Covered Bonds by the Bank pursuant to appropriate guidelines;
- issuing recommendations for the relevant governing bodies of the Bank, organizational units, members of the Bank's Management Board, project teams or task forces – within the scope of its competences.

6.4. THE MANAGEMENT BOARD OF PKO BANK HIPOTECZNY SA

As at 30 June 2023 and in the first half of 2023, the composition of the Management Board of PKO Bank Hipoteczny SA was as follows:

	Position	Position holding period
Katarzyna Kurkowska-Szczecowicz	President of the Management Board	27.01.2023 – until now
	Vice President of the Management Board managing the Management Board's operations	01.10.2022 – 26.01.2023
Piotr Kochanek	Vice President of the Management Board	01.01.2019 – until now
Stanisław Skoczyłas	Vice President of the Management Board	06.10.2022 – until now
Katarzyna Surdy	Vice President of the Management Board	01.10.2021 – until now

On 27 January 2023 Polish Financial Supervision Authority gave its consent to appoint Ms Katarzyna Kurkowska-Szczecowicz President of the Management Board for the current four-year term of office on the Bank's Management Board.

The Bank's Supervisory Board determined the following internal assignment of particular key competences of the Bank's Management Board as at 30 June 2023:

KATARZYNA KURKOWSKA- SZCZECOWICZ	President of the Management Board responsible for supervising the internal audit unit, managing compliance risk, HR and issues related to counteracting money laundering and terrorist financing.
Other functions performed:	Chairperson of the Strategy and Business Initiatives Committee Chairperson of the Asset and Liability Committee
PIOTR KOCHANEK	Vice-President of the Management Board responsible for supervision over all of the Bank's risks, with the exception of compliance and reputation risk, and supervision over the process of assessing creditability and determining the mortgage lending value of real estate, the restructuring and debt collection process and settling and confirming treasury transactions.
Other functions performed:	Chairperson of the Credit Committee Chairperson of the Operational Risk and Data Quality Committee Deputy Chairperson of the Asset and Liability Committee Deputy Chairperson of the Green Mortgage Bonds Committee Member of the Strategy and Business Initiatives Committee
KATARZYNA SURDY	Vice-President of the Management Board responsible for supervision over reputational risk management, legal services, outsourcing, supervision over the

creation and development of the product offer, coordination of product sales and acquiring loan receivables as well as the process of their further handling, functioning and effectiveness of IT resources, as well as issuing securities and raising funds

Other functions performed:

Chairperson of the Green Mortgage Bonds Committee

Deputy Chairperson of the Strategy and Business Initiatives Committee

Deputy Chairperson of the Operational Risk and Data Quality Committee

Member of the Asset and Liability Committee

Member of the Credit Committee

STANISŁAW SKOCZYLAS

Vice President of the Management Board responsible for supervision over accounting and financial reporting issues

Other functions performed:

Member of the Strategy and Business Initiatives Committee

Member of the Asset and Liability Committee

OTHER MANAGEMENT FUNCTIONS OF THE MANAGEMENT BOARD MEMBERS

	Position	Position holding period
Katarzyna Kurkowska-Szczecowicz	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
Katarzyna Surdy	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
Stanisław Skoczyłas	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

On 19 May 2023 the Supervisory Board appointed the following persons for a joint term of office on the Bank's Management Board – as of the day following the date of the Bank's Annual General Shareholders' Meeting approving the *Financial statements for the financial year ended 31 December 2022* (Financial Statements): Ms Katarzyna Kurkowska-Szczecowicz to the position of President of the Management Board and Mr Piotr Jaworski, Mr Piotr Kochanek, Mr Stanisław Skoczyłasa and Ms Katarzyna Surdy to the positions of Vice Presidents of the Management Board.

On 30 June 2023 the Annual General Shareholders' Meeting:

- approved the *Financial statements for the financial year ended 31 December 2022*;
- granted a vote of approval to: (i) the President of the Management Board, Mr Daniel Goska, (ii) the Deputy President of the Management Board, Mr Piotr Kochanek, (iii) the Deputy President of the Management Board, Ms Katarzyna Surdy, (iv) the Deputy President of the Management Board, Ms Katarzyna Kurkowska-Szczecowicz, (v) the Deputy President of the Management Board, Mr Stanisław Skoczyłas, and (vi) the Member of the Supervisory Board delegated to perform the function of a member of the Management Board, Mr Jakub Niesłuchowski.

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

The process of selecting and evaluating candidates for members of the Management Board in PKO Bank Hipoteczny SA is carried out by the Remuneration and Nomination Committee of the Bank's Supervisory Board. The Committee takes into consideration the guidelines of the European Banking Authority of 21 March 2018 on the assessment of the suitability of members of the management body and key function holders (EUA Guidelines), the Regulation of the Minister of Development and Finance of 10 March 2017 on information and documents concerning the founders and the management board of the bank to be submitted to the PFSA, as well as the Methodology for assessing the appropriateness of members of the bodies of entities supervised by the PFSA. During the candidate selection process, the Committee takes into account PKO Bank Hipoteczny SA's profile, scope and scale of operations. During the evaluation of a candidate, the Committee also verifies whether the candidate's experience and knowledge will strengthen the abilities of other members of the Bank's Management Board, and complement them, so as to ensure the coverage of all areas managed in the Bank. The purpose of examination of this criterion is to ensure variety in the selection of members of the managing body, its purposes, tasks and scope of operation.

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

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

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

6.5. THE SUPERVISORY BOARD OF PKO BANK HIPOTECZNY SA

In the first half of 2023, 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 ²⁵	Audit and Finance Committee	Risk Committee	Remuneration and Nomination Committee	Commercial Committee
Mieczysław Król	Chairperson	27.08.2021		✓				C	M
Paweł Metrycki	Member of the Supervisory Board	05.05.2022		✓	D	C			D
Maciej Brzozowski	Deputy Chairman	05.05.2022		✓			D		
Jakub Niesłuchowski	Member of the Supervisory Board	28.04.2022		✓					M
Ilona Wołyniec	Member of the Supervisory Board	30.03.2019	30.06.2023	✓			M	D	C

²⁵ In accordance with the definition in the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

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	Function on the Supervisory Board	Appointment date	Date of dismissal / resignation	qualifications in finance	Independent member ²⁵	Audit and Finance Committee	Risk Committee	Remuneration and Nomination Committee	Commercial Committee
Lucyna Kopińska	Member of the Supervisory Board	01.09.2019		✓					M
Jadwiga Lesisz	Member of the Supervisory Board	01.09.2019		✓	✓	C			
Tomasz Baum	Member of the Supervisory Board	06.12.2022		✓	✓	M			
Piotr Jaworski	Member of the Supervisory Board	13.02.2023	30.06.2023	✓	✓	M			

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

The composition of the Committees is presented as at 30 June 2023.

Pursuant to Article 395 § 2 item 3 of the Commercial Companies Code once a year the Annual 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.

The above constitutes confirmation of the proper performance of duties of members of the Bank's Supervisory Board, based on adequate knowledge, abilities and experience, in accordance with the requirements of Article 22aa of the Banking Law.

On 30 June 2023 the Annual General Shareholders' Meeting:

- granted a vote of approval to the members of the Supervisory Board, as follows: (i) Mr Mieczysław Król, Chairperson of the Supervisory Board; (ii) Mr Paweł Metrycki; (iii) Ms Lucyna Kopińska; (iv) Ms Jadwiga Lesisz; (v) Ms Ilona Wołyniec; (vi) Mr Maciej Brzozowski; (vii) Mr Jakub Niesłuchowski; (viii) Mr Piotr Kwiecień, (ix) Pani Elżbiety Bugaj; and (x) Mr Tomasz Baum;
- appointed the following persons for a new joint three-year term of office on the Supervisory Board, which begins on the day following the date of this Annual General Shareholders' Meeting: (i) Mr Tomasz Baum; (ii) Mr Maciej Brzozowski; (iii) Ms Lucyna Kopińska; (iv) Mr Mieczysław Król; (v) Ms Jadwiga Lesisz; (vi) Mr Paweł Metrycki; and (vii) Mr Jakub Niesłuchowski.

INFORMATION ON THE AUDIT AND FINANCE COMMITTEE

In the first half of 2023, the composition of the Audit and Finance Committee of PKO Bank Hipoteczny SA was as follows:

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	Position on the Audit and Finance Committee	Appointment date	Dismissal / resignation date	Independent member²⁶	knowledge and skills in accounting or auditing financial statements	knowledge and skills in banking
Paweł Metrycki	Deputy Chairperson of the Committee	07.10.2019			✓	✓
Jadwiga Lesisz	Chairperson of the Committee	05.05.2022		✓	✓	✓
Tomasz Baum	Member of the Committee	15.12.2022		✓	✓	✓
Piotr Jaworski	Member of the Committee	23.03.2023	30.06.2023	✓	✓	✓

In the first half of 2023, two meetings of the Audit and Finance Committee took place.

²⁶ In accordance with the definition in the Act of 11 May 2017 on statutory auditors, audit firms and public oversight.

7. CORPORATE GOVERNANCE AND INVESTOR INFORMATION

Representation on compliance with the rules for corporate governance

Audit firm

Other information

7.1. REPRESENTATION ON COMPLIANCE WITH THE RULES FOR CORPORATE GOVERNANCE

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

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

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

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

- the provisions referring to the principles of cooperation and rights of multiple shareholders (§ 8. 4, § 9. 1 and 6, § 10. 3, § 11. 3. and § 31. 3, which are not applied because the Bank only has a single shareholder);
- chapter 9, concerning the management of assets at the customer's risk, because the Bank does not conduct operations in this area;
- the principle described in § 22. 1, concerning the independence of Supervisory Board members, manifesting itself primarily in the lack of direct and indirect ties to the supervised institution, members of the management and supervisory bodies, significant shareholders and related parties; in addition, two members meeting the independence requirements set out in the Act of 11 May 2017 on statutory auditors, audit firms and public oversight were appointed as members of the Bank's Supervisory Board. (Journal of Laws, item 1089, as amended).

In accordance with the requirement arising from § 27 of the Principles of Corporate Governance for Supervised Institutions, on 1 March 2023, the Bank's Supervisory Board evaluated the application of the said Principles in the Bank in 2022. 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 published on the Polish Financial Supervision Authority's website at the address:

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

The Bank applies Recommendation Z relating to internal governance in banks pursuant to the principle of proportionality and adequacy which follow from the scale, nature of operations and specific character of the Bank.

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

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

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

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

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

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

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

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

As at 30 June 2023 the share capital of PKO Bank Hipoteczny SA amounted to PLN 1,611.3 million and comprised 1,611,300,000 shares of PLN 1 nominal value each. The shares are paid up in full. The amount of share capital has not changed compared to the end of 2022. The PKO Bank Hipoteczny SA shares are non-preferred 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:

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

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Shareholder	31.12.2022		31.12.2021	
	Number of shares	Share of votes at GSM	Number of shares	Share of votes at GSM
Powszechna Kasa Oszczędności Bank Polski SA	1,611,300,000	100%	1,611,300,000	100%

DESCRIPTION OF THE RULES FOR APPOINTING AND DISMISSING MANAGERS

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

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

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

DESCRIPTION OF AUTHORIZATIONS TO DECIDE ON SHARE ISSUES OR REDEMPTIONS

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

INDICATION OF ANY LIMITATIONS ON THE TRANSFER OF OWNERSHIP RIGHTS TO THE ISSUER'S SECURITIES

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

PRINCIPLES FOR AMENDING THE BANK'S ARTICLES OF ASSOCIATION

Amendments to the Bank's Articles of Association require a resolution of the General Shareholders' Meeting and must be entered in the Register of Businesses of the National Court Register. In accordance with Article 34.2 of the Banking Law, an amendment to the Articles of Association requires the consent of the Polish Financial Supervision Authority.

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

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

THE GENERAL SHAREHOLDERS' MEETING AND RELATIONS WITH SHAREHOLDERS

The method of operation of the General Shareholders' Meeting and its key powers as well as a description of the shareholder rights and the method of their execution follow directly from the applicable laws and the Bank's Articles

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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

The policy for the appointment of an audit firm to audit the financial statements of the Bank stipulates that the Supervisory Board will conduct proceedings relating to commissioning the audit under an unlimited tender procedure. The Audit and Finance Committee of the Bank's Supervisory Board submits its recommendations as to the appointment of the audit firm to the Supervisory Board. If this refers to renewal of an audit commission there should be no less than two recommendations with justification, and an indication of the preferred firm. The Bank's Supervisory Board appoints the audit firm based on the Audit and Finance Committee's recommendation. Clear and unbiased criteria are applied in the selection of the audit firm.

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

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

On 22 December 2021 a contract for conducting audits and reviews of the Bank's financial statements for the years 2022 – 2023 was concluded by and between PKO Bank Hipoteczny SA and PwC. Therefore, PwC's mandate for conducting audits and reviews of the Bank's financial statements was extended for two further years.

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

In accordance with the Policy and Procedures for selecting an audit firm to perform an audit of the Bank's financial statements, on 1 March 2023 the Supervisory Board of PKO Bank Hipoteczny SA, based on § 18. 1 (4) of the Bank's Articles of Association and in accordance with the recommendation of the Audit and Finance Committee of the Supervisory Board, appointed PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt sp. k. as the audit firm to conduct audits and reviews of the Bank's financial statements for the years 2024-2026.

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 2023 there were no changes in the holding of shares and rights to shares in PKO Bank Hipoteczny SA by individuals in management and supervisory roles. 100% of the shares are held by PKO Bank Polski SA.

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

In the first half of 2023 PKO Bank Polski SA did not conclude significant agreements or material agreements with the Central Bank or with the supervisory authorities.

FINANCIAL AND GUARANTEE COMMITMENTS GRANTED

In the first half of 2023 and in 2022 PKO Bank Hipoteczny SA did not grant any guarantees.

Financial liabilities with respect to loans granted and not disbursed as at 30 June 2023 stood at PLN 54.4 million, up by PLN 17.1 million compared to 31 December 2022.

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OFF-BALANCE-SHEET LIABILITIES GRANTED TO RELATED PARTIES

In the first half of 2023 and in 2022 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 2023 and in 2022 PKO 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 2023 and in 2022 PKO Bank Hipoteczny SA did not conclude any underwriting agreements.

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

As at 30 June 2022, no material proceedings were pending before courts, arbitration bodies or public administration bodies concerning liabilities or receivables of PKO Bank Hipoteczny SA.

FACTORS WHICH WILL INFLUENCE FUTURE FINANCIAL PERFORMANCE OVER THE SECOND HALF OF THE YEAR

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

In the global economy:

- the war in Ukraine and its economic consequences;
- reaction of the global economy and the financial system to the already significant tightening of the monetary policy, the condition of the global banking sector and the ability of countries and business entities to refinance debt;
- slowing of the pace of global economic growth, in particular the possible stagnation or even recession in Germany;
- impact of the slowing of the Chinese economy on the pace of global economic processes;
- possibility of access for investors from the European market with respect to the issue of debt securities in the context of the regulatory minimum own funds requirement and qualifying liabilities.
- changes in the climate policy, including the accelerating energy management transformation and increased restrictions and importance of environmental requirements.

In the Polish economy:

- the scale and direction of changes in the NBP interest rates and in the level of and interest on the mandatory reserve;
- the intensity and permanence of external factors influencing inflation and regulatory actions aimed at limiting the scale of price increases;
- the slowing of the economy which in consequence of a drop in global demand, high inflation and tightening of the monetary policy;
- the situation on financial markets which may reflect increased geopolitical risk in connection with a potential escalation of the armed conflict in Ukraine;
- migration flows, including their impact on the supply of employees and aggregated demand in the economy;
- encumbrances for the public finance sector related to the costs of the energy crisis and expenditure on defence and energy transformation accompanied by uncertainty regarding the inflow of funds from the EU under the National Recovery Plan;
- the shape of the economic policy in the context of the Parliamentary elections in 2023;
- the risk of the Competition and Consumer Protection Office (UOKiK) initiating proceedings against the Bank for infringing collective consumer interests, including – among others – the proportionate refund of the costs of a loan on early repayment of a mortgage, and the process of handling the so-called loan repayment holidays;

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- the risk of exposure to additional fiscal charges should the regulations on additional charge on extraordinary gains be charged on entrepreneurs, including banks;
- the coming into force of a new regulatory ratio (Long-term Funding Ratio) and the related costs of obtaining borrowings by banks;
- court resolutions with respect to the PLN loans based on WIBOR rates;
- reform of reference rates aimed at withdrawing the WIBID/WIBOR ratios from use and replacing them with WIRON family rates;
- risk of extending the statutory loan repayment holidays to 2024.

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 2023, PKO Bank Hipoteczny SA did not grant any loan guarantees or other guarantees with a total value equivalent to at least 10% of the Bank's equity to a single entity or a subsidiary of such an entity.

INFORMATION ON LOAN AND ADVANCE CONTRACTS CONCLUDED AND TERMINATED DURING THE FINANCIAL YEAR

On 3 January 2023, PKO Bank Hipoteczny SA and PKO Bank Polski SA concluded an annex to the contract for a non-revolving working capital loan in PLN dated 11 February 2022, as amended, decreasing the amount of the facility from PLN 2,000 million to PLN 1,700 million.

On 3 January 2023, PKO Bank Hipoteczny SA and PKO Bank Polski SA signed a contract for a non-revolving working capital loan in PLN of PLN 300 million for a period of 7 years. The loan will be disbursed over two years as of the date of the contract, in tranches, each of which will be repaid within five years of drawing the tranche. The tranches bear fixed interest rates determined separately for each tranche drawn.

On 17 January 2023, PKO Bank Hipoteczny SA and PKO Bank Polski SA concluded an annex to the contract for a revolving working capital loan in the current account dated 10 July 2019, as amended, decreasing the amount of the limit from PLN 5,000 million to PLN 4,478 million as of 11 February 2023.

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 Group entities are the Bank's related parties in terms of equity.

In the first half of 2023 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 2023 there were no changes in the key principles of managing the Bank's enterprise in PKO Bank Hipoteczny SA.

FUNDING SUPPORT AGREEMENTS

PKO Bank Hipoteczny SA did not conclude funding 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 2023 PKO Bank Hipoteczny SA did not set up any security on the borrowers' accounts.

As at 30 June 2023, the value of collateral in respect of residential mortgage loans secured with real estate was PLN 63.4 billion compared with PLN 64.9 billion as at 31 December 2022.

EVENTS AFTER THE END OF THE REPORTING PERIOD

Have not occurred.

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

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

- The condensed interim financial statements of the PKO Bank Hipoteczny SA for the six months ended 30 June 2023 have been prepared in accordance with the applicable accounting principles, and give a true, fair and clear view of the economic and financial position of PKO Bank Hipoteczny SA, and of its financial result,
- The Directors' Report on the activities of PKO Bank Hipoteczny SA in the six months ended 30 June 2023 includes a true reflection of the development and achievements, and of the position of PKO Bank Hipoteczny SA, including a description of the basic risks and threats.

The Management Board of PKO Bank Hipoteczny SA represents that the audit firm which conducted the review of the condensed interim financial statements of PKO Bank Hipoteczny SA for the six months ended 30 June 2023 was selected in compliance with the applicable laws, and that both the entity and the statutory auditor who conducted the audit fulfilled all the criteria for providing an unbiased and independent audit report on the financial statements, in compliance with the applicable laws and professional standards.

This Directors' Report on the activities of PKO Bank Hipoteczny SA for the six months ended 30 June 2023 comprises 53 sequentially numbered pages.

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

09.08.2023	Katarzyna Kurkowska-Szczechowicz	President of the Management Board	<i>Signed on Polish original</i> (signature)
09.08.2023	Piotr Jaworski	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)
09.08.2023	Piotr Kochanek	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)
09.08.2023	Stanisław Skoczyłas	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)
09.08.2023	Katarzyna Surdy	Vice-President of the Management Board	<i>Signed on Polish original</i> (signature)