

Directors' Commentary to the financial results
of PKO Bank Hipoteczny SA
for the nine-month period ended
30 September 2021

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

DIRECTORS' COMMENTARY TO THE RESULTS OF PKO BANK HIPOTECZNY SA FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2021



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1. SUMMARY OF THE THIRD QUARTER OF 2021

1.1. THE MOST IMPORTANT EVENTS IN THE THIRD QUARTER OF 2021

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

PKO Bank Hipoteczny SA is the leader on the Polish mortgage bank market in terms of total assets and the balance of residential mortgage loans. The Bank is Poland's largest issuer of mortgage covered bonds on the Polish market. The outstanding mortgage covered bonds issued by the Bank account for approx. 63% of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks.

THE COVID-19 PANDEMIC

In connection with the COVID-19 pandemic, in the third quarter of 2021 PKO Bank Hipoteczny SA continued the actions taken in 2020 aimed at increasing customers' and employees' safety and ensuring prudent management of PKO Bank Hipoteczny:

- In the first quarter of 2021, the Bank consistently applied the rotational shift work system. In the second quarter of 2021, as the third wave of the pandemic started to withdraw, the Bank gradually began to restore staff to office work. In the third quarter, as the fourth wave of the pandemic started to grow in September, the Bank adapted its working procedures to the epidemic threat by increasing the share of the hybrid work model;
- In addition, on 24 June 2020 the Bank made available to customers the possibility to suspend the performance of their loan contracts in accordance with the Act on subsidization of interest on bank loans granted to entities affected by COVID-19 and simplified procedures for approving composition proceedings in connection with COVID-19 ("Shield 4.0").

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

PKO BANK HIPOTECZNY SA STRATEGY FOR THE YEARS 2020 – 2022

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

The Strategy covers the following:

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

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





- a) updating the PKO Bank Polski Group strategy which redefines the role of PKO Bank Hipoteczny within the Group;

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

The Bank's strategic goals specified in the new strategy are:

| | | | |
|--|--|--|--|
|  <p>Issue of green mortgage covered bonds and taking sustainable growth actions</p> |  <p>Optimal use of PKO Bank Hipoteczny SA and PKO Bank Polski SA assets and competences to achieve synergy within the PKO Group</p> |  <p>Maintenance of a safe risk level in the Bank's operations, in particular with respect to the loan portfolio and the capital ratios</p> |  <p>Diversification of the sources of funding of the Bank and the PKO Group by maintaining the ability to acquire long-term funding in the form of mortgage covered bonds for crediting real estate</p> |
|--|--|--|--|

The current state of epidemiological threat may have an impact on Poland's macroeconomic position and on the position of PKO Bank Hipoteczny SA, among other things by limiting revenue streams, an increase in provisions and problems with access to funding. The strategy is reviewed and possibly updated annually, and the annual financial plans are adjusted accordingly, taking into consideration updates of macroeconomic assumptions reflecting developments related to the epidemiological threat.

LOAN PORTFOLIO

The Bank's operations comprise both granting new residential mortgage loans and purchasing such loans from PKO Bank Polski SA. In the third quarter of 2021, the Bank's total assets amounted to nearly PLN 26 billion, of which PLN 23.5 billion represented a high quality portfolio of residential mortgage loans.

MORTGAGE COVERED BONDS ISSUED

During the three quarters of 2021 the Bank did not issue any mortgage covered bonds. As at the end of September 2021, the Bank was the leader of the Polish mortgage banking market in terms of the balance of outstanding mortgage covered bonds and the balance of residential mortgage loans. The outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA amounted to PLN 16.0 billion as at the end of September 2021.

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2. EXTERNAL OPERATING CONDITIONS

| |
|---|
| Macroeconomic environment Residential real estate market Residential loan market Mortgage covered bond market Regulatory and legal environment Factors which will influence the future financial performance of the Bank |
|---|

2.1. MACROECONOMIC ENVIRONMENT

Macroeconomic factors affecting the Polish economy in the third quarter of 2021:

GROSS DOMESTIC PRODUCT, UNEMPLOYMENT AND WAGES AND SALARIES

In the third quarter of 2021 the Polish economy continued its post-pandemic normalization process. The pace of economic growth, after extinguishing the base effects, was stable at approx. 5% y/y. Consumer demand returned to the services sector, which dynamically started to make up for its losses. Industrial production, construction activity and exports grew, although the effects of global supply limitations had a negative impact on their results. The situation on the labour market continued to improve. In September, unemployment dropped to 5.6% (preliminary data), and wages and salaries continued to grow by more than 8% y/y.

Strong economic growth in conditions of improved financial standing of households and lower risk of loss of employment is conducive to increased demand for mortgage loans

INFLATION

CPI inflation grew constantly and departed from the National Bank of Poland's (NBP) target. In September inflation was 5.9% y/y compared with 4.4% y/y in June 2021 and was the highest in 20 years. The price increase was extensive and covered the decisive majority of goods and services. Inflation was largely the effect of exogenous factors (increases in energy and food prices) and temporary factors (post-pandemic adaptations, supply limitations). Inflation increased globally; in most economies inflation exceeded previous expectations and forecasts for 2022 had to be adjusted up.

INTEREST RATES

Between June and September the Monetary Policy Council (MPC) maintained unchanged interest rates (reference rate: 0.10%). In October, in reaction to the deteriorating inflation prospects, the MPC raised interest rates: the reference rate by 40 b.p. to 0.50%, and the rediscount, discount and Lombard rates by 50 b.p. The deposit rate was not changed. The NBP declared that although the asset repurchase programme remains one of the tools of the Central Bank, it has been temporarily halted. In the third quarter, the NBP repurchased debt instruments of PLN 7.2 billion compared with PLN 22.4 billion in the second quarter.

MPC declarations indicate that any potential continuation of interest rate increases will be prudent and gradual, so it should not significantly limit interest in mortgage loans. At the same time, increase in income of households secures their capability to deal with higher costs of debt servicing following from increased interest rates.

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2.2. RESIDENTIAL REAL ESTATE MARKET

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

The impact of the Coronavirus pandemic on the situation on the residential real estate market was significantly lower than expected. Despite the disturbing crisis phenomena in the economy caused by lower activity due to restrictions in domestic and international business imposed to stop the spread of the pandemic, the growth trend in prices on the residential real estate market did not change. Only the rate of growth dropped.

PRIMARY MARKET

NBP data shows that in 2020 the transaction prices of apartments in Warsaw and in ten medium-sized cities¹ increased by 8%, and in six large cities² by 7% (before the pandemic, the rate of growth in particular segments was 10-12% annually).

In the first half of 2021 the speed of price increases grew to 13% annually in Warsaw and in the ten medium-sized cities, and to 10% in the six large cities' segment.

Data relating to transaction prices drawn from developer contracts registered in the PKO Bank Polski SA Group database shows that the rate of growth in the third quarter of 2021 remained between ten and twenty percent annually: in Warsaw and in six large cities it was 11%, and in the segment of 10 medium-sized cities it was 16%.

SECONDARY MARKET

The data published by the NBP in 2020 shows that the transaction prices of apartments in Warsaw and in the six large cities grew by 9% annually, and in the ten medium-sized cities by 10% annually (before the pandemic, prices in particular segments increased by 10-13%).

In the first half of 2021 the rate of price growth on the secondary market was lower than on the primary market, as in Warsaw prices increased by only 2%, in the segment of six large cities by 9%, and in the segment of 10 medium-sized cities by 7%.

Transactions registered in the PKO Bank Polski SA Group's database in the third quarter of 2021 indicate that the secondary market followed the primary market and prices there increased by more than 10% on an annual basis (in Warsaw by 11%, in the six large cities by 15%, and in the 10 medium-sized cities by 12%).

RESIDENTIAL REAL ESTATE MARKET – IMPACT OF THE CORONAVIRUS PANDEMIC ON MARKET ACTIVITY

Restrictions related to the Coronavirus pandemic led to a temporary drop in activity both on the primary and on the secondary residential market, which culminated in the second quarter of 2020. In further quarters of 2020 and 2021, even those afflicted by the second and third wave of increases in the number of infected persons, all market participants adapted to the new epidemic-related requirements. Currently new solutions such as "virtual walks" became universal in sales processes, being convenient for the customer.

PRIMARY MARKET

According to Jones Lang LaSalle (JLL) data the number of apartments sold on the six largest markets³ dropped to 6.9 thousand in the second quarter of 2020 (i.e. in the first months after the outbreak of the pandemic in Poland) which was a 54% drop compared with the corresponding quarter of the previous year. However, in the second half of the previous year the market experienced the revival so awaited by developers. On the six largest markets a total of 27.2 thousand apartments were sold and although this result was 19% worse than in the second half of 2019, taking into account the circumstances, the result was a positive surprise and meant the return of a supply-demand balance to the primary market.

In the first half of 2021 the market experienced a record sales volume, as developers sold a total of 39 thousand apartments on the six largest markets. This result was 51% better than the results of the corresponding period of

¹ Bydgoszcz, Białystok, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin, Zielona Góra

² Kraków, Wrocław, Poznań, Gdynia, Gdańsk, Łódź

³ Warsaw, Kraków, Wrocław, Tricity, Poznań, Łódź

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the previous year and more than 7% better than that noted in the first half of 2017 – the best year in terms of sales to date. Market data shows that 2021 may be a record year in terms of the number of apartments sold.

SECONDARY MARKET

The database of the PKO Bank Polski SA Group indicates a drop in activity of the secondary residential real estate market in 2020 on a scale even slightly higher than on the primary market. The market only reacted and noted an increase in sales in the first quarter of 2021. Since March sales are close to the level from before the pandemic (2018-2019).

RESIDENTIAL DEVELOPMENTS – IMPACT OF THE CORONAVIRUS PANDEMIC ON INVESTOR ACTIVITY

The data relating to residential real estate development activity (in particular the number of building permits issued and developments started) include some of the most sensitive indicators of the conditions on the residential real estate market.

The data published by the Polish Statistics (GUS) during the first nine months of 2021 show a significant increase in investor activity in the residential building sector. In the period under discussion, the number of apartments for which building permits were issued (or which were notified if a permit is not required) exceeded 254 thousand, which is a 33% increase compared with the corresponding period of the previous year and a 26% increase compared to 2019 (i.e. the last year when the results were not impacted by the pandemic restrictions). The number of apartments whose development started exceeded 216 thousand, which was result a 29% higher than in the corresponding period of the previous year, and 21% higher than in the corresponding period of 2019.

IMPACT OF THE PANDEMIC ON CONSUMER SENTIMENTS AND INTERNAL DEMAND

In the second quarter of 2020 we saw an accumulation of negative economic phenomena related to the Coronavirus pandemic, caused mainly by freezing certain areas of business activities and restricting the freedom of movement. The uncertainty about the development of the pandemic and its impact on the financial position of households led to a rapid deterioration in consumer sentiments. The values of the current consumer confidence indicator (*bieżący wskaźnik ufności konsumenckiej – BWUK*) and the leading consumer confidence indicator (*wyprzedzający wskaźnik ufności konsumenckiej – WWUK*)⁴ dropped in April 2020 to -36.4 and -47.7 respectively. Such low values of the indices have not been noted since 2003. In further months consumer sentiments improved and the ratios made up for the major portion of the losses, stabilizing at approx. -15 (BWUK) and -16 (WWUK). Only the second wave of the pandemic once again caused consumer uncertainty to increase – in November the ratios dropped once again to -29.2 (BWUK) and -30.1 (WWUK). The third wave of the pandemic which appeared in the first quarter of 2021, although stronger than the previous ones, did not have a material impact on consumer sentiments, and its end led to visibly increased consumer optimism. In May BWUK increased to -14.6, and WWUK to -8.9 and since then until September 2021 both ratios showed a horizontal trend. However, in October 2021 the indices showed some deterioration in consumer sentiments to -17.8 (BWUK) and -14.5 (WWUK), which may be related to concerns about the beginning of the fourth wave of the pandemic and the impact of the high inflation which is starting to become more and more perceptible and affects the purchasing power of wages and salaries.

The relatively stable situation on the labour market impacts internal demand – the increase in unemployment caused by the pandemic crisis turned out to be insignificant. At the same time the increase in wages and salaries remains higher than inflation (since March 2021 wages and salaries grew at a rate of 8-10% annually compared with inflation of 5.9% according to GUS's September 2021 signalling), which in the face of the low interest rates continues to stimulate internal demand, also in the residential real estate segment.

CONCLUSION

Irrespective of the fact that the epidemic situation in Poland had a material impact on the weakening of the economy and the drop in the number of transactions on the real estate market, the impact of these turbulences on price trends of residential real estate was limited. In the upcoming quarters maintaining the increase trend in residential real estate prices is probable (accompanied by high growth ratios, significantly exceeding 10%

⁴ Consumer economic indices published by GUS.

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annually), at a high scale of turnover both on the primary and secondary markets. Improving the epidemic situation, which should lead to the revival of the economy and contribute to continuation of positive trends in the area of reinforcement of the labour market, which will be a positive stimulus of demand for residential real estate. If the high rate of increase in prices of residential real estate is maintained, a risk of a price bubble will increase, which would result in a significant adjustment which could lead to a crisis in the development industry in the long term.

2.3. RESIDENTIAL LOAN MARKET

Based on NBP data, the banks' receivables in respect of residential loans in Poland were PLN 498.0 billion as at 31 August 2021, up 6.9% y/y. As at 31 August 2021, the balance of loans in PLN was PLN 386.6 billion (77.6% of the total amounts due to banks in respect of residential loans in Poland) and increased by 11.5% y/y. The total balance of residential loans in relation to the Gross Domestic Product expressed at market prices stood at 20.1% at the end of the second quarter of 2021. This amount is much below the average for the European Union, which according to 2019 data is 45.5%. This indicates a great potential for the further growth of the residential loan market in Poland.

2.4. MORTGAGE COVERED BONDS MARKET

As at 30 September 2021, five mortgage banks were operating in Poland:

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

The Polish mortgage covered bond market is relatively small and moderately liquid. At the end of September 2021, the total value of outstanding mortgage covered bonds issued by Polish mortgage banks amounted to approx. PLN 25.5 billion, i.e. PLN 0.7 billion less than at 30 September 2020. As at the end of August 2021, outstanding mortgage covered bonds issued by Polish banks represented 5.1% of the amount of residential loans granted by banks.

PKO Bank Hipoteczny SA is the largest issuer of mortgage covered bonds in Poland. As at 30 September 2021, the value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA amounted to PLN 16.0 billion, which accounted for approx. 63% of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks.

During the three quarters of 2021 PKO Bank Hipoteczny SA did not issue any mortgage covered bonds.

2.5. REGULATORY AND LEGAL ENVIRONMENT

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

ENFORCEMENT PROCEEDINGS

The Act of 28 May 2021 on amending the act – Code of Civil Procedure and several other acts – the amendments introduce regulations concerning the possibility of enforcement sale of real estate by way of an electronic auction.

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In the third quarter of 2021 legislative work was also in progress on amending the act which is most important for the operations of PKO Bank Hipoteczny SA, i.e. on the draft act on amending the act on mortgage covered bonds and mortgage banks and certain other acts, which is to implement the Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU. In response to the new draft act made available by the Ministry of Finance, the Bank via the Association of Polish Banks once again filed its comments to the content of the draft.

2.6. FACTORS WHICH WILL INFLUENCE THE FUTURE FINANCIAL PERFORMANCE OF THE BANK

Significant factors and threats which may affect the Bank's results over at least the following quarter of 2021 include:

in the global economy:

- development of the pandemic, including the effectiveness and advancement of the vaccination programme, and the virulence of consecutive Coronavirus mutations;
- continuation of the reconstruction of the global economy which is maintained despite the increasing number of Central Banks that have begun normalizing their monetary policies (interest rate increases);
- maintenance of supply limitations (limitations in availability of production components, high prices of energy resources), which lead to increased cost pressure and limits the rate and scale of economic revival;
- possible increase in stagflation concerns and maintained higher inflation on a global scale.

In the Polish economy:

- maintained weak demand for loans of non-financial business entities, accompanied by further rebuilding of demand for loans by households and an increased deposit volume;
- the ultimate form of changes to contributions and taxes implemented under the Polish Deal, availability of resources which should form the basis for performing the National Reconstruction Plan;
- further increases in interest rates;
- potentially unfavourable macroeconomic factors which could lead to deterioration in the quality of the loan portfolio.

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3. FINANCIAL RESULTS OF THE BANK

Key financial indicators of PKO Bank Hipoteczny SA
Statement of financial position of PKO Bank Hipoteczny SA
Income statement of PKO Bank Hipoteczny SA

3.1. KEY FINANCIAL INDICATORS OF PKO BANK HIPOTECZNY SA

| | 30.09.2021 | 31.12.2020 | Change |
|---|------------|------------|-----------|
| Total assets (in PLN million) | 25,710.2 | 27,310.5 | -1,600.3 |
| ROA ⁵ | 0.3% | 0.3% | 0.0 p.p. |
| ROE ⁶ | 3.8% | 4.0% | -0.2 p.p. |
| Total capital ratio (TCR) | 20.2% | 18.7% | +1.5 p.p. |
| Leverage ratio (LR) | 8.1% | 7.4% | +0.7 p.p. |
| Cost to income ratio (C/I) ⁷ | 24.7% | 23.3% | +1.4 p.p. |

3.2. STATEMENT OF FINANCIAL POSITION OF PKO BANK HIPOTECZNY SA

| in PLN million | 30.09.2021 | 31.12.2020 |
|---|-----------------|-----------------|
| Cash and balances with the Central Bank | 0.0 | 0.0 |
| Amounts due from banks | 0.5 | 0.0 |
| Derivative hedging instruments | 1,122.7 | 1,154.7 |
| Securities | 1,068.0 | 1,241.8 |
| Loans and advances to customers | 23,509.9 | 24,902.7 |
| Other assets ⁸ | 9.1 | 11.3 |
| TOTAL ASSETS | 25,710.2 | 27,310.5 |

| in PLN million | 30.09.2021 | 31.12.2020 |
|---|-----------------|-----------------|
| Amounts due to banks | 3,939.9 | 3,575.1 |
| Derivative hedging instruments | 0.4 | 0.5 |
| Liabilities in respect of mortgage covered bonds issued | 15,987.2 | 17,205.6 |
| Liabilities in respect of bonds issued | 3,596.7 | 4,337.1 |
| Other liabilities and provisions ⁹ | 93.2 | 99.0 |
| Equity | 2,092.8 | 2,093.2 |
| TOTAL LIABILITIES AND EQUITY | 25,710.2 | 27,310.5 |

⁵ Annualized ratio expressed as the quotient of the net profit (loss) for the period and the average balance of assets at the beginning and end of the reporting period and of the interim monthly periods.

⁶ Annualized ratio calculated by dividing the net profit (loss) for the period by the average balance of equity at the beginning and end of the reporting period and of the interim monthly periods.

⁷ Annualized ratio excluding tax on certain financial institutions.

⁸ Includes the following items of the statement of financial position: intangible assets, property, plant and equipment and other assets.

⁹ Includes the following items of the statement of financial position: amounts due to customers, other liabilities, current tax liabilities, deferred income tax provision and provisions.

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As at 30 September 2021, the total assets of PKO Bank Hipoteczny SA were PLN 25,710.2 million, down 5.9% compared to the end of 2020. Residential mortgage loans were the key component of the Bank's assets. Their carrying amount, taking into account provisions for expected credit losses recognized as at 30 September 2021, amounted to PLN 23,509.9 million, of which new loans amounted to PLN 11,767.7 million, whereas loans purchased from PKO Bank Polski SA amounted to PLN 11,742.2 million.

On the liabilities side, the share of mortgage covered bonds dropped to 62.2% of total liabilities and equity as at the end of September 2021. During the three quarters of 2021 PKO Bank Hipoteczny SA did not issue any mortgage covered bonds.

The carrying amount of mortgage covered bonds was PLN 15,987.2 million as at the end of September 2021, which is a 7.1% drop compared with the end of 2020, due to the redemption of series 2, 3 and 5 mortgage covered bonds with a total nominal value of PLN 1,265.0 million.

As at 30 September 2021, financial liabilities to PKO Bank Polski SA constituted a significant item of the Bank's liabilities and equity. They were liabilities in respect of loans, mortgage covered bonds and unsecured bonds acquired by PKO Bank Polski SA and other amounts due to PKO Bank Polski SA. Their total balance was PLN 3,806.7 million. Short- and medium-term bonds issued by the Bank were also a significant source of funding the Bank's operations. As at 30 September 2021, they amounted to PLN 3,596.8 million, down 17.1% compared to the end of 2020.

3.3. INCOME STATEMENT OF PKO BANK HIPOTECZNY SA

| in PLN million | 01.01.2021 – 30.09.2021 | 01.01.2020 – 30.09.2020 | Change y/y (PLN million) |
|---|----------------------------|----------------------------|-----------------------------|
| Net interest income | 226.9 | 252.9 | (26.0) |
| Net fee and commission income | (5.1) | (3.0) | (2.1) |
| Net gain/(loss) on financial instruments measured at fair value through profit or loss | 0.1 | 0.1 | 0.0 |
| Net foreign exchange gains/(losses) | 0.3 | 5.8 | (5.5) |
| Net gain/(loss) on modification | 0.8 | (2.6) | 3.4 |
| Net allowances for expected credit losses | (0.8) | (26.8) | 26.0 |
| Net other operating income and expenses | 0.2 | (0.1) | 0.3 |
| Administrative expenses | (36.0) | (38.0) | 2.0 |
| Regulatory charges | (24.8) | (25.5) | 0.7 |
| Tax on certain financial institutions | (63.6) | (67.3) | 3.7 |
| Operating profit/(loss) | 98.0 | 95.5 | 2.5 |
| Profit before tax | 98.0 | 95.5 | 2.5 |
| Income tax expense | (38.6) | (39.0) | 0.4 |
| Net profit | 59.4 | 56.5 | 2.9 |

In the third quarter of 2021, PKO Bank Hipoteczny SA generated a net profit of PLN 59.4 million, up PLN 2.9 million compared with the corresponding period of 2020.

In the analysed period, the Bank earned interest income of PLN 374.3 million. It comprised mainly interest income on residential mortgage loans of PLN 366.2 million and income on debt securities and hedging derivatives. In the same period, the Bank incurred interest expense of PLN 147.4 million. Interest expense resulted mainly from mortgage covered bonds issued and costs of hedging transactions. The related interest expense was PLN 109.6 million. In addition, the Bank incurred interest expense of PLN 22.2 million on loans and overdraft limits used and PLN 14.8 million on bonds issued.

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The Bank's turnover in the three quarters of 2021 (understood as the total value of interest income and fee and commission income) amounted to PLN 380.1 million. The realized turnover was generated entirely from the Bank's operations in Poland.

In the three quarters of 2021, the Bank incurred net fee and commission expense of PLN 5.1 million. This item comprised, among other things, costs of the bond issue programme of PLN 4.2 million, costs of credit lines of PLN 3.6 million, costs of insuring loans of PLN 1.6 million, and costs of expert valuations of the mortgage lending value of real estate (MLV), as prepared by real estate appraisers, of PLN 0.6 million. The Bank also recognized fee and commission income from customers including, among other things, fees for real estate valuations performed by the Bank and for real estate inspections, as well as commission for early, full or partial loan repayments. The total fee and commission income amounted to PLN 5.8 million.

In the three quarters of 2021, the Bank incurred administrative expenses of PLN 36.0 million. Non-personnel expenses of PLN 22.6 million, including costs related to services rendered by PKO Bank Polski SA of PLN 18.4 million under an outsourcing agreement, were a significant component of administrative expenses. Costs of employee benefits, whose amount during the reporting period was PLN 11.4 million, were also a significant component of administrative expenses.

In the three quarters of 2021, the Bank also incurred regulatory expenses totalling PLN 24.8 million. The main item of such expenses was the contribution to the mandatory resolution fund of the Bank Guarantee Fund of PLN 21.1 million, down PLN 1.5 million compared to the corresponding period of 2020. The high level of regulatory charges had a negative impact on the Bank's profitability ratios.

Tax on certain financial institutions, which amounted to PLN 63.6 million in the reporting period, was a significant cost of the Bank's activities.

During the three quarters of 2021 the Bank's costs due to write-downs for expected credit losses amounted to PLN 0.8 million.

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4. BUSINESS OF PKO BANK HIPOTECZNY SA

Sales of residential mortgage loans under the agency model
Acquisition of receivables under residential mortgage loans
Mortgage covered bonds

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. New residential mortgage loans are sold under the agency model, through Poland's largest network of branches, agents and intermediaries, organized by PKO Bank Polski SA. The Bank accepts apartments and single-family homes as collateral.

In 2020, implementing the updated strategy for the years 2020 – 2022, the Bank limited sales of residential mortgage loans. This decision had no impact on the Group's total sales of mortgage loans. Therefore, in the three quarters of 2021, the Bank granted PLN 272.6 million worth of residential mortgage loans, which is a drop of 50.1% compared with the corresponding period of 2020.

In accordance with the Act of 19 June 2020 on subsidization of interest on bank loans granted to entities affected by COVID-19 and simplified arrangement approval proceedings due to COVID-19 ("Shield 4.0"), the Bank continues to offer the possibility of suspending the exercising of a loan agreement for borrowers who had lost their jobs or another main source of income after 13 March 2020 (under the so-called legislative moratoria). Until 30 September 2021 a total of 25 loan contracts were subject to legislative moratoria.

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 is used, the Bank approves loans for which this ratio is 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% ¹⁰ |
| Loan amount/mortgage lending value of the property | Max 100% |
| Legal title to the real estate | Ownership or perpetual usufruct |
| Loan collateral | Mortgage recorded as the first in Section IV of the Land and Mortgage Register |
| Currency | PLN |
| Purpose | Residential |

The Bank's offer includes loans bearing interest rates based on a fixed five-year base rate, and allows changing the manner of charging interest on the loans throughout the lending period (by annexing the contracts) for the whole loan portfolio.

¹⁰ If a low down payment insurance policy is used the Bank accepts the possibility of granting a loan with the loan-to-value ratio does not exceed 90%.

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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 three quarters of 2021, PKO Bank Hipoteczny SA acquired a portfolio of residential mortgage loan receivables totalling PLN 158.0 million from PKO Bank Polski SA. The following table shows the main criteria applied by PKO Bank Hipoteczny SA in the process of acquiring the mortgage loans.

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

4.3. MORTGAGE COVERED BONDS

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

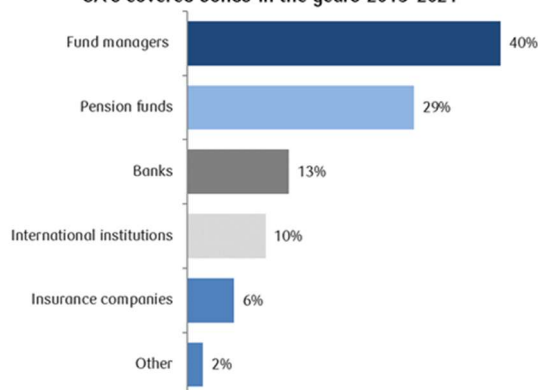
DOMESTIC ISSUES OF MORTGAGE COVERED BONDS

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

The total value of outstanding mortgage covered bonds issued by PKO Bank Hipoteczny SA for the domestic market (at the nominal value) as at the end of September 2021 was PLN 3,090.0 million.

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

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

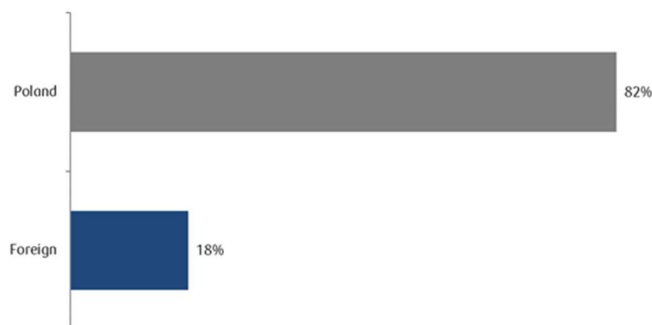


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During the three quarters of 2021 PKO Bank Hipoteczny SA did not carry out any domestic issues of mortgage covered bonds. In the same period, the Bank redeemed series 2, 3 and 5 mortgage covered bonds with a total nominal value of PLN 1,265.0 million.

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



Outstanding PLN-denominated issues of mortgage covered bonds of PKO Bank Hipoteczny SA carried out up to 30 September 2021:

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

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INTERNATIONAL ISSUES OF MORTGAGE COVERED BONDS

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

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

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

During the three quarters of 2021, PKO Bank Hipoteczny SA did not carry out any international issues of mortgage covered bonds.

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

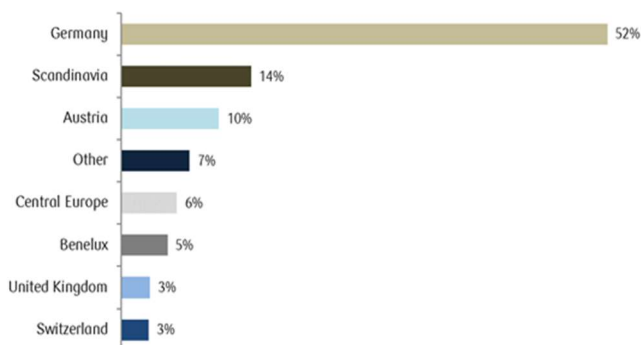
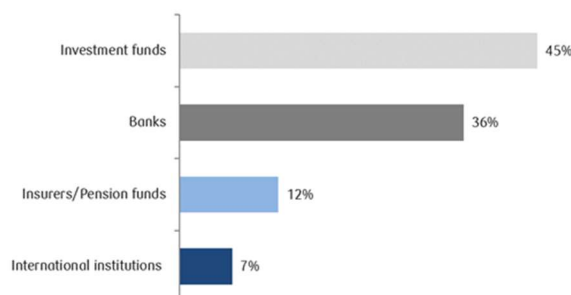


Chart: Purchasers of EUR-denominated issues of PKO Bank Hipoteczny SA's covered bonds in the years 2016-2021



Outstanding EUR-denominated issues of mortgage covered bonds of PKO Bank Hipoteczny SA carried out up to 30 September 2021:

| Series | Mortgage covered bond number (ISIN) | Issue date | Redemption date | Series value (EUR million) | Coupon | Price | Currency | Rating of the issue | Listing |
|-------------|-------------------------------------|------------|-----------------|----------------------------|--------|---------|----------|---------------------|----------------------------|
| 1 | XS1508351357 | 24.10.2016 | 24.06.2022 | 500 | 0.125% | 99.702% | EUR | Aa1 | LuxSE, WSE parallel market |
| 1 tranche 2 | XS1508351357 | 08.03.2019 | 24.06.2022 | 100 | 0.125% | 99.489% | EUR | Aa1 | LuxSE, WSE parallel market |
| 2 | XS1559882821 | 02.02.2017 | 02.02.2024 | 25 | 0.82% | 100.00% | EUR | Aa1 | LuxSE, WSE parallel market |
| 3 | XS1588411188 | 30.03.2017 | 24.01.2023 | 500 | 0.625% | 99.972% | EUR | Aa1 | LuxSE, WSE parallel market |
| 4 | XS1690669574 | 27.09.2017 | 27.08.2024 | 500 | 0.75% | 99.906% | EUR | Aa1 | LuxSE, WSE parallel market |
| 5 | XS1709552696 | 02.11.2017 | 03.11.2022 | 54 | 0.467% | 100.00% | EUR | Aa1 | LuxSE, WSE parallel market |
| 6 | XS1795407979 | 22.03.2018 | 24.01.2024 | 500 | 0.75% | 99.892% | EUR | Aa1 | LuxSE, WSE parallel market |
| 7 | XS1935261013 | 28.01.2019 | 23.11.2021 | 500 | 0.250% | 99.933% | EUR | Aa1 | LuxSE, WSE parallel market |

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| | | | | | | | | | |
|----------------|--------------|------------|------------|-----|--------|----------|-----|-----|-------------------------------|
| 7 tranche 2 | XS1935261013 | 01.03.2019 | 23.11.2021 | 100 | 0.250% | 100.145% | EUR | Aa1 | LuxSE, WSE parallel market |
|----------------|--------------|------------|------------|-----|--------|----------|-----|-----|-------------------------------|

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

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

On 30 September 2015, PKO Bank Hipoteczny SA concluded a Bond Issue Programme Agreement with PKO Bank Polski SA. During the three quarters of 2021, the Bank issued bonds with a total nominal value of PLN 4,905.0 million under the Programme. At the same time, the Bank redeemed bonds with a total nominal value of PLN 5,125.5 million. The balance of short- and medium-term bonds issued was PLN 3,529.0 as at 30 September 2021. The Bank intends to continue to seek financing under this Programme.

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

BOND ISSUES – PUBLIC PROGRAMME

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

During the three quarters of 2021, PKO Bank Hipoteczny SA did not issue bonds under the Public Bond Issue Programme. In this period the Bank redeemed PLN 145.0 million worth of bonds issued under the Programme.

The balance of bonds issued and outstanding was PLN 70.0 million as at 30 September 2021. All series were admitted and introduced to trading on the WSE regulated market (parallel market). The Bank does not intend to continue seeking financing under this Programme.

Outstanding PLN-denominated bonds of PKO Bank Hipoteczny SA issued under the Programme until 30 September 2021:

| Series | Bond number (ISIN) | Issue date | Redemption date | Series value (PLN million) | Coupon | Currency | Rating of the issue | Listing |
|--------|--------------------|------------|-----------------|----------------------------|----------------|----------|---------------------|-------------------------------|
| 3 | PLPKOHP00173 | 17.10.2019 | 18.10.2021 | 40 | WIBOR3M +0.60% | PLN | None | WSE regulated parallel market |
| 4 | PLPKOHP00181 | 18.12.2019 | 20.12.2021 | 30 | WIBOR3M +0.60% | PLN | None | WSE regulated parallel market |

BOND ISSUES – OTHER

In the three quarters of 2021, PKO Bank Hipoteczny SA did not issue any unsecured bonds on the basis of an individual agreement.

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

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5. OTHER INFORMATION

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

As at 30 September 2021 the share capital of PKO Bank Hipoteczny SA amounted to PLN 1,611,300,000 and comprised 1,611,300,000 shares with PLN 1 nominal value. The shares are paid up in full. The share capital did not change compared to the end of 2020. The PKO Bank Hipoteczny SA shares are non-preference shares. The holders of PKO Bank Hipoteczny SA shares do not have any control rights due to holding such shares. Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna is the shareholder holding 100% of shares in PKO Bank Hipoteczny SA.

Structure of the share capital of PKO Bank Hipoteczny SA as at 30 September 2021:

| Series | Type of shares | Number of shares | Nominal value per share | Number of votes at the GSM | Amount paid in for the shares |
|--------|----------------------------|------------------|-------------------------|----------------------------|-------------------------------|
| A | Ordinary registered shares | 300,000,000 | PLN 1 | 300,000,000 | PLN 300,000,000.00 |
| 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 | 30.09.2021 | | 31.12.2020 | |
|---|------------------|---|------------------|---|
| | Number of shares | Share in the number of votes at the GSM | Number of shares | Share in the number of votes at the GSM |
| Powszechna Kasa Oszczędności Bank Polski SA | 1,611,300,000 | 100% | 1,611,300,000 | 100% |

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

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

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

In the three quarters of 2021 and in 2020, PKO Bank Hipoteczny SA did not grant any loan or credit guarantees to a single entity or a subsidiary of such an entity with a total value equivalent to at least 10% of the Bank's equity.

CHANGE IN THE BANK'S RATING

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

Moody's informed that the change in the ratings was the consequence of changing the "Banks Methodology" on 9 July 2021. The ratings assigned reflect Moody's reassessment of mutual relations between the Bank and its parent – PKO Bank Polski SA – and recognizing low probability of the parent granting a lower priority to fulfilling the obligations of the Bank compared to fulfilling its own obligations in the event of the financial stress of the parent or the Group.

As at 30 September 2021, PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

| | Rating | Outlook | Date of initial rating/rating confirmation date |
|--|---------|---------|---|
| Long-term issuer rating | A3 | Stable | 13.07.2021 |
| Short-term issuer rating | P-2 | n/a | 19.12.2017 |
| Opinion on long-term counterparty risk | A2(cr) | n/a | 13.07.2021 |
| Opinion on short-term counterparty risk | P-1(cr) | n/a | 13.07.2021 |
| Assessment of long-term counterparty risk | A2 | n/a | 13.07.2021 |
| Assessment of short-term counterparty risk | P-1 | n/a | 13.07.2021 |

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

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As at 30 September 2021, the mortgage covered bonds of PKO Bank Hipoteczny SA had the following ratings assigned by Moody's:

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

On 18 October 2021, as a result of signing an annex to the overdraft facility agreement of 29 October 2015, the lending period was extended by 3 years, i.e. until 29 October 2025.