

# PKO Bank Hipoteczny SA

## PROGRAMMATIC POST-ISSUANCE VERIFICATION LETTER

### BUILDINGS CRITERIA OF THE CLIMATE BONDS STANDARD

**Type of engagement:** Assurance Engagement

**Period engagement was carried out:** February - March 2023

**Approved verifier:** Sustainalytics

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### Scope and Objectives

In 2019 and 2022, PKO Bank Hipoteczny SA (“PKO BH” or the “Bank”) issued three certified green covered bonds<sup>1,2</sup> aimed at financing or refinancing a portfolio of new and existing mortgages for energy-efficient residential buildings in Poland. In February 2023, PKO BH engaged Sustainalytics to review the assets funded with proceeds from the issued green covered bonds (the “Nominated Assets”) and provide an assessment as to whether they met the post-issuance requirements and the Buildings Criteria<sup>3</sup> of the Climate Bonds Standard Version 3.0.<sup>4</sup>

PKO BH used the following criteria to qualify mortgages among the Nominated Assets:

- Single-family house or multi-family house complying with TC 2017 or later by year of construction are automatically eligible for qualification for bonds where the mid-point of the bond term is no later than 2025.
- Single-family house or multi-family house with an energy performance certificate (EPC) available stating the TC 2017 or newer.
- Single-family house or multi-family house built after the year 2017, based on the year of construction.
- A property upgrade resulting in a reduction in building’s carbon emissions or energy consumption of at least 30%.

Schedule 1 provides details of the Nominated Assets and disbursement of proceeds.

### Post-Issuance Evaluation Criteria

Post-issuance Requirements of the Climate Bonds Standard Version 3.0:

- Use of Proceeds
- Process for Evaluation and Selection of Projects & Assets
- Management of Proceeds
- Reporting

<sup>1</sup> The issuances took place respectively in June 2019 (ISIN PLPKOHP00132), December 2019 (PLPKOHP00199) and July 2022 (XS2495085784), with the mid-point of the bond term no later than 2025.

<sup>2</sup> Bank Hipoteczny, “Green Covered Bonds”, at: <https://www.pkobh.pl/en/covered-bond/green-covered-bonds/>

<sup>3</sup> Climate Bonds Initiative, “Buildings Criteria”, (2020), at:

[https://www.climatebonds.net/files/files/standards/Buildings/Low%20Carbon%20Building%20Criteria\\_V\\_1\\_1\\_July2020.pdf](https://www.climatebonds.net/files/files/standards/Buildings/Low%20Carbon%20Building%20Criteria_V_1_1_July2020.pdf)

<sup>4</sup> Climate Bonds Initiative, “Climate Bonds Standard Version 3.0”, (2019), at: <https://www.climatebonds.net/files/files/climate-bonds-standard-v3-20191210.pdf>

### **Issuing Entity's Responsibility**

PKO BH is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, total development cost of each project and disbursed amounts.

### **Independence and Quality Control**

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of PKO BH's green covered bonds, issued to finance the Nominated Assets, and provided an independent opinion informing PKO BH as to the conformance of the green covered bonds with the Post-Issuance Requirements and Buildings Criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by PKO BH with respect to the Nominated Assets. Sustainalytics is not responsible nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by PKO BH.

Sustainalytics makes all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the bond.

### **Verifier's Responsibility**

Sustainalytics conducted the verification in accordance with the Climate Bonds Standard Version 3.0 and with International Standard on Assurance Engagements 3000 (ISAE 3000) – Assurance Engagements other than Audits or Reviews of Historical Financial Information.

The work undertaken as part of this engagement included conversations with relevant PKO BH employees and review of relevant documentation to assess the conformance of the PKO BH's green covered bonds with the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0.

### **Exceptions**

No exceptions were identified. All projects aligned with the Post-Issuance Requirements of the Climate Bonds Standard Version 3.0 and were in conformance with the Buildings criteria.

### **Conclusion**

Based on the limited assurance procedures conducted and evidence obtained, nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the allocation of PLN 2,845 million (EUR 607 million) from the proceeds of PKO BH's green covered bonds is not in conformance with the Post-Issuance Requirements of the Climate Bonds Standard.

## Schedule 1: Detailed Overview of Nominated Projects and Assets

Details of the Nominated Assets are provided below:

### Overview

Number of mortgages included	25,199
Average value of mortgages	PLN 229,917.46 (EUR 49,023.96)
Total value of mortgages	PLN 5,793,690,196.78 (EUR 1,224,206,738)

### Assets as per building age

Built Year	No of mortgages	Mortgage value PLN	Share of Mortgages %
1957	1	361,409.26	0.01%
1970	1	374,748.68	0.01%
1985	1	271,522.32	0.00%
2004	2	708,431.25	0.01%
2006	1	338,616.61	0.01%
2009	2	822,489.75	0.01%
2010	4	1,300,719.60	0.02%
2012	2	318,083.14	0.01%
2013	3	828,742.93	0.01%
2014	3	746,567.10	0.01%
2015	3	744,186.19	0.01%
2016	3	931,383.23	0.02%
2017	9674	1,924,757,083.98	33.22%
2018	7584	1,716,481,447.53	29.63%
2019	4386	1,135,551,911.86	19.60%
2020	2101	583,689,150.25	10.07%
2021	933	283,163,604.83	4.89%
2022	386	119,878,104.00	2.07%
2023	96	21,177,224.60	0.37%
2024	13	1,244,769.68	0.02%
<b>Total</b>	<b>25199</b>	<b>5,793,690,196.78</b>	<b>100%</b>

**Assets as per building standard**

<b>Reason or Standard</b>	<b>Mortgage value (PLN)</b>
MFH EPC TC 2017	40,881,686.76
MFH EPC TC 2021	13,199,116.39
MFH Year of Construction $\geq$ 2017 & < 2021	2,460,209,353.56
MFH Year of Construction $\geq$ 2021	274,977,097.83
SFH EPC TC 2017	9,748,827.04
SFH EPC TC 2021	1,565,103.23
SFH Year of Construction $\geq$ 2017 & < 2021	2,853,866,115.35
SFH Year of Construction $\geq$ 2021	139,242,896.62
<b>Total</b>	<b>5,793,690,196.78</b>

## Schedule 2A: Post-Issuance Requirements of the Climate Bonds Standard

<p>Use of Proceeds</p>	<p>5.1 The Net Proceeds of the Bond shall be allocated to the Nominated Projects &amp; Assets.</p> <p>5.2 All nominated Projects &amp; Assets shall meet the documented objectives of the Bond as stated under Clause 6.1.1 and shall be in conformance with the requirements of Part C of the Climate Bonds Standard.</p> <p>5.3 The Issuer shall allocate the Net Proceeds to Nominated Projects &amp; Assets within 24 months of issuance of the Bond, or the Issuer shall disclose in post-issuance reporting as per clause 8.3 the estimated timeline for allocation of net proceeds to Nominated Projects &amp; Assets. Net proceeds may be reallocated to other Nominated Projects &amp; Assets at any time while the Bond remains outstanding.</p> <p>5.4 Nominated Projects &amp; Assets shall not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds) unless it is demonstrated by the Issuer that:</p> <p>5.4.1. distinct portions of the Nominated Projects &amp; Assets are being funded by different Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments or;</p> <p>5.4.2. the existing Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument is being refinanced via another Certified Climate Bond, Certified Climate Loan or Certified Climate Debt Instrument.</p> <p>5.5 Where a proportion of the Net Proceeds of the Bond are used for refinancing, the Issuer shall track the share of the Net Proceeds used for financing and refinancing and identify which Nominated Projects &amp; Assets may be refinanced. This may also include the expected look-back period for refinanced Nominated Projects &amp; Assets.</p> <p>5.6 The Net Proceeds of the Bond shall be tracked by the Issuer following a formal internal process which is documented in accordance with Clause 3.1.</p> <p>5.7 The Net Proceeds of the Bond shall be no greater than the Issuer's total investment exposure or debt obligation to the Nominated Projects &amp; Assets, or the relevant proportion of the total Market Value of the Nominated Projects &amp; Assets which are owned or financed by the Issuer.</p> <p>5.8 Additional Nominated Project &amp; Assets may be added to, or used to substitute or replenish, the portfolio of Nominated Project &amp; Assets as long as the additional Nominated Project &amp; Assets are eligible under Part C of the Climate Bonds Standard and are consistent with the Bond's objective as set out in Clause 6.1.1.</p> <p>5.8.1. Where additional Nominated Projects &amp; Assets are covered by Sector Eligibility Criteria which were not included in the scope of either the Pre-Issuance Verification or the Post-Issuance Verification engagements, the Issuer shall engage a Verifier to provide a Verifier's Report covering at least the conformance of the additional Nominated Projects &amp; Assets with the relevant Sector Eligibility Criteria under Part C of the Climate Bonds Standard.</p>
<p>Process for Evaluation and Selection of Projects &amp; Assets</p>	<p>6.1 The Issuer shall document and maintain a decision-making process which it uses to determine the continuing eligibility of the Nominated Projects &amp; Assets. This includes, without limitation:</p> <p>6.1.1. A statement on the climate-related objectives of the Bond;</p> <p>6.1.2. How the climate-related objectives of the Bond are positioned within the context of the Issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>6.1.3. The Issuer's rationale for issuing the Bond;</p> <p>6.1.4. A process to determine whether the Nominated Projects &amp; Assets meet the eligibility requirements specified in Part C of the Climate Bonds Standard;</p>

	6.1.5. Other information provided by the Issuer as described in Clause 2.2
Management of Proceeds	<p>7.1 The Net Proceeds of the Bond shall be credited to a sub account, moved to a sub-portfolio or otherwise identified by the Issuer in an appropriate manner, and documented.</p> <p>7.2 The Issuer of the Bond shall maintain the earmarking process to manage and account for allocation of Net Proceeds to the Nominated Projects &amp; Assets as described in Clause 3.1.3</p> <p>7.3 While the Bond remains outstanding, the balance of the tracked Net Proceeds shall be reduced by amounts allocated to Nominated Projects &amp; Assets. Pending such allocations to Nominated Projects &amp; Assets, the balance of unallocated Net Proceeds shall be:</p> <p>7.3.1. Held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function; or</p> <p>7.3.2. Held in temporary investment instruments that do not include greenhouse gas intensive projects which are inconsistent with the delivery of a low carbon and climate resilient economy; or</p> <p>7.3.3. Applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Nominated Projects &amp; Assets.</p>
Reporting – Post-issuance	<p>8.1 The Issuer shall prepare an Update Report at least annually while the Bond remains outstanding.</p> <p>8.1.1. The Update Report shall be made available to holders of the Bond and to the Climate Bonds Standard Board.</p> <p>8.1.2. The Update Report shall be made available to holders of the Bond and to the Climate Bonds Standard Board.</p> <p>8.1.3. The Issuer should provide an Update Report to holders of the Bond on a timely basis in case of material developments.</p>

## Schedule 2B: Conformance to the Post-Issuance Requirements of the Climate Bonds Standard

Evaluation Criteria	Factual Findings	Error or Exceptions Identified
Use of Proceeds	<p>5.1 A list of Nominated Projects &amp; Assets is provided in Schedule 1.</p> <p>5.2 The Nominated Project &amp; Assets meets the documented objectives of the finance and are in conformance with the requirements of Part C of the Climate Bonds Standard.</p> <p>5.3 The Net Proceeds have been allocated to Nominated Projects &amp; Assets within 24 months of issuance of the bond.</p> <p>5.4 PKO BH confirms that the Nominated Projects &amp; Assets have not be nominated to other Certified Climate Bonds, Certified Climate Loans, Certified Climate Debt Instruments, green bonds, green loans or other labelled instruments (such as social bonds or SDG bonds).</p> <p>5.5 PKO BH confirms that it has tracked the share of the Net Proceeds used for financing and refinancing.</p> <p>5.6 PKO BH's Green Covered Bond Framework documents that the Net Proceeds are tracked following a formal internal process.</p> <p>5.7 PKO BH has confirmed that the Net Proceeds raised are no greater than the total investment exposure or debt obligation to the Nominated Projects &amp; Assets which are owned or financed by the Issuer.</p> <p>5.8 N/A</p> <p>5.8.1 N/A</p>	None
Process for Evaluation and Selection of Projects & Assets	<p>6.1 PKO BH's Green Covered Bond Framework documents a decision-making process which it uses to determine the continuing eligibility of the Nominated Projects &amp; Assets. This includes, without limitation:</p> <p>6.1.1 A statement on the climate-related objectives of the financing;</p> <p>6.1.2 How the climate-related objectives of the financing are positioned within the context of the PKO BH's overarching objectives, strategy, policy and/or processes relating to environmental sustainability;</p> <p>6.1.3 PKO BH's rationale for issuing the bond;</p> <p>6.1.4 A process to determine whether the Nominated Project meet the eligibility requirements specified in the Climate Bonds Standard;</p> <p>6.1.5 Other information provided by PKO BH as described in Clause</p>	None
Management of Proceeds	<p>7.1 PKO BH confirmed that Net Proceeds of the bond were credited to a sub account, moved to a sub- portfolio or otherwise identified by PKO BH in an appropriate manner, and documented.</p>	None

	<p>7.2 PKO BH confirmed that it maintained an earmarking process to manage and account for allocation of Net Proceeds to the Nominated Projects &amp; Assets.</p> <p>7.3 PKO BH has confirmed that while the financing remained outstanding, the balance of the tracked Net Proceeds were reduced by amounts allocated to Nominated Projects &amp; Assets. Pending allocation, the Net Proceeds were held in temporary investment instruments that are cash, or cash equivalent instruments, within a Treasury function.</p>	
<p>Reporting –                  Post-issuance</p>	<p>8.1. PKO BH is committed to preparing an Update Report at least annually while the financing remains outstanding.</p> <p>8.1.2. The Update Report will be made available to the lenders and to the Climate Bonds Standard Board.</p> <p>8.1.3. PKO BH will provide an Update Report to the lenders on a timely basis in case of material developments</p>	<p>None</p>

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