



# PKO Bank Hipoteczny SA

## Green Covered Bond Framework

June 2019

## Contents

1. PKO Bank Hipoteczny SA Introduction	3
2. PKO Bank Hipoteczny SA Green Covered Bond Framework	4
3. Use of Proceeds	5
4. Process for Project Evaluation and Selection	7
5. Management of Proceeds	7
6. Reporting	8
7. External review	9
8. Disclaimer	10

# PKO Bank Hipoteczny SA Green Covered Bond Framework

## 1. Introduction

### *Background*

PKO Bank Hipoteczny SA is the mortgage bank subsidiary of the largest commercial bank in Poland, Powszechna Kasa Oszczędności Bank Polski SA (PKO Bank Polski SA).

PKO Bank Hipoteczny SA specialises in residential mortgage loans for individual clients. Based on its strategic relationship with parent company, PKO Bank Polski SA, these loans are offered to retail clients through Poland's largest network of branches, intermediaries and agencies. PKO Bank Hipoteczny's functional concept is based on operational integration with the parent bank. Its goal is to achieve maximum synergies within the PKO Group, meaning optimal use of the Group's assets and know-how. PKO Bank Polski declared financial support for PKO Bank Hipoteczny to keep its liquidity and capital adequacy ratios above regulatory limits, but does not guarantee to cover its obligations. PKO Bank Hipoteczny's main purpose in issuing covered bonds is to secure long-term financing by issuing covered bonds at a lower cost than that of issuing unsecured bonds. The use of covered bonds to finance mortgage lending also increases the Group's financial safety by partially eliminating the mismatch between the maturity structure of assets and liabilities. PKO Bank Hipoteczny is the largest and most active issuer of EUR-benchmark covered bonds out of Poland.

As part of the PKO Bank Polski SA group PKO Bank Hipoteczny is committed to the same CSR strategy as defined by the parent company in a dedicated report called "The PKO Bank Polski SA Group Directors' Report on the non-financial information".<sup>1</sup> Aware of the multifaceted impact it has on the environment in which it does business, PKO Bank Hipoteczny is committed to sustainable development as it responds to the diverse needs of its employees and its market, the society and the natural environment. PKO Bank Polski Group has accompanied clients in their everyday lives, providing its support at times when important personal and financial decisions had to be taken. From its inception it has participated in the country's major investment projects contributing to its progress and welfare. From its earliest years naturally engaged with its social environment, PKO Bank Polski Group embraced the philosophy of corporate social responsibility long before it ever became one of the key paradigms of the modern practice of business. This is why ethical behaviour, fairness, co-operation, trust and respect for all the stakeholders form the core of our operational model.

PKO Bank Hipoteczny strategy within the PKO Bank Polski Group is to issue covered bonds to finance the mortgage loans granted to individual customers, providing a diversification in funding sources and a prolongation in the maturity profile of the liabilities side of the balance sheet, which is strongly characterised by deposits.

---

<sup>1</sup> <https://www.pkobp.pl/pkobpppl-en/investor-relations/financial-results/#category=96374&page=2>

PKO Bank Hipoteczny's key task is the issuance of covered bonds, which constitute the primary source of long-term financing of loans granted by the Bank that are secured by property. PKO Bank Hipoteczny's mission is to provide:

- for clients: loan products for the financing of property
- for investors: long-term covered bonds with a high level of safety.

### *Rationale*

PKO Bank Polski Group intends to contribute to the development of the Green Bond market as it is an important tool for channeling more investments towards climate change mitigation. PKO Bank Hipoteczny, as PKO Bank Polski Group member, believes that Green Bonds offer transparency and traceability to investors who wish to allocate funds to green assets. By issuing green covered bonds, PKO Bank Hipoteczny hopes to broaden its investor base by attracting investors that seek to focus their investments towards environmentally friendly projects. In addition,

- PKO Bank Hipoteczny is committed to making banking more sustainable as a better bank contributing to a better world and to making sustainability an integral part of its business activities
- Green covered bonds create the perfect opportunity to connect sustainable parts of the business with dedicated investor demand.
- By issuing green covered bonds focused on energy efficiency, the Bank, its clients and investors contribute to Poland's greenhouse gas reduction targets.

PKO Bank Hipoteczny has developed this Green Covered Bond Framework in accordance with the ICMA Green Bond Principles 2018, in alignment with market best practice in terms of transparency, impact reporting, and commitments. As the first Polish financial institution entering the Green Covered Bond market, PKO Bank Hipoteczny believes also it has a key role to play as a standard setter in Poland.

## **2. PKO Bank Hipoteczny SA Green Bond Framework**

PKO Bank Hipoteczny SA has created this Green Covered Bond Framework in accordance with ICMA Green Bond Principles 2018<sup>2</sup> to be able to issue green covered bonds to finance and/or refinance mortgages for energy efficient residential properties with lower energy needs and consumption.

The ICMA Green Bond Principles are voluntary guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond. In alignment with the ICMA Green Bond Principles 2018, PKO Bank Hipoteczny SA Green Covered Bond Framework is presented through the following key pillars:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting
5. External review

For each Green Bond issued, (i) Use of Proceeds (ii) Project Evaluation and Selection (iii) Management of Proceeds, (iv) Reporting, and (v) External review will be adopted subject to and in accordance

---

<sup>2</sup> <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

with this Green Covered Bond Framework as amended from time to time. Any amendments shall be a subject to an updated Second Party Opinion.

This framework will apply to any Green Covered Bond issued by PKO Bank Hipoteczny SA after its publication.

### 3. Use of Proceeds

PKO Bank Hipoteczny SA intends to allocate the net proceeds of the green covered bonds to a loan portfolio of new and existing mortgages for energy efficient residential buildings and apartments in Poland (Residential Green Buildings). The eligible loans are to be funded by an allocation of the Green Covered Bond proceeds.

Any financing not classified within this Green Covered Bond framework will not be financed or refinanced with the issue proceeds from a green covered bond.

PKO Bank Hipoteczny SA has relied on the support of external green real estate consultant **Drees&Sommer Advanced Building Technologies GmbH** (Drees&Sommer ABT) to define the associated eligibility criteria.

Green residential buildings must meet the following minimum eligibility criteria:

New or existing residential buildings representing the TOP 15% low carbon buildings in Poland:

- 1) Single-Family House with an annual energy consumption less than or equal to 95 kWh per square meter per year. Multi-Family House with an annual energy consumption less than or equal to 85 kWh per square meter per year<sup>[3]</sup>.
- 2) Single-Family House or Multi-Family House with an Energy Performance Certificate (EPC) available, stating the annual energy demand less than or equal to 95 kWh per square meter per year for single-family house and less than or equal to 85 kWh per square meter per year for multi-family house<sup>[3]</sup>.
- 3) Single-Family House or Multi-Family House with an Energy Performance Certificate (EPC) available, stating the polish technical condition TC 2017 or newer (e.g TC 2017, TC 2021 or Nearly-Zero Energy Building)<sup>[3]</sup>.
- 4) Single-Family House or Multi-Family House which are built after the year 2017<sup>[3][4]</sup>, based on the year of construction.

Existing residential buildings in Poland, which have undergone a property upgrade (major renovations, refurbishment, thermo-modernization or efficiency upgrade):

- 5) Single-Family House or Multi-Family House which fulfil a reduction in building's carbon emissions or energy consumption of at least 30% or more through the property upgrade<sup>5</sup>.

---


<sup>3</sup> Treshold is subject to change, based on year of bond issuance, bond duration and is mandatory to comply with the developed low carbon trajectories for single-family or multi-family house as part of PKO-BH's Green Bond Methodology. The treshold would be adjusted downwards and in compliance with the CBI criteria for low carbon buildings in addition to PKO BH's Green Bond Methodology.

<sup>4</sup> Linear decreasing bond term applies, based on low carbon trajectories for single-family or multi-family house.

<sup>5</sup> The level of percentual reduction is based on the green bond duration. Bond duration up to 5 years = 30% reduction. For longer bonds, the level of reduction linear increases up to 50% for a bond term of 30 years.

More detailed requirements apply and are listed in the following table.

Table: PKO BH Green Coverd Bond – summarized criteria

	PKO-BH Green Bond criteria		Poland
	<b>The object fulfills one or more of the following criteria:</b>	<b>Single-Family House</b>	<b>Multi-Family House</b>
1)	<b>Primary energy consumption</b> complies with low carbon trajectory based on year of issuance, duration of bond	PE ≤ 95 kWh/m <sup>2</sup> year Year of bond issuance and duration	PE ≤ 85 kWh/m <sup>2</sup> year Year of bond issuance and duration
2)	<b>Energy Performance Certificate (EPC) available and Primary Energy demand (PE) is less than or equal and complies with low carbon trajectory based on year of issuance, duration of bond</b>	EPC available and PE ≤ 95 kWh/m <sup>2</sup> year Year of bond issuance and duration	EPC available and PE ≤ 85 kWh/m <sup>2</sup> year Year of bond issuance and duration
3)	<b>Energy standard or newer*</b> based on year of bond issuance	<u>Year of bond issuance = 2020 – 2025:</u> TC 2017 with a linear decreasing bond term of 6 years in 2020 and 1 year in 2025 <u>Year of bond issuance = 2026 – 2032:</u> TC 2021 with a linear decreasing bond term of 7 years in 2026 and 1 year in 2032	<u>Year of bond issuance = 2020 – 2028:</u> TC 2017 with a linear decreasing bond term of 9 years in 2020 and 1 year in 2028 <u>Year of bond issuance = 2029 – 2033:</u> TC 2021 with a linear decreasing bond term of 5 years in 2029 and 1 year in 2033
4)	<b>Year of construction is equal or newer *</b> based on year of bond issuance	<u>Year of bond issuance = 2020-2025:</u> Year of construction = 2017 or newer with a linear decreasing bond term of 6 years in 2020 and 1 year in 2025 <u>Year of bond issuance = 2026-2032:</u> Year of construction = 2021 or newer with a linear decreasing bond term of 7 years in 2026 and 1 year in 2032	<u>Year of bond issuance = 2020 – 2028:</u> Year of construction = 2017 or newer with a linear decreasing bond term of 9 years in 2020 and 1 year in 2028 <u>Year of bond issuance = 2029 – 2033:</u> Year of construction = 2021 or newer with a linear decreasing bond term of 5 years in 2029 and 1 year in 2033
5)	<b>Property upgrade with reduction in primary energy or carbon Emissions*</b>	Major renovation with modernised technical condition including an improvement in emissions against business-as-usual based on bond duration and year of bond issuance. Minimum improvement in emissions or primary energy ≥ 30% . Bond term 1-5 years: 30% improvement   Bond term 5-30 years: 30%-50% linear improvement   Bond term ≥ 30 years : 50% improvement (Major renovation, refurbishment, retrofit, thermo-modernization or energy efficiency upgrade)	

\*The criteria 3, 4 and 5 are aligned with the Climate Bond Initiative's (CBI) Low Carbon Buildings Standard, specifically the Residential Buildings Criteria.

Technical conditions (TCs) referred to in the above table are applicable for buildings built from that year onwards. Buildings built from 2021 onwards are to apply TC 2021 and are to be built in compliance with the national definition for nearly zero-energy buildings (NZEB).

The list of eligibility criteria may be amended from time to time by the Green Covered Bond Committee.

For the avoidance of doubt, any future changes to the eligibility criteria will not apply to Green Covered Bonds issued before the date of the change.

#### **4. Process for Project Evaluation and Selection**

A dedicated Green Covered Bond Committee has been established to create this Green Covered Bond Framework, manage any future updates to the Framework, including expansions to the list of Eligible Categories, and oversee its implementation. The committee consists of representatives of the treasury office, the residential mortgage loans office, the risk office, the compliance office, the controlling office, the cover pool register responsible office.

The Green Covered Bond Committee reports directly to the Management Board of PKO Bank Hipoteczny SA and will oversee the entire Green Covered Bond process, including the evaluation and selection of eligible loans. PKO BH Green Bond Committee will be acting according to the "Regulations of the Permanent Committees of PKO Bank Hipoteczny SA.

For newly originated loans, i.e. loans which will be originated after PKO Bank Hipoteczny SA's inaugural issuance and for existing loans for which detailed information has become available (such as Energy Performance Certificates) the Green Covered Bond Committee will oversee the process for evaluation and selection of eligible loans according to the adopted methodology. PKO Bank Hipoteczny SA will in this way gradually expand the Eligible Green Loan Portfolio.

All residential mortgages within PKO Bank Hipoteczny SA Cover Pool, including the Eligible Green Loans, have been and will be originated in line with PKO Group credit risk policies. PKO Bank Hipoteczny will be responsible for identification and record keeping of new and existing mortgages that meet the eligibility criteria. A green mortgage register of Eligible Green Loans will be kept by PKO Bank Hipoteczny available for green covered bond funding.

The Green Covered Bond Committee will meet on regular basis (at least annually) and will conduct an additional review on the selected mortgages to ensure ongoing compliance with the eligibility criteria.

PKO Bank Hipoteczny SA takes care that all selected Eligible Assets comply with national standards and laws. It is part of the Bank's transaction approval process to take care, that all its activities comply with internal environmental and social directives. PKO Bank Hipoteczny SA has minimum environmental and social requirements in place for all lending businesses, including those financed with the proceeds of the green covered bonds.

#### **5. Management of Proceeds**

The proceeds from the issuance of Green Covered Bonds will be allocated within 24 months to a portfolio of loans that meet the use of proceeds eligibility criteria and in accordance with the evaluation and selection process presented above, the Eligible Green Loan Portfolio.

PKO Bank Hipoteczny SA intends to designate sufficient eligible loans in the Eligible Green Loan Portfolio to ensure an overcollateralisation of the outstanding balance of Eligible Green Loans in terms of the total outstanding balance of all Green Covered Bonds. For each new green covered bond issuance, where necessary, additional Eligible Green loans will be added to this Eligible Green Loan Portfolio to ensure the sufficient and timely allocation of the incremental net proceeds.

If a loan is repaid or otherwise ceases to fulfil the eligibility criteria during the life of the Green Covered Bonds, PKO Bank Hipoteczny SA will remove the loan from the Eligible Green Loan Portfolio and replace it as soon as reasonably practicable. Pending allocation or reallocation, PKO Bank Hipoteczny SA will hold and/or invest any unallocated Green Covered Bond net proceeds, at its own discretion, in its liquidity portfolio in money market instruments described under the legally binding Act of 29 August 1997 on Covered Bonds and Mortgage Banks. PKO Bank Hipoteczny SA commits that the unallocated proceeds will not be used to finance GHG intensive activities nor controversial activities

## 6. Reporting

The Green Bond Principles require Green Bond issuers to provide information on the allocation of proceeds. In addition to information related to the projects to which Green Bond proceeds have been allocated, the Green Bond Principles recommend communicating on the expected impact of the projects.

On a best effort basis, PKO Bank Hipoteczny SA will align the reporting with the portfolio approach described in "Green Bonds - working towards a Harmonized Framework for Impact Reporting (December 2015)"<sup>6</sup>. The reporting is based on the outstanding Eligible Green Loan Portfolio and the numbers will be aggregated for all Green Covered Bonds outstanding.

PKO Bank Hipoteczny SA intends to report to investors within one year from the date of a Green Covered Bond transaction and annually thereafter, until the covered bonds have been fully repaid.

### *Allocation Reporting*

Allocation reporting will be available to investors within one year and on a timely basis and annually thereafter, until the bonds have been fully repaid.

The report will provide, on a portfolio basis, reporting on indicators such as:

- the total amount of outstanding proceeds allocated to eligible loans
- the number of eligible loans
- the balance of unallocated proceeds
- the amount or the percentage of new financing and refinancing

Additionally, when appropriate and subject to confidentiality obligations, PKO Bank Hipoteczny SA may provide concrete examples of eligible assets refinanced through the proceeds of the Green Covered Bonds.

### *Impact Reporting*

PKO Bank Hipoteczny SA commits on a best effort basis to report annually and on a timely basis and until the bonds have been fully repaid, on climate benefits associated to the Green buildings eligible loans on:

- Estimated annual primary energy savings in MWh
- Estimated annual GHG emissions avoided in tons of CO<sub>2</sub> equivalent

For the Green buildings Eligible category, PKO Bank Hipoteczny has appointed a specialized consultant to develop the methodology for the estimation and calculation of the impacts that will be made publically available.

---

<sup>6</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/20151202-0530-FINALRevised-Proposal2.pdf>



Both allocation report and impact report will be made available on PKO Bank Hipoteczny SA website.

To offer maximum transparency to investors PKO Bank Hipoteczny SA will also strive to deliver such impact estimates in an investor presentation alongside with the issuance of each Green Covered Bond.

## 7. External review

### *Second party opinion*

PKO Bank Hipoteczny SA will obtain an independent second party opinion from Sustainalytics in order to confirm the validity of the PKO Bank Hipoteczny SA Green Covered Bond Framework. The independent second party opinion will be published on the PKO Bank Hipoteczny website.

In addition to a second party opinion, Sustainalytics has provided a Climate Bonds Initiative pre-issuance verification letter on the use of proceeds.

The Climate Bond Initiative Pre-Issuance certificate for PKO Bank Hipoteczny inaugural green covered bond has been issued.

### *Verification post issuance*

PKO Bank Hipoteczny SA may request on an annual basis, starting one year after issuance and until maturity (or until full allocation), a limited assurance report of the allocation of the covered bond proceeds to eligible assets, provided by its external auditor (or any subsequent external auditor).

PKO Bank Hipoteczny SA has the intention to obtain accreditation of the CBI certificate for the envisaged green covered bond with PKO Bank Hipoteczny SA Green Covered Bond Framework complying with Climate Bond Initiative's standard for residential buildings.

Sustainalytics, an approved CBI verifier, has been appointed to confirm the framework's conformance with CBI's standard and certification methodology.

## 8. Disclaimer

THIS DOCUMENT IS INTENDED TO PROVIDE NON-EXHAUSTIVE, GENERAL INFORMATION. THIS DOCUMENT MAY CONTAIN OR INCORPORATE BY REFERENCE PUBLIC INFORMATION NOT SEPARATELY REVIEWED, APPROVED OR ENDORSED BY PKO BANK HIPOTECZNY SA AND ACCORDINGLY, NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY PKO BANK HIPOTECZNY SA AS TO THE FAIRNESS, ACCURACY, REASONABLENESS OR COMPLETENESS OF SUCH INFORMATION. THIS DOCUMENT MAY CONTAIN STATEMENTS ABOUT FUTURE EVENTS AND EXPECTATIONS THAT ARE FORWARD LOOKING STATEMENTS. NONE OF THE FUTURE PROJECTIONS, EXPECTATIONS, ESTIMATES OR PROSPECTS IN THIS DOCUMENT SHOULD BE TAKEN AS FORECASTS OR PROMISES NOR SHOULD THEY BE TAKEN AS IMPLYING ANY INDICATION, ASSURANCE OR GUARANTEE THAT THE ASSUMPTIONS ON WHICH SUCH FUTURE PROJECTIONS, EXPECTATIONS, ESTIMATES OR PROSPECTS HAVE BEEN PREPARED ARE CORRECT OR EXHAUSTIVE OR, IN THE CASE OF THE ASSUMPTIONS, FULLY STATED IN THE DOCUMENT. PKO BANK HIPOTECZNY SA HAS AND UNDERTAKES NO OBLIGATION TO UPDATE, MODIFY OR AMEND THIS DOCUMENT, THE STATEMENTS CONTAINED HEREIN TO REFLECT ACTUAL CHANGES IN ASSUMPTIONS OR CHANGES IN FACTORS AFFECTING THESE STATEMENTS OR TO OTHERWISE NOTIFY ANY ADDRESSEE IF ANY INFORMATION, OPINION, PROJECTION, FORECAST OR ESTIMATE SET FORTH HEREIN CHANGES OR SUBSEQUENTLY BECOMES INACCURATE.

THIS DOCUMENT IS NOT INTENDED TO BE AND SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL OR FINANCIAL ADVICE. IT DOES NOT CONSTITUTE AN OFFER OR INVITATION TO SELL OR ANY SOLICITATION OF ANY OFFER TO SUBSCRIBE FOR OR PURCHASE OR A RECOMMENDATION REGARDING ANY SECURITIES, NOTHING CONTAINED HEREIN SHALL FORM THE BASIS OF ANY CONTRACT OR COMMITMENT WHATSOEVER AND IT HAS NOT BEEN APPROVED BY ANY SECURITY REGULATORY AUTHORITY.

THE DISTRIBUTION OF THIS DOCUMENT AND OF THE INFORMATION IT CONTAINS MAY BE SUBJECT OF LEGAL RESTRICTIONS IN SOME COUNTRIES. PERSONS WHO MIGHT COME INTO POSSESSION OF THIS DOCUMENT MUST INQUIRE AS TO THE EXISTENCE OF SUCH RESTRICTIONS AND COMPLY WITH THEM.

THE INFORMATION IN THIS DOCUMENT HAS NOT BEEN INDEPENDENTLY VERIFIED.

THE ADDRESSEE IS SOLELY LIABLE FOR ANY USE OF THE INFORMATION CONTAINED HEREIN AND PKO BANK HIPOTECZNY SA SHALL NOT BE HELD RESPONSIBLE FOR ANY DAMAGES, DIRECT, INDIRECT OR OTHERWISE, ARISING FROM THE USE OF THIS DOCUMENT BY ANY PERSON WHO MIGHT COME INTO ITS POSSESSION.