

PKO Bank Hipoteczny SA

PRE-ISSUANCE VERIFICATION LETTER

LOW CARBON BUILDINGS CRITERIA OF THE CLIMATE BONDS STANDARD

Type of engagement: Assurance Engagement

Period engagement was carried out: 28 March 2019 - 15 May 2019

Approved verifier: Sustainalytics

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Scope and Objectives

PKO Bank Hipoteczny SA (“PKO BH” or “the bank”) has engaged Sustainalytics to review and verify that the bank’s green covered bond meets the requirements under the Low Carbon Buildings criteria of the Climate Bonds Standard.

PKO BH provides retail customers with mortgage loans. The bank was created in 2014 and is currently based in Gdynia, Poland. As a part of PKO Bank Polski Group, PKO BH commits to sustainable development and minimizing its environmental impact on the natural environment, while also undertaking actions aimed at limiting its environmental footprint.¹ Moreover, the PKO Bank Polski Group Environmental responsibility of credit policy stipulates guidelines on integrating environment considerations into credit activities of all group entities.²

PKO BH is intending to issue a green covered bond to finance/refinance a loan portfolio of new and existing mortgages for residential green buildings in Poland. In line with its environmental commitments, the objective of the bank’s green covered bond issuance is to support environmentally impactful investments. PKO BH will use the proceeds of the green covered bond to allocate funds to its loan portfolio based on the following eligibility criteria:

New or existing residential buildings representing the TOP 15% low carbon buildings in Poland:³

- 1) 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).
- 2) Single-Family House or Multi-Family House which are built after the year 2017⁴, 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):

- 3) Single-Family House or Multi-Family House which fulfil a reduction in building’s carbon emissions of at least 30% or more through the property upgrade. The level of percentual reduction is based on the green bond duration. Bond duration up to 5 years = 30% reduction. For

¹ PKO Bank, “The PKO Bank Polski SA Group Directors Report 2018”, at: https://www.pkobp.pl/media_files/88d99edd-0644-4ea8-b226-b4c4466fe188.pdf.

² PKO Bank, “PKO Environmental responsibility of credit policy”, at: <http://www.raportroczny2017.pkobp.pl/en/non-financial-information/environment/environmental-responsibility-credit-policy>.

³ Threshold 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 threshold would be adjusted downwards and in compliance with the CBI criteria for low carbon buildings in addition to PKO’s own methodology.

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

longer bonds, the level of reduction linear increases up to 50% for a bond term of 30 years.⁵ These reductions will be calculated by comparing the CO2 emissions data displayed on the corresponding EPCs of the property before and after the refurbishment.

As part of its engagement process with Sustainalytics, PKO BH provided a third-party report produced by Drees & Sommer, a Stuttgart, Germany, based consulting company. Drees & Sommer has developed a methodology to identify selection criteria to be used for PKO BH's green covered bond issuance that identifies residential properties within the top 15% for energy performance in the country and an approach for identifying buildings that have achieved a carbon emissions or energy consumption reduction of at least 30% and possibly more depending on the duration of the bond. Based on Drees & Sommer's analysis, the above-mentioned eligibility criteria related to the absolute performance threshold are within the range of the top 15% required by the Climate Bond Standard.

Climate Bonds Standards Criteria

Pre-issuance requirements under Climate Bond Standards Version 2.1:

- Low Carbon Buildings Criteria
 - Residential buildings
 - Buildings Upgrades

Issuing Entity's Responsibility

PKO BH was responsible for providing information and documents relating to:

- The details concerning the selection process for the Residential Green Buildings
- The details of the Residential Green Buildings
- The management systems for internal processes and controls for Residential Green Buildings, including: tracking of proceeds, managing unallocated proceeds and Earmarking funds to Nominated Projects
- The details of commitments for reporting prior to issuance, including: investment areas, management of unallocated proceeds and frequency of periodic Assurance Engagements

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 bond, issued to finance Nominated Projects, and provided an independent opinion informing PKO BH as to the conformance of the green covered bond with the Pre-Issuance requirement and Low Carbon Buildings criteria of the Climate Bonds Standard.

Sustainalytics has relied on the information and the facts presented by PKO BH. Sustainalytics is not responsible if any aspect of the Nominated Projects referred to in this opinion including estimates, findings, opinions, or conclusions are incorrect. Thus, Sustainalytics shall not be held liable if any of the information or data provided by PKO BH's management and used as a basis for this assessment were not correct or complete.

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.

⁵ 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.

PKO BANK Hipoteczny SA

Verifier's Responsibility

The work undertaken as part of this engagement included conversations with relevant PKO BH employees and review of relevant documentation to verify the green covered bond's conformance with the Climate Bonds Certification Pre-Issuance Requirements, which include:

- Conformance of PKO BH's green covered bond with the Climate Bonds Standard Version 2.1;
- Conformance with the Technical Criteria on Low Carbon Buildings
- Conformance with the Internal Processes & Controls requirements
- Conformance with Reporting Prior to Issuance requirements

Basis of the Opinion

Sustainalytics conducted the verification in accordance with the Climate Bond Standard Version 2.1 and with International Standard on Assurance Engagements 3000 – Assurance Engagements other than Audits or Reviews of Historical Information.

Sustainalytics planned and performed the verification by obtaining evidence and other information and explanations that Sustainalytics considers necessary to give limited assurance that the PKO Bank Hipoteczny SA Green Covered Bond Framework meets the requirements of the Climate Bond Standard. Upon reviewing evidence and other information, Sustainalytics is of the opinion that PKO BH will ensure compliance with Climate Bond Standard requirements.

Conclusion

PKO BH's green covered bond will finance or refinance, eligible projects related to Residential Green Buildings. Based on the limited assurance procedures conducted, nothing has come to Sustainalytics' attention that causes us to believe that, in all material aspects, PKO BH's green covered bond is not in conformance with the Low Carbon Transport Criteria of the Climate Bond Standard Pre-Issuance Requirements.

Schedule 2A: Pre-Issuance General Requirements

Selection of Nominated Projects and Assets:	<p>1.1 Statement on the environmental objectives of the bond</p> <p>1.2 Confirmation that Nominated Projects and Assets meet the Climate Bonds criteria</p> <p>1.3 Document a list of Nominated Projects and Assets</p> <p>1.4 Confirmation that Nominated Projects and Assets will not be nominated to other Climate Bonds</p> <p>1.5 Confirmation that Net Proceeds of the Green Bond shall not be greater than the value of the Nominated Projects and Assets</p>
Internal Processes and Controls	<p>2.1.1 Tracking of proceeds</p> <p>2.1.2 Managing of unallocated proceeds</p> <p>2.1.3 Earmarking funds to Nominated Projects and Assets</p>
Reporting Prior to Issuance	<p>3.1.1 Investment area of Nominated Projects and Assets</p> <p>3.1.2 Intended types of temporary investments for the management of unallocated proceeds</p> <p>3.1.3 Approach of Verifier</p> <p>3.1.4 Whether periodic Assurance Engagement will be undertaken, and the expected frequency of any periodic Assurance Engagements</p>

Schedule 2B: Conformance to the Pre-Issuance Requirements

Procedure Performed	Factual Findings	Error or Exceptions Identified
Verification of requirements specified under Selection of Nominated Projects and Assets	<p>1.1 The objective of the bond is to primarily use proceeds to finance or refinance eligible projects related to Residential Green Buildings</p> <p>1.2 The Nominated Projects and Assets meet the Low Carbon Buildings criteria of the Climate Bond Standard.</p> <p>1.3 The Nominated Projects and Assets include:</p> <ul style="list-style-type: none"> • Residential Green Buildings <p>1.4 PKO BH's management confirms that the projects shall not be nominated to other Climate Bonds.</p> <p>1.5 PKO BH's management confirms that the net proceeds of the bond shall not be greater than the value of the projects.</p>	None
Verification of requirements specified under Internal Processes and Controls	<p>2.1.1 PKO BH's management confirms that proceeds will be segregated and tracked in a systematic manner and will be exclusively used to finance Nominated Projects.</p> <p>2.1.2 PKO BH's management confirms that it will hold or invest any unallocated green covered bonds net proceeds, in its liquidity portfolio in financial market instruments described under the legally binding Act of 29 August 1997 on Covered Bonds and Mortgage Banks..</p> <p>2.1.3 PKO BH's management has confirmed that the proceeds from the bond will be assign to a portfolio of loans that meets the use of proceeds eligibility criteria</p>	None
Verification of requirements specified under Reporting Prior to Issuance	<p>3.1.1 PKO BH's management confirms that the proceeds of the transaction will primarily be used to finance or refinance eligible projects related to Residential Green Buildings</p> <p>3.1.2 PKO BH's management confirms that unallocated proceeds shall be held or invested in its liquidity portfolio in financial market instruments described under the legally binding Act of 29 August 1997 on Covered Bonds and Mortgage Banks.</p> <p>3.1.3 The bond's offer letter confirms that an approved third party verifier has been appointed to confirm the bond's conformance with pre-issuance requirements of the Low Carbon Buildings criteria of the Climate Bonds Standard.</p> <p>3.1.4 The bond's offer letter confirms that an approved third party verifier will conduct post-issuance assurance exercise within a year's time to reaffirm conformance of the bond with the Low Carbon Buildings criteria of the Climate Bonds Standard.</p>	3.1.4: No third party verifier has been appointed yet to conduct the post issuance assurance exercise. Conducting periodic Assurance Engagements over the term of the bond is at the discretion of the bond Issuer, as per

		CBI guidelines.
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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider". The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit www.sustainalytics.com

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