

Dear Sirs,

PKO Bank Hipoteczny SA's fundamental operating principle is stable and prudent management of the Bank. This principle applies to our continuous, transparent dialogue with investors who hold our covered bonds, and our customers, shareholder and regulator. We believe that this is the only way we can increase the value of the Bank and offer covered bonds of the highest quality.

It is my pleasure to present you the next PKO Bank Hipoteczny SA's annual report. It summarises our operations in 2016, which has been a year of a very dynamic growth and consistent implementation of our strategic goals.

PKO Bank Hipoteczny SA specialises in residential mortgage loans and covered bonds, and our business model is based on leveraging on the synergies within the PKO Bank Polski Group.

In 2016 PKO Bank Hipoteczny succeeded in achieving its strategic goals. The Bank was the most active issuer of covered bonds in Poland. It conducted two benchmark Polish zloty-denominated covered bonds issues with a total value of 1 billion zloty, as well as Poland's first ever benchmark issue of Euro-denominated covered bonds with a value of 500 million euro. The sole basis for issues of PKO Bank Hipoteczny covered bonds are residential mortgage loans, which meet conservative lending criteria, both in terms of assessment of creditworthiness and in the valuation of the real estate that secures them. The high level of safety of our covered bonds is reflected by Aa3 rating given by Moody's. This is the highest possible rating for Polish debt securities.

Due to beneficial cooperation with PKO Bank Polski Group in granting new residential mortgage loans as well as acquiring such loans from PKO Bank Polski the value of Bank's credit portfolio exceeded 8 billion zloty. Such a dynamic growth of PKO Bank Hipoteczny allowed to achieve positive net financial result already in the second year of the operational activity.

In 2016, following PKO Bank Polski, we developed the strategy for 2017-2020. According to the strategy we responsibly promote the interests of the Bank's stakeholders. We deliver mortgage loan products adapted to clients' needs and long-term covered bonds with the high level of safety.

The year 2016 was for us the time of particularly intensive development and many challenges. I would like to thank investors for the confidence placed in PKO Bank Hipoteczny, and all employees of the Bank and the PKO Group for their commitment, professionalism and effectiveness.



Rafał Kozłowski,  
President of the Management Board, PKO Bank Hipoteczny SA