



Dear Sirs,

I am pleased to present the 2017 annual report of PKO Bank Hipoteczny. It was a particularly important year for us. We strengthened our position in the international covered bonds market and became the leader in the market of mortgage banks in Poland, both regarding the total of assets, the value of the portfolio of mortgage loans and the total amount of outstanding covered bonds issued.

In 2017 we still developed our activities effectively. The portfolio of PKO Bank Hipoteczny nearly doubled and at the end of 2017 its value exceeded PLN 16 billion, which contributed to an improvement of our financial results. The net profit of the Bank quadrupled compared to 2016 and amounted to over PLN 51 million. Such a dynamic development was possible both owing to new mortgage loans granted as well as the transfer of such loans from PKO Bank Polski.

Again, we were the most active bank among the Polish issuers of covered bonds. Our regular issuing activities allowed us to reinforce our position both in the local and foreign markets. Our activities resulted in 2017 The Covered Bonds Report's Award for Excellence granted in the "Pioneer" category.

The Bank issued covered bonds denominated in PLN with the total nominal value of PLN 1.3 billion and covered bonds denominated in EUR with the total nominal value of EUR 1.1 billion. The outstanding value of the covered bonds issued by PKO Bank Hipoteczny amounted to PLN 8.9 billion as at 31 December 2017. This constituted approximately 54% of the total value of covered bonds issued by Polish mortgage banks. The sole basis for issues of PKO Bank Hipoteczny covered bonds are PLN residential mortgages, which meet conservative lending criteria, both in terms of the 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 the Aa3 rating given by Moody's Investors Service. This is the highest possible rating for Polish debt securities.

The extensive activities of PKO Bank Hipoteczny have a considerable influence on the financing structure of mortgage loans of the PKO Bank Polski Group. We also increase the safety of the Group by partial elimination of the maturity mismatch of assets and liabilities.

Our success motivates us to develop further. We will be consistent in the pursuance of our strategy, including an increase in the funding of the portfolio of mortgage loans with covered bonds, which we intend to issue on a regular basis, both in the local and foreign markets.

I would like to thank our:

- o investors - it is owing to your trust that PKO Bank Hipoteczny confirmed its status of a regular issuer of covered bonds in the local and foreign markets,
- o customers - your appreciation of mortgage loans offered by PKO Bank Hipoteczny enabled our quick development and
- o employees of the Bank and the Capital Group - owing to your everyday commitment we are able to achieve our goals effectively.

Enjoy your reading.

Jakub Nieśtuchowski,
Acting President of the Management Board,
Vice-President of the Management Board of PKO Bank Hipoteczny SA