



PKO Bank Hipoteczny S.A.

Opinion and Report

of the Independent Auditor

Financial Year ended

31 December 2016

This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of PKO Bank Hipoteczny S.A.

Opinion on the Financial Statements

We have audited the accompanying financial statements of PKO Bank Hipoteczny SA, with its registered office in Gdynia, 17 Jerzego Waszyngtona Street, 81-342 Gdynia (“the Bank”), which comprise the statement of financial position as at 31 December 2016, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s and Supervisory Board’s Responsibility for the Financial Statements

Management of the Bank is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union and with other applicable regulations. Management of the Bank is also responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) (“the Accounting Act”), Management of the Bank and members of the Supervisory Board are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Bank, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the accompanying financial statements of PKO Bank Hipoteczny S.A.:

- give a true and fair view of the financial position of the Bank as at 31 December 2016 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union;
- comply, in all material respects, with the applicable regulations and the provisions of the Bank's articles of association that apply to the Bank's financial statements; and
- have been prepared from accounting records that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Bank's Activities

Management of the Bank is responsible for the report on the Bank's activities.

Our opinion on the financial statements does not cover the report on the Bank's activities.

As required by the Accounting Act and the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent of information required by the laws of a non-member state (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Bank's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respect, with the financial statements. Furthermore, based on our knowledge about the Bank and its environment obtained in the audit, we have not identified material misstatements in the report on the Bank's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Bank's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Justyna Zań
Key Certified Auditor
Registration No. 12750
Limited Liability Partner with power of attorney

Signed on the Polish original

.....
Stacy Ligas
Member of the Management Board of
KPMG Audyt Sp. z o.o., entity which is
the General Partner of KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.

28 February 2017



PKO Bank Hipoteczny S.A.

**Report on the audit
of the financial statements**

Financial year ended

31 December 2016



PKO Bank Hipoteczny SA

The report on the audit of the financial statements
for the financial year ended 31 December 2016

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1. General

1.1. General information about the Bank

1.1.1. Bank name

PKO Bank Hipoteczny S.A.

1.1.2. Registered office

17 Jerzego Waszyngtona Street
81-342 Gdynia

1.1.3. Registration in the register of entrepreneurs of the National Court Register

Registration court:	District Court in Gdańsk-Północ in Gdańsk, VIII Commercial Department of the National Court Register
Date:	24 October 2014
Registration number:	KRS 0000528469
Share capital as at the end of the reporting period:	PLN 800,000,000

1.1.4. Management of the Bank

The Management Board is responsible for management of the Bank.

As at 31 December 2016, the Management Board of the Bank was comprised of the following members:

- Rafał Kozłowski – President of the Management Board,
- Jakub Niesłuchowski – Vice-President of the Management Board,
- Marek Szcześniak – Vice-President of the Management Board.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname:	Justyna Zań
Registration number:	12750

1.2.2. Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Inflancka 4A, 00-189 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered into the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.



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1.3. Prior period financial statements

The financial statements for the period from 6 October 2014 to 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The financial statements were approved at the Shareholders' Meeting on 14 March 2016 where it was resolved to cover the net loss for the prior financial year of PLN 13,973,394.85 with future profits.

The financial statements were submitted to the Registration Court on 25 March 2016.

1.4. Audit scope and responsibilities

The audited Bank prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Meeting dated 22 December 2015.

The financial statements were audited in accordance with the contract dated 8 June 2015, concluded on the basis of the resolution of the Supervisory Board dated 14 May 2015 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the financial statements at the Bank during the period from 15 November 2016 to 28 February 2017 (with intervals).

In accordance with Article 111a paragraph 3 of the Banking Act dated 29 August 1997 (Official Journal from 2016, item 1988 with amendments) our responsibility was to audit financial information described in Article 111a paragraph 2 presented in the report on the Bank's activities. The audit was performed in accordance with the scope presented in the paragraph "Auditor's responsibility" of the opinion of the independent auditor.

Management of the Bank is responsible for the preparation, on the basis of properly maintained accounting records, of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Bank is also responsible for the Report on the Bank's activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the financial statements based on our audit.

Management of the Bank submitted a statement dated as at the same date as this report, as to the preparation of the financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the financial statements.

All required statements, explanations and information were provided to us by Management of the Bank and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.



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The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the Bank in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.



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2. Financial analysis of the Bank

2.1. Summary analysis of the financial statements

2.1.1. Statement of financial position

ASSETS	31.12.2016 PLN '000	% of total assets	31.12.2015 PLN '000	% of total assets
Cash and balances with the central bank	16,033	0.2	4	0.0
Amounts due from banks	12,994	0.1	14,812	1.9
Financial derivative instruments	27,808	0.3	-	-
Financial assets designated upon initial recognition at fair value through profit and loss	79,987	0.9	39,988	5.0
Loans and advances to customers	8,247,900	95.8	722,655	91.3
Investment securities available for sale	203,019	2.4	500	0.1
Intangible assets	5,312	0.1	3,176	0.4
Property and equipment	580	0.0	647	0.1
Deffered income tax asset	2,440	0.0	3,261	0.4
Other assets	14,380	0.2	6,442	0.8
TOTAL ASSETS	8,610,453	100.0	791,485	100.0
EQUITY AND LIABILITIES	31.12.2016 PLN '000	% of total equity and liabilities	31.12.2015 PLN '000	% of total equity and liabilities
Liabilities				
Amounts due to banks	3,431,832	39.9	469,298	59.3
Financial derivative instruments	113	0.0	-	-
Amounts due to customers	1,549	0.0	146	0.0
Mortgage covered bonds issued	3,232,117	37.5	29,933	3.8
Unsecured bonds issued	1,151,216	13.4	-	-
Other liabilities	12,196	0.1	6,020	0.8
Provisions	140	0.0	59	0.0
Total liabilities	7,829,163	90.9	505,456	63.9
Equity				
Share capital	800,000	9.3	300,000	37.9
Revaluation reserve	(17,961)	(0.2)	2	0.0
Profit/loss from previous years	(13,973)	(0.2)	-	-
Net profit/loss for the period	13,224	0.2	(13,973)	(1.8)
Total equity	781,290	9.1	286,029	36.1
TOTAL EQUITY AND LIABILITIES	8,610,453	100.0	791,485	100.0



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2.1.2. Statement of profit or loss

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015	6.10.2014 - 31.12.2015
	PLN '000	PLN '000	PLN '000
Interest income	143,031	6,410	7,808
Interest expense	(79,432)	(63)	(63)
Net interest income	63,599	6,347	7,745
Fee and commission income	6,461	891	891
Fee and commission expense	(10,097)	(2,370)	(2,372)
Net fee and commission income	(3,636)	(1,479)	(1,481)
Income from financial instruments measured at fair value	1	(1)	(1)
Foreign exchange result	(836)	(3)	(3)
Other operating income	887	114	119
Other operating expense	(842)	(55)	(55)
Net other operating income and expense	45	59	64
Impairment allowance and write-downs	(1,610)	(229)	(229)
General administrative expenses	(39,303)	(20,230)	(23,330)
Operating result	18,260	(15,536)	(17,235)
Profit / (loss) before income tax	18,260	(15,536)	(17,235)
Income tax expense	(5,036)	2,940	3,262
Net profit / (loss)	13,224	(12,596)	(13,973)



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2.1.3. Statement of comprehensive income

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015	6.10.2014- 31.12.2015
	PLN '000	PLN '000	PLN '000
Net profit / (loss)	13,224	(12,596)	(13,973)
Other comprehensive income	(17,963)	2	2
Items that may be reclassified to the statement of profit and loss	(17,963)	2	2
Cash flow hedging	(21,870)	-	-
Deferred tax on cash flow hedging	4,155	-	-
Net cash flow hedging	(17,715)	-	-
Revaluation of financial assets available for sale	(306)	3	3
Deferred tax on revaluation of financial assets available for sale	58	(1)	(1)
Net gains on revaluation of financial assets available for sale	(248)	2	2
<i>Items that may not be reclassified to the statement of profit and loss</i>	-	-	-
Total net comprehensive income	(4,739)	(12,594)	(13,971)



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2.2. Selected financial ratios

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015	6.10.2014- 31.12.2015
Total assets (PLN '000)	8,610,453	791,485	791,485
Profit (loss) before income tax (PLN '000)	18,260	(15,536)	(17,235)
Profit (loss) for the period (PLN '000)	13,224	(12,596)	(13,973)
Shareholders' equity (PLN '000)*	768,066	300,002	300,002
Return on equity	2%	-4%	-5%
Receivables to total assets	96%	93%	93%
Income generating assets to total assets	99.7%	98%	98%
Interest bearing liabilities to total liabilities	91%	63%	63%

* *excluding current-year net profit*



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3. Detailed report

3.1. Accounting system

The Bank maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act and the Decree of the Ministry of Finance dated 1 October 2010 on the specific accounting principles of banks (Official Journal from 2013, item 329).

On the basis of the work performed, we have not identified any material irregularities in the accounting system which have not been corrected and that could have a material effect on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

3.2. Compliance with banking regulations

Based on our audit, we have not identified significant incompliance by the Bank with banking prudential regulatory norms, and also, we have not identified any material misstatements in determination of the solvency ratio.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Justyna Zań
Key Certified Auditor
Registration No. 12750
Limited Liability Partner with power of attorney

28 February 2017

Signed on the Polish original

.....
Stacy Ligas
Member of the Management Board
of KPMG Audyt Sp. z o.o., entity
which is the General Partner of
KPMG Audyt Spółka z ograniczoną
odpowiedzialnością sp.k.