



PKO Bank Hipoteczny S.A.

**Opinion and Report
of the Independent Auditor
for the period from 6 October 2014
to 31 December 2015**

The opinion contains 2 pages
The supplementary report contains 10 pages
Opinion of the independent auditor
and the supplementary report
on the audit of the financial statements
for the period from 6 October 2014
to 31 December 2015

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 S.A., with its registered office in Gdynia, 17 Jerzego Waszyngtona Street (“the Bank”), which comprise the statement of financial position as at 31 December 2015, 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 period from 6 October 2014 to 31 December 2015 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 correctness of the accounting records and the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union and with other applicable regulations and preparation of the report on the Bank’s activities. 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 2013, item 330 with amendments) (“the Accounting Act”), Management of the Bank and members of the Supervisory Board are required to ensure that the financial statements and the report on the Bank’s activities 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 and whether the financial statements are derived from properly maintained accounting records 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 National Council of Certified Auditors as the 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 and the accounting records from which they are derived are free of material misstatements.

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 and fair presentation of the financial statements 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. have been prepared and present fairly, in all material respects, the financial position of the Bank as at 31 December 2015 and its financial performance and its cash flows for the period from 6 October 2014 to 31 December 2015, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective 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

As required under the Accounting Act and the Banking Act dated 29 August 1997 (Official Journal from 2015, item 128 with amendments) ("the Banking Act"), we report that the accompanying report on the Bank's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by Art. 111a of the Banking Act and by 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 information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with 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

22 February 2016

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.

PKO Bank Hipoteczny S.A.

**Supplementary report
on the audit of the financial
statements
for the period from 6 October 2014
to 31 December 2015**

The supplementary report contains 10 pages
The supplementary report
on the audit of the financial statements
for the period from 6 October 2014
to 31 December 2015



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1. General

1.1. General information about the Bank

1.1.1. The Bank's name

PKO Bank Hipoteczny S.A.

1.1.2. Registered office

17 Jerzego Waszyngtona Street
81-342 Gdynia

On 5 October 2015 there was a change of Bank's registered office made in the National Court Register. Previous registered office was located in Gdynia, Kaszubski Square 17/19/21.

1.1.3. Registration in the National Court Register

Registration court:	District Court 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 reporting period:	PLN 300,000,000

1.1.4. Management of the Bank

The Management Board is responsible for management of the Bank.

As at 31 December 2015, 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.

On 31 March 2015, Agnieszka Domaradzka ended to perform the function of Vice-President of the Management Board.

Effective from 1 April 2015, Jakub Niesłuchowski was appointed for a Vice-President of the Management Board.

Effective from 1 June 2015, Marek Szcześniak was appointed for a Vice-President of the Management Board.

On 13 August 2015, Bartłomiej Śliwa ended to perform the function of 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 in the register of entities authorised to audit financial statements, maintained by the National Council of Certified Auditors, under number 3546.

1.3. Audit scope and responsibilities

This report was prepared for the General Meeting of PKO Bank Hipoteczny S.A. with its registered office in Gdynia, 17 Jerzego Waszyngtona Street and relates to the financial statements comprising: the statement of financial position as at 31 December 2015, 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 period from 6 October 2014 to 31 December 2015 and notes comprising a summary of significant accounting policies and other explanatory information.

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 have been 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 2013, item 330 with amendments) (“the Accounting Act”) and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the financial statements at the Bank during the period from 9 November to 13 November 2015 (interim audit) and from 25 January to 22 February 2016 (final audit).

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of the financial statements in accordance with International



Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Bank's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit.

Management of the Bank submitted a statement dated as at the same date as this report as to the true and fair presentation of the accompanying financial statements, 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 Company and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

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 fulfill 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 2015, item 1011 with amendments).

2. Financial analysis of the Bank

2.1. Summary analysis of the financial statements

2.1.1. Statement of financial position

ASSETS	31.12.2015	% of total
	PLN '000	assets
Cash and balances with the central bank	4	0,0
Amounts due from banks	14 812	1,9
Financial assets designated upon initial recognition at fair value through profit or loss	39 988	5,0
Loans and advances to customers	722 655	91,3
Investment securities available for sale	500	0,1
Intangible assets	3 176	0,4
Property, plant and equipment	647	0,1
Deferred income tax assets	3 261	0,4
Other assets	6 442	0,8
TOTAL ASSETS	791 485	100,0
EQUITY AND LIABILITIES	31.12.2015	% of total
	PLN '000	equity and liabilities
Liabilities		
Amounts due to Banks	469 298	59,3
Amounts due to customers	146	0,0
Mortgage bonds	29 933	3,8
Other liabilities	6 020	0,8
Provisions	59	0,0
Total liabilities	505 456	63,9
Equity		
Share capital	300 000	37,9
Revaluation reserve	2	0,0
Net loss for the period	(13 973)	(1,8)
Total equity	286 029	36,1
TOTAL EQUITY AND LIABILITIES	791 485	100,0

2.1.2. Statement of profit or loss

	6.10.2014 - 31.12.2015 PLN '000
Interest income	7 808
Interest expense	(63)
Net interest income	7 745
Fee and commission income	891
Fee and commission expense	(2 460)
Net fee and commissions	(1 569)
Income from financial instruments measured at fair value	(1)
Foreign exchange result	(3)
Other operating income	119
Other operating expense	(55)
Net other operating income and expense	64
Impairment allowance and write-downs	(229)
General administrative expenses	(23 242)
Profit / (Loss) before income tax	(17 235)
Income tax expense	3 262
Net profit/(loss)	(13 973)
<hr style="border-top: 3px double black;"/>	
Earnings per share for the period (PLN)	(0,05)
Diluted earnings per share for the period (PLN)	(0,05)
Weighted average number of shares during the period (in thousand)	300 000
Weighted average number of diluted shares during the period (in thousand)	300 000

2.1.3. Statement of other comprehensive income

Net profit/(loss)	(13 973)
Other comprehensive income	2
Items that may be reclassified to the statement of profit or loss	2
Revaluation of financial assets available for sale	3
Deferred tax on revaluation of financial assets available for sale	(1)
Net gains on revaluation of financial assets available for sale	2
Items that may not be reclassified to the statement of profit or loss	-
Total net comprehensive income	(13 971)



2.2. Selected financial ratios

	2015
Total assets (PLN '000)	791 485
Profit / (loss) before income tax (PLN '000)	(17 235)
Net profit/(loss) for the period (PLN '000)	(13 973)
Shareholders' equity (PLN '000)*	300 002
Equity	(5%)
Receivables to total assets	93%
Income generating assets to total assets	98%
Interest bearing liabilities to total liabilities	63%

** excluding net loss for the period from 6 October 2014 to 31 December 2015*

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).

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system.

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.

The Bank performed a physical verification of its assets in accordance with the requirements and time frame specified in Art. 26 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) and reconciled and recorded the results thereof in the accounting records.

3.2. Notes to the financial statements

All information included in the notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the financial statements.

3.3. 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.

3.4. Report on the Bank's activities

The report on the Bank's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by Art. 111a of the Banking Act dated 29 August 1997 (Official Journal from 2015, item 128 with amendments) and by 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 information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
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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.

22 February 2016