

**BANK POLSKA KASA OPIEKI
SPÓŁKA AKCYJNA
WARSAW, GRZYBOWSKA 53/57**

**AUDITOR'S OPINION
AND
AUDIT REPORT
ON FINANCIAL STATEMENTS
FOR THE 2014 FINANCIAL YEAR**

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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Polska Kasa Opieki S.A.

We have audited the attached financial statements of Bank Polska Kasa Opieki S.A. ("Bank") with its registered office in Warsaw at Grzybowska 53/57, including statement of financial position prepared as of 31 December 2014, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement for the financial year from 1 January 2014 to 31 December 2014 and explanatory notes comprising a summary of significant accounting policies and other explanatory information as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

Preparation of financial statements and a report on the activities in line with the law is the responsibility of the Management Board of the Bank.

The Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013 item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the financial statements with the accounting principles (policy) adopted by the Bank and whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Bank and on the correctness of the underlying accounting records.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Bank, verification - largely on a test basis - of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the audited financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Bank as of 31 December 2014 as well as its profit or loss in the financial year from 1 January 2014 to 31 December 2014,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission

regulations and in all matters not regulated in the standards - in accordance with the provisions of the Accounting Act and its executory provisions and based on properly kept accounting records,

- comply with the provisions of law and the articles of association of the Bank, which affect the contents of the financial statements.

The Report on the activities of the Bank for the 2014 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133) and consistent with underlying information disclosed in the audited financial statements.

Dorota Snarska-Kuman
Key certified auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dorota Snarska-Kuman – Vice-President of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 10 February 2015

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF BANK POLSKA KASA OPIEKI S.A.
FOR THE 2014 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Bank

The Bank operates under the business name Bank Polska Kasa Opieki S.A. ("Bank"). The Bank's registered office is located in Warsaw, at Grzybowska 53/57.

The Bank operates as a joint stock company. The Bank is recorded in the Commercial Register kept by the District Court in Capital City Warsaw, XII Business-Registry Division of the National Court Register, under KRS number 0000014843, based on the decision of 2 July 2001.

The Bank operates based on the provisions of the Code of Commercial Companies and Banking Law.

As of 31 December 2014, the Bank's share capital equaled PLN 262,470 thousand and was divided into 262,470,034 ordinary shares with a face value of PLN 1 each. In the audited period, the Bank conducted activities mainly in the area of accepting cash as demand deposits or term deposits and keeping deposit accounts as well as granting credits and loans.

Composition of the Management Board as of the date of the opinion:

- | | |
|--------------------|---|
| – Luigi Lovaglio | – President of the Management Board, |
| – Diego Biondo | – Vice-President of the Management Board, |
| – Andrzej Kopyrski | – Vice-President of the Management Board, |
| – Grzegorz Piwowar | – Vice-President of the Management Board, |
| – Stefano Santini | – Vice-President of the Management Board, |
| – Marian Ważyński | – Vice-President of the Management Board. |

During the audited period and until the date of the opinion no changes in the Management Board occurred.

2. Information on the financial statements for the previous financial year

The activities of the Bank in 2013 resulted in a net profit of PLN 2,800,000 thousand. The financial statements of the Bank for the 2013 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2013 financial year was held on 12 June 2014. The General Shareholders' Meeting decided to distribute the net profit for 2013 in the following manner:

- | | |
|---|---------------------------|
| – dividends for shareholders | – PLN 2,614,202 thousand, |
| – other reserve capital | – PLN 1,839 thousand, |
| – covering of loss from previous years in whole relating to implementation of retrospective change of accounting policy in terms of bancassurance | – PLN 183,959 thousand. |

The financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 10 July 2014.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Shareholders' Meeting. The audit of the financial statements was performed based on the agreement of 17 June 2013 concluded between the Bank Polska Kasa Opieki S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Dorota Snarska-Kuman, key certified auditor (No. 9667), in the registered office of the Bank, in its branches, as well as outside the Bank's from 13 October 2014 until the opinion date.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009 No. 77, item 649 as amended) to express an unbiased and independent opinion on the financial statements of the Bank.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 10 February 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE BANK

Presented below are the main items from the income statement, statement of comprehensive income, statement of financial position, as well as financial ratios describing the financial performance of the Bank and its economic and financial position compared to the prior year, calculated based on the financial data included in the financial statements for the 2014 financial year.

<u>Main items from statement of financial position (PLN '000)</u>	<u>31.12.2014</u>	<u>31.12.2013</u>
Total assets	164,322,831	155,286,630
Cash and due from Central Bank	9,226,249	4,191,223
Loans and advances to banks	7,215,362	7,653,801
Financial assets held for trading	513,078	188,377
Derivative financial instruments (held for trading) - assets	4,464,894	1,999,346
Loans and advances to customers	111,389,077	100,569,013
Hedging instruments (assets)	470,822	250,186
Investment (placement) securities	24,572,130	34,845,508
Investment in subsidiaries	857,513	793,113
Intangible assets	601,673	601,571
Property, plant and equipment	1,525,593	1,564,688
Income tax assets	674,378	777,715
Other assets	2,726,716	1,763,864

Amounts due to other banks	3,129,856	4,754,732
Financial liabilities held for trading	591,311	309,742
Derivative financial instruments (held for trading) - liabilities	4,422,292	2,054,385
Amounts due to customers	126,381,270	119,868,743
Hedging instruments (liabilities)	1,484,428	1,007,884
Debt securities issued	2,819,713	2,240,452
Provisions	436,952	391,396
Other liabilities	1,602,382	1,807,524
Total equity, including:	23,387,244	22,848,703
- Share capital	262,470	262,470

Main items from the income statements and comprehensive income statements (PLN '000)

	<u>2014</u>	<u>2013</u>
Net interest income	4,334,504	4,310,524
Net fee and commission income	1,832,488	1,911,297
Dividend income	153,548	143,779
Result on financial assets and liabilities held for trading	431,468	456,378
Gains (losses) on disposal	271,413	305,139
Net impairment losses on financial assets and off-balance sheet commitments	(541,369)	(622,971)
Operating costs	(3,196,191)	(3,138,984)
Income tax expense	(607,839)	(636,400)
Net profit for the period	2,662,266	2,800,000
Total comprehensive income	3,153,075	2,342,597

<u>Ratio analysis</u>	<u>2014</u>	<u>2013</u>
Return on equity ratio (ROE)	11.55%	12.33%
Return on assets ratio (ROA)	1.67%	1.85%
Cost to income ratio	45.82%	44.95%
Capital ratio	17.08%	18.29%
Equity ratio	14.23%	14.71%

An analysis of the above figures and ratios indicated the following trends in 2014:

- Return on equity ratio (ROE) calculated as a relation of net profit for the period to equity estimated as an average of the balance as at 31 December 2013 and balances as at the end of each month in 2014 decreased as at the end of 2014 and amounted to 11.55% in comparison to 12.33% as at the end of 2013;
- Return on assets ratio (ROA) calculated as a relation of net profit for the period to total assets estimated as an average of the balances as at 31 December 2013 and 31 December 2014 decreased as at the end of 2014 and amounted to 1.67% in comparison to 1.85% as at the end of 2013;
- Cost to income ratio calculated as a relation of total costs estimated as a sum of administrative expenses, depreciation and amortization, impairment allowances of property plant and equipment and intangible assets less refundation of administrative expenses to total income estimated as sum of net interest income, net fee and commission income, dividend income, result on financial assets and liabilities held for trading, result on fair value hedge accounting, gains (losses) on disposal and other operating income (less refundation of administrative expenses) increased from 44.95% for 2013 to 45.82% for 2014;
- Capital ratio calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit

- institutions and investments firms as at the end of 2014 amounted to 17.08% in comparison to 18.29% as at the end of 2013;
- Equity ratio calculated as a relation of total equity to the sum of total equity and total liabilities decreased as at the end of 2014 and amounted to 14.23% in comparison to 14.71% at the end of 2013.

Application of prudence principles

During our audit we have not identified significant discrepancies indicating lack of application of prudence principles determined by Polish Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervision Authority.

Capital ratio

During our audit we have not identified significant discrepancies in the area of calculation of capital ratio as at 31 December 2014 in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Bank has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Bank.

The Bank performed a physical count of assets and liabilities and equity within the scope necessary to confirm the existence of the presented assets and liabilities and equity.

2. Information identifying the audited financial statements

The audited financial statements were prepared as of 31 December 2014 and include:

- income statement for the period from 1 January 2014 to 31 December 2014, with a net profit of PLN 2,662,266 thousand,
- statement of comprehensive income for the period from 1 January 2014 to 31 December 2014 with a total comprehensive income of PLN 3,153,075 thousand,
- statement of financial position prepared as of 31 December 2014, with total assets and liabilities plus equity of PLN 164,322,831 thousand,
- statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 538,541 thousand,
- cash flow statement for the period from 1 January 2014 to 31 December 2014, showing a cash inflow of PLN 4,938,310 thousand,
- explanatory notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the profit or loss has been presented in the financial statements.

3. Information about selected material items of the financial statements

Financial assets and liabilities

The bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss,
- loans and receivables,
- financial assets held to maturity,
- available-for-sale financial assets,
- other financial liabilities.

The structure by terms and types of financial assets and liabilities has been presented in details in the respective explanatory notes to the statement of financial position.

Structure of loans and advances from banks and customers

The structure by terms and types of loans and advances from banks and customers has been presented details in the respective explanatory notes to the statement of financial position.

In Bank Polska Kasa Opieki S.A. impairment allowances are recognised in accordance with the IFRS. The allowances reflect impairment, which is recognised if the Bank has objective evidence that the receivables cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39). The impairment allowance is calculated based on the estimated recoverable amount. Impairment is analysed using both the individual (for individually significant impaired exposures) and collective approach (individually insignificant exposures with impairment, and exposures with incurred but not reported losses).

The Bank systematically on an annual basis compares the assumptions and parameters used for loss calculations with the actual situation, including loss identification period. The comparison takes into account changes of economic conditions, amendments to Bank's credit policies and loans collection process. The process provides assurance that the level of impairment allowances is adequate. Credit Committee of the Bank is responsible for adequate level of impairment allowance.

The disclosures regarding management of credit risk and exposure to credit risk were presented in explanatory notes to the financial statements.

Structure of deposits from banks and customers

The structure by terms and types of deposits from banks and customers has been presented details in the respective explanatory notes to the financial statements.

Accrued income and expense

The explanatory notes describe the structure of accrued income and expense.

Significant accrued income and expense were properly included in the financial year. The items have been recognized correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Bank

The Bank confirmed the validity of the going concern principle in the preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, liabilities and equity, profit or loss and principles of preparation of the financial statements.

The explanatory notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Bank in the 2014 financial year. The report contains information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014

item 133). We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

IV. CLOSING COMMENTS

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Bank's Management Board, in which the Board stated that the Bank complied with the laws in force.

Dorota Snarska-Kuman
Key certified auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

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Warsaw, 10 February 2015