

**BANK POLSKA KASA OPIEKI S.A.
WARSAW, GRZYBOWSKA 53/57**

**FINANCIAL STATEMENTS
FOR THE 2017 FINANCIAL YEAR**

**WITH
AUDITOR'S REPORT**

AUDITOR'S REPORT

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

Auditor's report

We have audited the attached annual financial statements of Bank Polska Kasa Opieki S.A. with its registered office in Warsaw at Grzybowska 53/57 (hereinafter: "Bank") comprising an unconsolidated income statement, unconsolidated statement of comprehensive income for the period from 1 January 2017 to 31 December 2017, unconsolidated statement of financial position prepared as of 31 December 2017, unconsolidated statement of changes in equity, unconsolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information ("financial statements").

Responsibility of the Bank's manager and those charged with governance for the financial statements

The Management Board of the Bank is obliged to prepare the financial statements based on properly kept accounting records and to present them fairly in line with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and other applicable laws as well as the entity's articles of association. The Management Board of the Bank is also responsible for ensuring internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act, the Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2017, item 2342), hereinafter referred to as the "Accounting Act".

Auditor's responsibility

Our responsibility was to express an opinion whether the financial statements give a true and fair view of the financial and economic position as well as the financial performance of the entity in line with the applicable International Accounting Standards, International Financial Reporting Standards

and related interpretations published as European Commission regulations and the adopted accounting principles (policies).

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

- 1) the Act on statutory auditors, auditing companies and public oversight of 11 May 2017 (Journal of Laws of 2017, item 1089) ("*Act on statutory auditors*");
- 2) National Auditing Standards in the wording of the International Standards on Auditing adopted by resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended;
- 3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158, 27 May 2014, p. 77 and OJ EU L 170, 11 June 2014, p. 66) ("*Regulation 537/2014*").

Those regulations 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.

The objective of the audit is to obtain reasonable assurance about whether the financial statements as a whole have been prepared based on properly kept accounting records and are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank'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 Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Bank, as well as evaluating the overall presentation of the financial statements.

The scope of the audit does not include an assurance regarding the future profitability of the audited entity or the effectiveness of the Bank's Management Board in managing the Bank's affairs at present and in future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The audit opinion is consistent with the additional report to the Audit Committee issued as of the date of this auditor's report.

Independence

During the audit the key certified auditor and the audit firm remained independent of the audited entity in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolution of the National Council of Statutory Auditors.

We certify that, to the best of our knowledge and belief, we have not provided non-audit services, which are prohibited under Article 136 of the Act on statutory auditors and Article 5.1 of Regulation 537/2014.

Choice of audit firm

We were appointed to audit the financial statements of the Company by resolution number 29 of the Ordinary General Meeting of the Bank Polska Kasa Opieki S.A. adopted on 12 June 2013. We have been auditing the financial statements of the entity for an uninterrupted period beginning with the financial year ended 31 December 2013, i.e. for 5 consecutive financial years.

Most significant risks

During the audit we identified the following, most significant risks of material misstatement, also resulting from fraud, and we designed audit procedures responsive to those risks. Where deemed appropriate for the understanding of the identified risks and the audit procedures performed by the auditor, we also included the most important findings related to those risks.

Description of the risks of material misstatement	Procedures carried out by the auditor in response to identified risks and key observations arising with respect to those risks
<i>Net impairment losses on financial assets and off-balance sheet commitments</i> The level of net impairment losses on financial assets and off-balance sheet commitments together with change of its levels was presented in details in the explanatory note No 16 to the unconsolidated financial statements. Net impairment losses on financial assets and off-balance sheet commitments contain the significant element of judgement and estimates. The abovementioned issue was assessed as a key audit risk due to significant impact of impairment allowances on valuation of loans and receivables as well as the requirement of performing the estimates based on recovery scenarios, estimating the future cash flows from the repayments and recoveries from collaterals.	We have analyzed, in details, the design and implementation of the process of calculation of the impairment allowances on financial assets and off-balance sheet commitments and we have performed test of controls existing on the process, including the automated controls performed by the Bank's IT systems considering omission of controls. Our audit procedures included the reconciliation between the credit risk database with the general ledger to confirm the completeness of the loans and receivables which are the basis for the calculation of the impairment allowances as well as provisions for off-balance sheet commitments. Our procedures covered the analysis of the selected sample from the portfolio of individually assessed loans and off-balance sheet receivables, with special attention paid for the identification of the impairment triggers process implementation. Additionally, for the impaired exposures we analyzed the assumptions considering the scenarios with regard to the estimated cash flows and collaterals in order to confirm the level of either

impairment allowance or provision for off-balance sheet commitments.

For the individually assessed loans and receivables we have analyzed the valuation of collaterals and assumptions with regard to other cash-flows provided by the Management Board.

For the collectively assessed loans we performed an analysis of the changes with regard to methodology of calculation of both impairment losses on financial assets and provisions for off-balance sheet commitments, analysis of the parameters used by the Bank, scrutiny of the both reports from the validation of models and backtests. We have also performed the recalculation of impairment allowances amounts for the selected part of the loans and receivables.

In addition, we have performed an analysis of changes of assumptions that were used for construction of models for the credit risk measurement in order to confirm the compliance with the current trends in the banking sector as well as comparison of the levels of coverage of the portfolio against the polish banking sector.

Revenue recognition in respect of the interest and fee and commission income

The values of the interest income and fee and commission income were presented in details in the explanatory notes No 8 and No 9 to the financial statements, respectively.

The abovementioned issue was assessed as a risk of material misstatement due to the fact that the analysis of both interest and fee and commission income are critical part of evaluation of the Bank's financial performance.

Our audit procedures comprised, among others, the understanding and analysis of the internal controls in relation to the recognition and presentation of the certain parts of revenue streams and analysis of automated controls applied by the Bank's IT systems that we perceive as important in respect of the revenue recognition process.

We have performed the analysis of accounting policies regarding the revenue recognition against the appropriate accounting standards, especially the revenues from the distribution of the bundled products, including bancassurance and interests on the exposures classified as impaired.

On the selected sample we have performed an analysis of the revenue recognized as one-off with paying special attention to their clearance and recognition in the correct reporting period. Additionally, we have performed detailed analytical procedures with regard to the interest income, fee and commission income with an

	explanation of both unusual and one-off transactions.
<i>Management override of controls</i>	Our procedures comprised an understanding and evaluation of the internal control with regard to the operational and bookkeeping processes that exists in the Bank.
The risk of management override of controls is inherent to all audit engagements.	
The issue was assessed as a risk of material misstatement due to the fact that Management Board of the Bank is in a unique position to perpetrate fraud because of Management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Additionally, our procedures included a critical assessment of the assumptions taken by the Bank, accounting estimates and unusual transactions (including related party transactions). We have performed an analysis of the internal procedures, protocols from internal and external controls, minutes from the Management and Supervisory Board Meetings, correspondence with the supervisory bodies, the register of clients complaints and register of operational events. We have performed an analytical review of the financial data and tested journal entries searching for abnormal records, including manual postings. Our procedures comprised monitoring of external sources of information aimed at identification of breaches or potential breaches of prudence principles.

Opinion

In our opinion, *the attached annual financial statements*:

- give a true and fair view of the economic and financial position of the Bank as at 31 December 2017 and its financial performance during the financial year from 1 January 2017 to 31 December 2017, in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations and the adopted accounting principles (policies);
- have been prepared based on properly kept — in line with chapter 2 of the Accounting Act — accounting records
- comply, with respect to their form and content, with the applicable provisions of law, the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) and the articles of association of the Bank.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

The Management Board of the Bank and members of the Supervisory Board are responsible for the preparation of the report on the activities in line with the provisions of law.

Under the act on statutory auditors we were obliged to issue an opinion as to whether the report on the activities complies with Article 49 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 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities and to describe the misstatement (if any), based on our knowledge of the Bank and its business environment obtained in the course of the audit. Additionally, according to the Article 111a paragraph 3 of the Banking Law (Journal of Laws of 2016 item 1988 as amended, "Banking Law") our responsibility was to audit financial information presented in paragraph 8 of the Report on the activities.

In our opinion, the report on the activities has been prepared in line with the applicable provisions of law and is consistent with the underlying information disclosed in the attached financial statements. Furthermore, we represent that based on our knowledge of the entity and its business environment obtained in the course of the audit of the financial statements, we believe that the report on the activities is free from material misstatements.

Opinion on the statement of compliance with corporate governance principles

The Management Board of the Bank and members of the Supervisory Board are responsible for compliance with corporate governance principles in line with the provisions of law.

As the auditors of the financial statements we were obliged — under the act on statutory auditors — to issue an opinion as to whether the issuer, required to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in such statement the legally required information and — with respect to specific information so required or required by other rules — a declaration whether it complies with applicable regulations and is consistent with the information included in the annual financial statements.

In our opinion, the statement of compliance with corporate governance principles includes information specified in Article 91.5.4 letters a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions for recognizing as equivalent information required under the law of a non-member state (Journal of Laws of 2014, item 133, as amended) ("Ordinance") The information specified in Article 91.5.4 letters c-f, h and i of the Ordinance given in the statement of compliance with corporate governance principles is consistent with the applicable provisions of law and the information presented in the financial statements.

Information about the non-financial statement

In accordance with the requirements set out in the Act on statutory auditors, we would like to inform you that the entity has prepared a non-financial statement referred to in Article 49b.1 of the Accounting Act which constitutes a separate part of the report on the activities.



We have not performed any assurance works as regards the non-financial statement and we do not express any assurance regarding that statement.

Other information, including information on the compliance with statutory requirements

The Management Board of the Bank is responsible for compliance with prudent principles determined by the Polish Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervisory Authorities. Based on the performed audit our responsibility was to present information whether the Bank complied with the binding prudence principles. Our objective was not to express an opinion on adherence to those principles.

Based on the work conducted during the audit we would like to inform you that we did not identify any breach of the prudent principles and we did not identify discrepancies that might have significant influence on the financial statement of the Bank, especially in the area of correctness of calculation of capital ratio.

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

Dorota Snarska - Kuman
Key certified auditor
No. 9667

Warsaw, 26 February 2018

This Report is an English version of the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.