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# Independent Auditor's Report

## To the General Shareholders' Meeting and Supervisory Board of Bank Polska Kasa Opieki S.A.

### Report on the Audit of the Annual Separate Financial Statements

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#### Opinion

We have audited the accompanying annual unconsolidated financial statements of Bank Polska Kasa Opieki S.A. (the "Bank"), which comprise:

- the unconsolidated statement of financial position as at 31 December 2019,

and, for the period from 1 January to 31 December 2019:

- the unconsolidated income statement;
- the unconsolidated statement of comprehensive income;
- the unconsolidated statement of changes in equity;
- the unconsolidated cash flow statement;

and

- notes to the financial statements comprising a summary of significant accounting policies and other explanatory information

(the "unconsolidated financial statements").

In our opinion, the accompanying separate financial statements of the Bank:

- give a true and fair view of the unconsolidated financial position of the Bank as at 31 December 2019 and of its unconsolidated financial performance and its unconsolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Bank's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the accounting act dated 29 September 1994 (the "Accounting Act").

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Our audit opinion on the separate financial statements is consistent with our report to the Audit Committee dated 26 February 2020.



### Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (the “Act on certified auditors”); and
- 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 (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the separate financial statements section of our report.

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

### Independence and Ethics

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement

in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Bank in accordance with requirements of the Act on certified auditors and the EU Regulation.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. They are the most significant assessed risks of material misstatements, including those due to fraud. Key audit matters were addressed in the

context of our audit of the separate financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

#### Impairment of loans and advances to customers

The carrying amount of loans and advances to customers (excluding measured at fair value through profit and loss) amounted to PLN 131.433 million as at 31 December 2019 and PLN 122.046 million as at 31 December 2018. Allowances for expected credit losses as at 31 December 2019 amounted to PLN 6.299 million in comparison to 6.100 million as at 31 December 2018.

Net impairment losses on financial assets and off-balance sheet commitments in 2019 amounted to PLN -624 million, and in 2018 PLN -500 million.

The items listed above were presented in the financial statements in Note 13 “Net impairment losses on financial assets and off-balance sheet commitments”, in Note 25 “Loans and advances to customers” and in Note 5.2 “Credit risk”.

<i>Key audit matter</i>	<i>Our response</i>
The procedures to estimate expected credit losses on loans and advances to customers measured at amortised cost or at fair value through other comprehensive income comprise two major phases – identification	Our audit procedures conducted with the support of our internal financial risk management and IT specialists included i.a.:

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of impairment triggers or significant increase in credit risk and measurement of expected credit losses.

The impairment triggers and triggers indicating significant increase in credit risk are identified mainly on the basis of payment delinquencies, economic and financial standing of the debtor and current probability of default level as compared to the date of initial recognition of a given exposure, while allowances for expected credit losses are estimated individually for specific loans and advances to customers and collectively for homogenous loan portfolios using statistical methods on the basis of risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions.

Allowances for expected credit losses are the best estimate of expected credit losses on loans and advances as at the balance sheet date to be incurred within the next 12 month period or within the lifetime of the exposure. We have considered this area as a key audit matter because of the size of the loan portfolio and the significant impact that estimation of expected credit losses may have on the financial statements.

Furthermore, estimating allowances for credit losses involves certain uncertainty and requires from the Management to use substantial judgment. The main risk area comprises the failure to identify existing impairment triggers and significant increase in credit risk as well as the application of inappropriate data to calculate the parameters of statistical model, which may not adequately reflect the expected credit losses existing as at a given balance sheet date and for loans that are assessed on an individual basis there is a risk of applying inappropriate assumptions regarding recovery scenarios, valuation of collateral or assumed timing of expected cash flows. Moreover, there is a risk of errors occurring during the impairment allowances calculation process.

- critical assessment of the Bank's methodology used for estimating expected credit losses in terms of its compliance with the requirements of applicable financial reporting standards and with market practice;
  - assessment of the design and implementation of relevant internal controls, including general IT system controls, applied in the process of identification of impairment triggers or significant increase in credit risk and estimation of expected credit losses;
  - analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage (i.e. share of overdue loans, coverage ratio) in order to identify groups of loans with underestimated impairment allowances;
  - analysis of appropriateness of the Bank's identification of impairment triggers and significant increase in credit risk for the entire population of loans (i.e. overdue status, significant increase in PD, forbearance);
  - independent recalculation of expected credit losses for a sample of impaired loans;
  - critical assessment of assumptions and input data used for key credit risk parameters, such as PD, LGD and EAD including analysis of results of tests performed by the Bank regarding appropriateness of models used for estimating of expected credit losses;
  - independent recalculation of selected risk parameters and expected credit losses for a selected sample of exposures;
  - for loans and advances to customers assessed individually on the basis of a selected sample – assessment of the appropriateness of identification of significant increase in credit risk and impairment triggers and for impaired assets – critical assessment of relevant assumptions adopted by the Bank and independent recalculation of impairment allowances.
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## Conduct risk, including litigations related to CHF loans and customer complaints

The book value of loans granted in CHF to individuals amounted to PLN 2.597 million as at 31 December 2019. Due to the risk related to the current and potential legal claims with borrowers who have been granted in the past mortgage loans denominated or indexed to CHF, the carrying amount of loan portfolio was reduced by PLN 27,7 million as at 31 December 2019 and the entity recognized a provision that amounted to PLN 19,0 million (Note 5.2 "Credit risk" and note 40 "Provisions").

As at the balance sheet date, provision for partial refund of fees and commissions expense obtained from customers due to consumer loans granted, which were prepaid amounted to PLN 26,3 million (Note 40 "Provisions"). Moreover, interest income for 2019 was reduced by PLN 9,5 million due to the expected refund of these fees and commissions expense as a result of prepayments expected in the future periods (Note 41 "Other liabilities").

Key audit matter	Our response
<p>The Bank operating on regulated market is exposed to the risk of changes in law rulings and events (other than those arising from credit risk) that may result in lower than contractual cash flows from financial contracts with customers or in an obligation or liability arising from past events, the settlement of which will require outflow of resources embodying economic benefits ("risk amount"). We consider identification of such events by the Bank, providing a reliable estimate of the risk amount and disclosures in his respect to be the key audit matter.</p>	<p>Our audit procedures included among others:</p> <ul style="list-style-type: none"> <li>• assessment of the accounting policy and the methodology adopted by the Bank for estimating the financial impact of CJEU decisions and other business risks, legal claims and customer complaints, and the recognition of these financial effects in the financial statements;</li> <li>• assessment of the design, implementation and effectiveness of internal controls with respect to identification, monitoring and estimate of conduct risk and risk resulting from complaints and disputes with clients;</li> <li>• analysis of the correspondence, reports and post-inspection recommendations received by the Bank from the regulatory authorities;</li> <li>• assessment of the Bank's internal analyses and reports with respect to compliance and conduct risks;</li> <li>• analysis of claims and complaints reported by customers and their impact on the Bank;</li> <li>• analysis of confirmations of legal claims received from external legal counsels representing the Bank and their assessment of the financial impact resulting from these cases;</li> </ul>
<p>As at 31 December 2019, in particular it refers to the impact of two decisions of the Court of Justice of the European Union ("CJEU") of 11 September 2019 (Case C-383/18) and of 3 October 2019 (Case C-260/18). Although none of these decisions referred directly to the Bank, they have resulted in consequences we refer to below.</p>	
<p><b>CJEU decision of 11 September 2019</b> The decision changed the interpretation of the provisions of the Consumer Credit Act of 12 May 2011 as regards the obligation to refund a part of fees and commissions expense related to consumer loans granted in the case of a loan repayment before the contractual maturity date. The Bank made an estimate of the most expected amount of the expenses to be incurred in connection with the above and which relate to:</p>	
<p>– expected refund claims due to the consumer loans which were prepaid in the past; and</p>	

– refunds to be made in the future as a result of prepayments of consumer loans.

### **CJEU decision of 3 October 2019**

As a result of the decision, the number of court claims against the Bank filed by the borrowers who were granted mortgage loans denominated or indexed to CHF ("CHF loans") in the past years increased. The Bank assessed that this growth may continue for some time in the future, which in the absence of a single court ruling in this respect may result in lower expected cash flows from CHF loans than those resulting from the contractual agreements. In order to determine an estimate of new expected cash flows from the CHF loan portfolio, the Bank assessed, among other things, the probability of various scenarios with respect to future possible court judgments with respect to claims concerning CHF loans granted by the Bank, estimated the most probable number of new court claims and the time horizon in which they may occur.

Estimates of the risk resulting from both CJEU decisions bear significant uncertainty as regards, inter alia, the number of refund claims and the prepayment rate for consumer loans in the future, the number of future claims relating to the mortgages denominated or indexed to CHF and possible courts' decisions for the existing and expected disputes.

- analysis of the legal opinion, prepared by the external legal firm, including assessment of the impact of the CJEU decision of 3 October 2019 on the Bank in the light of factual judgments of common courts made in Poland in similar cases after the CJEU decision date, taking into account the characteristics of the practices and loan agreements templates used by the Bank for CHF loans as well as probability assessment of the possible scenarios defined by the Bank in terms of future court decisions;
- reasonableness assessment of the assumptions applied on the number of expected customer claims on the basis of observed trends in this respect at the Bank, as well as scale of complaints filed in other disputes in the previous years;
- correctness analysis of the relevant input data used for estimates of the risks arising from both CJEU decisions, by their reconciliation with the relevant Bank's IT systems;
- sensitivity analysis of the estimates to changes in the key assumption and independent determination of a range of reasonably probable assumptions, including alternative ones, to make our own estimate and to compare it with the Bank's estimate;
- assessment of the completeness and accuracy of the disclosures required by the International Financial Reporting Standards, which are related to the estimates presented.

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### **Responsibility of the Management Board and Supervisory Board of the Bank for the separate financial statements**

The Management Board of the Bank is responsible for the preparation, on the basis of properly maintained accounting records, of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted by the European Union, the adopted accounting policy, the applicable laws and the provisions of the Bank's articles of association and for such internal control as the Management

Board of the Bank determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the Management Board of the Bank is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern





and using the going concern basis of accounting unless the Management Board of the Bank either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the

### **Auditor's Responsibility for the audit of the separate financial statements**

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 NSAs 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 separate financial statements.

The scope of audit does not include assurance on the future viability of the Bank or on the efficiency or effectiveness with which the Management Board of the Bank has conducted or will conduct the affairs of the Bank.

As part of an audit in accordance with NSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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;
- obtain an understanding of internal control relevant to the audit 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;
- evaluate the appropriateness of accounting policies used and the

Supervisory Board of the Bank are required to ensure that the separate financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Bank are responsible for overseeing the Bank's financial reporting process.

- reasonableness of accounting estimates and related disclosures made by the Management Board of the Bank;
- conclude on the appropriateness of the Management Board of the Bank's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report on the audit of the separate financial statements to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report on the audit of the separate financial statements. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee of the Bank with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Audit Committee of the Bank, we determine those matters that were of most significance in the audit of the separate financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the separate financial statements unless law or

regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Other information

The other information comprise:

- the letter of the President of the Management Board;
- the letter of the Chairman of the Supervisory Board;
- the selected unconsolidated financial data;
- the report on activities of the Bank for the year 2019 (the "Report on activities"), including the corporate governance statement and the statement on non-financial information referred to in art. 49b paragraph 1 of the Accounting Act and

- representations of the Bank's Management Board, which are separate parts of the Report on activities;
  - the statement of the Supervisory Board regarding the functioning of the Audit Committee; and
  - the assessment of the Bank's Management Board's reports on the activities of the Bank and the Group for 2019 and financial statements of the Bank and the Group for 2019;
- (together the "Other information").

## Responsibility of the Management Board and Supervisory Board

The Management Board of the Bank is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Bank are required to

ensure that the Report on activities, including separate parts of the Report on activities, is in compliance with the requirements set forth in the Accounting Act.

## Auditor's Responsibility

Our opinion on the separate financial statements does not cover the Other information.

In connection with our audit of the separate financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on activities was prepared in accordance with

applicable laws and the information given in the Report on activities is consistent with the separate financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Bank included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the separate financial statements and to inform whether the Bank prepared a statement on non-financial information.

## Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the separate financial statements,

in our opinion, the accompanying Report on activities, in all material respects:



- has been prepared in accordance with applicable laws, and

#### *Opinion on the statement on corporate governance*

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6 point 5 of the Decree of the Ministry of Finance dated 29 March 2018 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 (the “decree”).

#### *Information about the statement on non-financial information*

In accordance with the requirements of the Act on certified auditors, we report that the Bank has prepared a statement on non-financial information referred to in art. 49b paragraph 1 of the Accounting Act as a separate part of the Report on activities.

#### *Statement on Other information*

Furthermore, based on our knowledge about the Bank and its environment obtained in the audit of the separate financial statements, we

- is consistent with the separate financial statements.

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the separate financial statements.

We have not performed any assurance procedures in relation to the statement on non-financial information and, accordingly, we do not express any assurance conclusion thereon.

have not identified material misstatements in the Report on activities and the Other information.

## **Report on other legal and regulatory requirements**

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### **Information on compliance with prudential regulations**

The Management Board of the Bank is responsible for the Bank’s compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor’s report whether the Bank complies with the applicable prudential regulations defined in separate laws, in particular whether the Bank appropriately determined the capital ratios presented in note 5.6 “Capital management”

The audit objective was not to express an opinion on the Bank’s compliance with the

applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the separate financial statements of the Bank, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2019, of the Bank with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2019, that could have a material impact on the separate financial statements.

### **Statement on services other than audit of the financial statements**

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Bank in the audited period are listed in in point 8 of the Report on activities.





### Appointment of the audit firm

We have been appointed for the first time to audit the annual separate financial statements of the Bank by resolution of the General Shareholders' Meeting dated 21 June 2018.

Our period of total uninterrupted engagement is 2 years, covering the periods ended 31 December 2018 to 31 December 2019.

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On behalf of audit firm

**KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.**

Registration No. 3546

*Signed on the Polish original*

*Signed on the Polish original*

Marcin Podsiadły

Stacy Ligas

Key Certified Auditor  
Registration No. 12774  
*Limited Partner, Proxy*

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.

Warsaw, 26 February 2020