



Powszechna Kasa Oszczędności
Bank Polski SA

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2016

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OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of Powszechna Kasa Oszczędności Bank Polski SA

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of Powszechna Kasa Oszczędności Bank Polski SA, with its registered office in Warsaw, ul. Puławska 15 (“the Bank”), which comprise the separate statement of financial position as at 31 December 2016, the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate 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

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 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 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 separate financial statements of Powszechna Kasa Oszczędności Bank Polski SA:

- 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 respects, 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

.....
Marcin Podsiadły
Key Certified Auditor
Registration No. 12774
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.

2 March 2017



Powszechna Kasa Oszczędności
Bank Polski SA

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

Financial Year ended

31 December 2016



Powszechna Kasa Oszczędności Bank Polski SA

The report on the audit of the separate 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

Powszechna Kasa Oszczędności Bank Polski SA

1.1.2. Registered office

ul. Puławska 15
02-515 Warsaw

1.1.3. Registration in the National Court Register

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Date:	12 July 2001
Registration number:	KRS 0000026438
Share capital as at the end of the reporting period:	PLN 1,250,000,000

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:

- | | |
|---------------------------|---|
| • Zbigniew Jagiełło | – President of the Management Board, |
| • Janusz Derda | – Vice President of the Management Board, |
| • Bartosz Drabikowski | – Vice President of the Management Board, |
| • Maks Kraczkowski | – Vice President of the Management Board, |
| • Mieczysław Król | – Vice President of the Management Board, |
| • Piotr Mazur | – Vice President of the Management Board, |
| • Jakub Papierski | – Vice President of the Management Board, |
| • Jan Emeryk Rościszewski | – Vice President of the Management Board. |

On 21 March 2016 Mr. Jacek Obłąkowski resigned from the position of Vice President of the Management Board of the Bank effective from 21 March 2016.

On 22 March 2016 Mr. Jarosław Myjak resigned from the position of Vice President of the Management Board of the Bank effective from 22 March 2016.

On 2 June 2016 the Supervisory Board of the Bank appointed Mr. Mieczysław Król for the position of Vice President of the Management Board of the Bank effective from 6 June 2016.

On 30 June 2016 the Supervisory Board of the Bank appointed Mr. Maks Kraczkowski for the position of Vice President of the Management Board of the Bank effective from 4 July 2016.

On 14 July 2016 the Supervisory Board of the Bank appointed Mr. Jan Emeryk Rościszewski for the position of Vice President of the Management Board of the Bank effective from 18 July 2016.



Powszechna Kasa Oszczędności Bank Polski SA

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On 5 October 2016 r. Mr. Piotr Alicki resigned from the position of Vice President of the Management Board of the Bank effective from 30 October 2016.

On 3 November 2016 the Supervisory Board of the Bank appointed Mr. Janusz Derda for the position of Vice President of the Management Board of the Bank effective from 1 December 2016.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Marcin Podsiadły
Registration number: 12774

1.2.2. Audit Firm information

Name: KPMG Audyty 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 Audyty 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.

1.3. Prior period financial statements

The separate financial statements as at and for the financial year ended 31 December 2015 were audited by KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 30 June 2016. On 30 June 2016 the General Meeting adopted a resolution on the conditional distribution of the Bank's profit for the financial year 2015 in the amount of PLN 2,571.1 million and undistributed profits from previous years in the amount of PLN 1,250 million. Due to the conditions for the payment of dividend being not met as described in note 40 to the separate financial statements, the total profit of the Bank for the financial year 2015 and undistributed profits from previous years was earmarked for reserve capital and other reserves.

The separate financial statements were submitted to the Registration Court on 6 July 2016.

1.4. Audit scope and responsibilities

The audited Bank prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Ordinary General Shareholders' Meeting dated 19 May 2005.

The separate financial statements were audited in accordance with the contract dated 10 April 2015, concluded on the basis of the resolution of the Supervisory Board dated 11 March 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



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10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

We audited the separate financial statements at the Bank during the period from 7 November 2016 to 2 March 2017.

In accordance with Article 111a paragraph 3 of the Banking Act dated 29 August 1997 (Official Journal from 2016, item 1988 with amendments) ("Banking Act") our responsibility was to audit financial information, described in Article 111a paragraph 2 of the Banking Act 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 separate 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.

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.



Powszechna Kasa Oszczędności Bank Polski SA

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2. Financial information of the Bank

2.1. Financial data included in the separate financial statements

2.1.1. Statement of financial position

ASSETS	31.12.2016	% of total	31.12.2015	% of total
	PLN mln	assets	PLN mln	assets
Cash and balances with the Central Bank	13,276.7	4.9	13,707.7	5.2
Amounts due from banks	8,470.9	3.1	5,021.9	1.9
Derivative financial instruments	2,895.1	1.1	4,348.0	1.6
Trading assets excluding derivative financial instruments	358.2	0.1	793.2	0.3
Financial assets designated upon initial recognition at fair value through profit and loss	11,743.9	4.3	12,796.0	4.9
Loans and advances to customers	189,067.3	69.3	188,552.4	71.9
Investment securities available for sale	35,773.3	13.1	27,859.7	10.6
Investments securities held to maturity	157.0	0.1	-	-
Investments in subsidiaries, joint ventures and associates	2,534.5	0.9	2,038.0	0.8
Non-current assets held for sale	360.6	0.1	422.7	0.2
Intangible assets	2,816.9	1.0	2,797.8	1.1
Tangible fixed assets	2,325.3	0.8	2,276.3	0.9
Current income tax receivables	-	-	40.8	-
Deferred income tax assets	1,034.5	0.4	644.6	0.2
Other assets	2,143.1	0.8	1,080.9	0.4
TOTAL ASSETS	272,957.3	100.0	262,380.0	100.0
EQUITY AND LIABILITIES				
	31.12.2016	% of total	31.12.2015	% of total
	PLN mln	equity and	PLN mln	equity and
		liabilities		liabilities
Liabilities				
Amounts due to the Central Bank	4.1	-	4.2	-
Amounts due to banks	18,716.9	6.9	18,249.9	6.9
Derivative financial instruments	4,229.5	1.6	4,627.2	1.8
Amounts due to customers	209,371.4	76.7	201,809.2	76.9
Debt securities in issue	1,693.0	0.6	1,717.6	0.6
Subordinated liabilities	2,539.0	0.9	2,499.2	1.0
Other liabilities	3,339.8	1.2	3,009.0	1.2
Current income tax liabilities	251.0	0.1	-	-
Provisions	222.9	0.1	245.8	0.1
TOTAL LIABILITIES	240,367.6	88.1	232,162.1	88.5
Equity				
Share capital	1,250.0	0.5	1,250.0	0.5
Other capital	28,451.5	10.3	25,146.8	9.6
Undistributed profits	-	-	1,250.0	0.4
Currency translation differences from foreign operations	(0.1)	-	-	-
Net profit for year	2,888.3	1.1	2,571.1	1.0
TOTAL EQUITY	32,589.7	11.9	30,217.9	11.5
TOTAL EQUITY AND LIABILITIES	272,957.3	100.0	262,380.0	100.0

Powszechna Kasa Oszczędności Bank Polski SA
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2.1.2. Income statement

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
	PLN mln	PLN mln
Interest and similar income	9,483.3	9,382.9
Interest expenses and similar charges	(2,115.4)	(2,562.8)
Net interest income	7,367.9	6,820.1
Fee and commission income	3,297.8	3,323.7
Fee and commission expense	(850.5)	(719.1)
Net fee and commission income	2,447.3	2,604.6
Dividend income	161.8	137.3
Net income from financial instruments measured at fair value	(0.4)	25.1
Gains less losses from investment securities	504.8	103.4
Net foreign exchange gains (losses)	501.4	417.9
Other operating income	115.4	162.0
Other operating expenses	(114.9)	(96.2)
Net other operating income and expenses	0.5	65.8
Net impairment allowance and write-downs	(1,408.4)	(1,474.7)
Administrative expenses	(5,033.9)	(5,562.5)
Tax on certain financial institutions	(820.2)	-
Operating profit	3,720.8	3,137.0
Profit before income tax	3,720.8	3,137.0
Income tax expense	(832.5)	(565.9)
Net profit	2,888.3	2,571.1



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2.1.3. Statement of comprehensive income

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
	PLN mln	PLN mln
Net profit	2,888.3	2,571.1
Other comprehensive income	(516.5)	44.6
Items that may be reclassified to the income statement	(518.5)	48.2
Cash flow hedges (gross)	(38.3)	(77.6)
Deferred tax	7.3	14.7
Cash flow hedges (net)	(31.0)	(62.9)
Unrealised net gains on financial assets available for sale (gross)	(601.7)	137.1
Deferred tax	114.3	(26.0)
Unrealised net gains on financial assets available for sale (net)	(487.4)	111.1
Currency translation differences from foreign operations	(0.1)	-
Items that may not be reclassified to the income statement	2.0	(3.6)
Actuarial gains and losses (gross)	2.4	(4.5)
Deferred tax	(0.4)	0.9
Actuarial gains and losses (net)	2.0	(3.6)
Total net comprehensive income	2,371.8	2,615.7

2.2. Selected financial ratios

	2016	2015	2014
Total assets (PLN mln)	272,957.3	262,380.0	243,760.5
Profit before income tax (PLN mln)	3,720.8	3,137.0	3,810.7
Net profit for the period (PLN mln)	2,888.3	2,571.1	3,079.5
Equity (PLN mln) ¹	29,701.4	27,646.8	24,522.7
Return on equity ²	9.72%	9.30%	12.56%
Return on assets ³	1.06%	0.98%	1.26%
Cost to income ratio ⁴	45.83%	54.67%	43.55%
Capital adequacy ratio	17.19%	15.28%	13.37%
Loan to deposit ratio ⁵	90.30%	93.43%	95.50%
Share of impaired loans ⁶	5.83%	6.38%	6.67%
Coverage ratio of impaired loans ⁷	59.48%	58.53%	55.93%

¹ excluding current year net profit

² net profit for the period / total equity excluding net profit as at the end of the period

³ net profit for the period / total assets as at the end of the period

⁴ administrative expenses / result on business activities (operating profit adjusted by net impairment allowance and write-downs, administrative expenses and tax on certain financial institutions)

⁵ loans and advances to customers / amounts due to customers

⁶ impaired loans and advances to customers gross / loans and advances to customers gross

⁷ impairment allowances on impaired loans and advances to customers / impaired loans and advances to customers gross



Powszechna Kasa Oszczędności Bank Polski SA

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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 prudential regulatory norms

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

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2 March 2017