CAPITAL GROUP OF BANK GOSPODARSTWA KRAJOWEGO

WARSAW, 7 JEROZOLIMSKIE AVENUE

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR 2017

ALONG WITH
THE REPORT OF THE INDEPENDENT STATUTORY AUDITOR ON THE AUDIT

TABLE OF CONTENTS

REPORT OF THE INDEPENDENT STATUTORY AUDITOR ON THE AUDIT

for the Supervisory Board of Bank Gospodarstwa Krajowego

Report on the audit of the annual consolidated financial statements

We audited the attached annual consolidated financial statements of the Capital Group of Bank Gospodarstwa Krajowego with the registered office at 7 Jerozolimskie Avenue, Warsaw (hereinafter referred to as the "Capital Group"), for which Bank Gospodarstwa Krajowego is the parent company (hereinafter referred to as the "Bank"), comprising the consolidated profit and loss account and consolidated statement of comprehensive income for the financial year from 1 January 2017 to 31 December 2017, consolidated statement of financial position prepared as of 31 December 2017, consolidated statement of changes in equity, and consolidated cash flow statement for the financial year from 1 January 2017 to 31 December 2017, as well as additional information comprising information about the adopted accounting policy and other explanatory information (hereinafter referred to as the "consolidated financial statements").

Responsibility of the Bank Management Board and persons charged with supervision over the consolidated financial statements

The Management Board of the Bank is obliged to prepare the consolidated financial statements 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 Bank Articles of Association. The Management Board of the Bank is also responsible for ensuring internal control necessary for the preparation of consolidated 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 consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2018, item 395, as amended), hereinafter referred to as the "Accounting Act".

Statutory auditor's responsibility

Our responsibility was to express an opinion whether the consolidated financial statements give a true and fair view of the financial and economic position as well as the financial performance of the Capital Group 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 consolidated financial statements has been performed in accordance with:

1) the Act on statutory auditors, auditing companies and public supervision of 11 May 2017 (Journal of Laws of 2017, item 1089, as amended) (hereinafter referred to as the "Act on statutory auditors"),

2) National Auditing Standards in the wording of the International Standards on Auditing adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended, in connection with the resolution no. 2041/37a/2018 of 5 March 2018 on domestic professional standards,

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) (hereinafter referred to as the "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 consolidated financial statements are free from material misstatement.

The objective of the audit is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the 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 may 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 consolidated 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 consolidated financial statements.

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

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

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

Independence

During the audit the key statutory auditor and the audit company remained independent of the audited members of the Capital Group in accordance with the provisions of the Act on statutory auditors, Regulation 537/2014 and the ethical requirements set out in resolutions 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 art. 136 of the Act on statutory auditors and art. 5.1 of the Regulation 537/2014, to the entities being members of the Capital Group.

Choice of the audit company

We were selected to audit the financial statements of the Capital Group by resolution no. 29/2015/VII of the Bank Supervisory Board of 27 July 2015. We were auditing the consolidated financial statements of the Capital Group for an uninterrupted period beginning with the financial year ending on 31 December 2015, i.e. for 3 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 appropriate auditing procedures relating 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 material misstatement risk	**Procedures carried out by the auditor in response to the identified risks and key observations arising with respect to those risks**
Impairment losses on financial assets The value of impairment losses on financial assets as well as change in the balance of this item were presented in detail in Note 9 and Note 18 to the consolidated financial statements. Impairment losses on financial assets contain a significant element of judgment and substantial estimate. 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 analyzed, in details, the design and implementation of the process of calculation of the impairment allowances on financial assets and we performed test of controls existing on the process, including the automated controls performed by the Capital Group IT systems, taking into account possible omission of controls. Our audit procedures included the reconciliation between the credit risk database with the general ledger to confirm the completeness of recognition of the loans and receivables which are the basis for the calculation of impairment allowances as well as value of these allowances. Our procedures also included analysis of the sample of loan receivables individually relevant to the functioning of the process of identifying impairment triggers. Additionally, for exposures with identified impairment, we reviewed the assumptions made in the recovery scenarios and estimated future cash flows due to repayments and collaterals in order to confirm the correctness of the impairment loss calculation.

Description of the material misstatement risk	Procedures carried out by the auditor in response to the identified risks and key observations arising with respect to those risks
	For exposures subject to individual impairment assessment, we analyzed valuation of collaterals and assumptions regarding other cash flows prepared by the Management Board. For exposures subject to the portfolio impairment assessment, we conducted an analysis of changes in the method of calculating impairment losses and provisions for off-balance sheet liabilities, analysis of parameters used by the Capital Group, analysis of reports on the model and backtest validation, and we converted the value of write-offs caclulated using the portfolio method for selected sample of loan receivables portfolios. In addition, we performed analysis of changes in 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.
Valuation of equity instruments Investments in affiliates and investments in equity instruments classified as available for sale were presented in detail in Notes 22 and 20 to the consolidated financial statements, respectively, while information on investments in subsidiaries was presented in Notes 1.2 - 1.3. We considered this issue as a risk of material misstatement due to the significance of investments in equity instruments, complexity of assessing the existence of control and the fact that, depending on the type of investment, their valuation requires the Management Board to apply professional judgment and numerous assumptions, including: - assessment of impairment triggers, - estimation of expected cash flows and discount rates, - reliable estimation of fair value.	As part of the audit, we documented our understanding of the process by which the management provides an adequate level of internal control in the process of valuation of equity instruments. We critically analyzed the design and operation of the investment process in the Capital Group, and also reviewed the resolutions of the Bank Management Board and minutes of the Bank Financial Committee in order to understand the Bank investment activities. We reconciled the lists of the components of investment in equity instruments and the portfolio of investment certificates with the consolidation documentation of the Capital Group. Our detailed procedures included, among others: • verification of the correctness of the adopted classification for investments in equity instruments, including assessment of the existence of control, • assessment of the correctness of

Description of the material misstatement risk	Procedures carried out by the auditor in response to the identified risks and key observations arising with respect to those risks
	valuation of these investments at the purchase price or fair value, • for investments in equity instruments valued at the purchase price, verification of the correctness and completeness of the created impairment losses, • for the listed investments in equity instruments, valued at fair value, independent valuation of the investments as at the balance sheet date, • for non-listed investments in equity instruments, valued at fair value, a review of the applied valuation models, including verification of the adopted parameters and assumptions.

Opinion

In our opinion, the consolidated financial statements of the Capital Group of Bank Gospodarstwa Krajowego:

- give a true and fair view of the economic and financial position of the Capital Group 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);
- is consistent as to the form and content with the legal regulations binding upon the Capital Group and provisions of the Bank Articles of Association.

Report on other legal and regulatory requirements

Opinion on the report on the operations

We do not express an opinion on the report on the operations of the Capital Group.

It is the responsibility of the Management Board of the Bank to prepare the report on the operations of the Capital Group in accordance with the Accounting Act and other applicable laws. Furthermore, the Management Board of the Bank and members of the Supervisory Board are also obliged to ensure that the report on the operations of the Capital Group meets the requirements of the Accounting Act.

Our responsibility, in accordance with the requirements of the Act on statutory auditors, was to issue an opinion on whether the report on the operations of the Capital Group was prepared in accordance with the law and that it complies with the information contained in the attached consolidated financial statements. Additionally, it was our responsibility to indicate whether we detected any material misstatement in the report on the operations of the Capital Group based on our knowledge of the

Capital Group and its business environment obtained in the course of the audit of the consolidated financial statements, and to explain the nature of each such material misstatement. Additionally, according to the Article 111a(3) of the Banking Law (Journal of Laws of 2015, item 128, as amended), hereinafter referred to as the "Banking Law", our responsibility was to audit financial information presented in chapter 11 of the report on the operations of the Capital Group.

In our opinion, the report on the operations of the Capital Group was prepared in line with the applicable legal regulations and is consistent with the information disclosed in the attached consolidated financial statements. Furthermore, based on our knowledge of the Capital Group and its business environment obtained in the course of the audit, we represent that we did not find any material misstatement in the report on the operations of the Capital Group.

Information about the non-financial statement

In accordance with the requirements of the Act on statutory auditors, we would like to inform you that the Bank did not prepare statement on non-financial information referred to in art. 49b(1) of the Accounting Act due to the lack of such a requirement for the Bank as a result of its legal form.

Other information, including information on the compliance with statutory requirements

The Bank Management Board is responsible for ensuring compliance with prudential regulations resulting from the provisions of the Banking Act of 29 August 1997 (Journal of Laws of 2015, item 128, as amended), resolutions of the Management Board of the National Bank of Poland and resolutions of the Polish Financial Supervision Authority. Based on the performed audit, our responsibility was to present information whether the Capital Group complied with the binding prudence regulations. Our objective was not to express an opinion on adherence to those regulations.

Based on the work conducted during the audit we would like to inform you that we did not identify any breach of the prudence regulations binding upon the Capital Group and we did not identify any irregularities that might have significant impact on the consolidated financial statements of the Capital Group, especially in terms of correctness of calculating the capital ratios.

On behalf of Deloitte Audyt spółka z ograniczoną odpowiedzialnością sp. k. (operating under the name Deloitte Polska spółka z ograniczoną odpowiedzialnością sp. k. until 18 March 2018) - an entity entered in the list of audit companies kept by the National Council of Statutory Auditors under no. 73:

Dorota Snarska – Kuman
Key statutory auditor
No. 9667

Warsaw, 23 April 2018