

AUDITOR'S REPORT

To the Supervisory Board of Bank Gospodarstwa Krajowego

Auditor's Report

Opinion

We have audited the annual financial statements of Bank Gospodarstwa Krajowego (the "Bank"), which comprise the statement of financial position as at 31 December 2018, and the statement of profit and loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information (the "financial statements").

In our opinion, the attached financial statements:

- give a true and fair view of the economic and financial position of the Bank as at 31 December 2018, its financial performance and cash flows during the financial year then ended, in accordance with the applicable International Accounting Standards, International Financial Reporting Standards approved by the European Union ("IFRS") and the adopted accounting principles (policies);
- comply, as regards their form and content, with the applicable laws and the Bank's Articles of Association;
- have been prepared based on properly kept accounting books in line with regulations of Section 2 of the Accounting Act of 29 September 1994 (the "Accounting Act" - Journal of Laws of 2019 item 351).

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on 15 April 2019.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") in a version adopted by the National Council of Statutory Auditors as the Polish Standards on Auditing ("PSAs") and in compliance with the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (the "Act on Statutory Auditors", Journal of Laws of 2017, item 1089, as amended) as well as 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 ("EU Regulation", Official Journal of the European Union L158). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Bank in accordance with the International Federation of Accountants' Code of Ethics for Professional Accountants ("IFAC Code"), adopted by resolution of the National Council of Statutory Auditors, together with the ethical requirements that are relevant to the audit of the financial statements in Poland, and we have fulfilled our other ethical responsibilities in



accordance with these requirements and the IFAC Code. Throughout the audit, both the key statutory auditor and the audit firm remained independent of the Bank in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They encompass the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We summarized our response to those risks and, where appropriate, we presented the key findings related to those risks. We do not provide a separate opinion on these matters.

Key audit matter	How we addressed the matter
<p><i>Impairment losses on financial assets</i></p> <p>Impairment losses on financial assets and changes of their balance have been presented in detail in Notes 20 and 21 to the financial statements.</p> <p>On 1 January 2018, International Financial Reporting Standard 9 "<i>Financial Instruments</i>" (henceforth: "IFRS 9") came into force. As a result, the former model of recognising and measuring impairment based on the concept of incurred loss has been replaced with the expected credit loss model. Information regarding the effects of adopting IFRS 9 is presented in Note 2.2. to the financial statements.</p> <p>Impairment losses on financial assets include material estimates and judgments.</p> <p>The issue has been considered a key audit matter due to the material effect of impairment losses on the balance sheet measurement of loan receivables, and due to the fact that it requires a material judgment of the Management Board and significant assumptions made in the process of their estimation, mostly with regard to estimation of risk parameters.</p>	<p>We carried out a critical analysis of the process design and operation, as well as of the policy of recognising impairment losses on financial assets, having assessed the control system in this respect, including automated controls in Bank's IT systems, bearing in mind a possible override of internal controls.</p> <p>Our procedures included reconciliation of the loan receivables database to the Bank's accounting records to confirm the completeness of recognition of loan receivables underlying the impairment losses and the amount thereof.</p> <p>With regard to the effects of first-time adoption of IFRS 9, our procedures verifying the correctness of its implementation included:</p> <ul style="list-style-type: none"> – assessment whether the methodology adopted by the Bank in relation to classification and measurement of financial instruments complies with IFRS 9 and with market practices, as well as whether the financial assets have been correctly assigned to appropriate business models; – assessment whether the financial instruments have been correctly measured at fair value; – assessment of completeness and correctness of disclosures, including those regarding first-time adoption of IFRS 9, as well as of quantitative and qualitative requirements, in particular regarding credit risk related to financial assets. <p>We performed the following procedures related to the estimation of portfolio allowances:</p>

- analysis of the methodology underlying the estimation of allowances for expected credit losses, including the adequacy of risk parameters used by the Bank and its compliance with IFRS 9;
- independent recalculation of allowances for expected credit losses for selected portfolios under the portfolio approach;
- assessment of changes in assumptions underlying the models used for credit risk measurement and the approach to back-testing of these models.

In relation to impairment losses estimated on an individual basis:

- we analysed the correctness of the process of identifying impairment loss indications;
- we assessed the appropriateness of estimating allowances for a sample of selected exposures with detected impairment indications, checking the correctness of the assumed collateral value and assumptions underlying other cash flows.

Measurement of equity instruments

Investments in subsidiaries, associates and equity instruments classified as measured at fair value through profit or loss or at fair value through other comprehensive income have been described in detail in Notes 25, 26, 18 and 19 to the financial statements.

The issue has been considered a key audit matter due to the materiality of investments in equity instruments, the complexity of control's existence assessment and the fact that, depending on the investment type, its measurement requires a professional judgment and a number of assumptions to be made by the Management Board, including those related to:

- assessment of impairment indications;
- estimates of expected cash flows and discount rates;
- reliable fair value estimates.

In the course of our audit we documented our understanding of the management's ensuring an appropriate level of internal control during measurement of equity instruments.

We critically analysed the design and operation of the Bank's investment process, reviewed Management Board resolutions and minutes of the Finance Committee Meetings to understand Bank's investing activities.

We reconciled the records of investments in equity instruments and investment certificate portfolios to Bank's accounting records.

Our detailed procedures included:

- verification of the correctness of equity investments classification, including the existence of classification process controls;
- assessment of the correctness of investment measurement at cost or at fair value;
- for investments in equity instruments measured at cost, verification of the correctness and completeness of recognised impairment losses;
- for quoted investments in equity instruments measured at fair value, independent measurement as at reporting period end;

- for not quoted investments in equity instruments measured at fair value, review of measurement models applied, including verification of the underlying parameters and assumptions.
-

Responsibilities of the Management Board and the Supervisory Board for the Financial Statements

The Management Board of the Bank is responsible for the preparation of the financial statements, based on properly kept accounting records, and for their fair presentation of the financial standing and performance of the Bank in accordance with the International Financial Reporting Standards as approved by the European Union, the adopted accounting principles (policy), legal regulations binding for the Bank, and with its Articles of Association. Further, the Management Board is responsible for internal controls it deems necessary to allow the preparation of financial statements free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the Management Board 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 either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Management Board and members of the Supervisory Board of the Bank are obliged to ensure that the financial statements meet the requirements of the Accounting Act.

Members of the Supervisory Board are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole 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 PSAs 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 scope of an audit does not include an assurance about the future profitability of the Bank or the effectiveness or efficiency of the Management Board in managing the Bank's affairs at present or in the future.

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

- identify and assess the risks of material misstatement of the 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 reasonableness of accounting

estimates and related disclosures made by the Company's Management Board;

- conclude on the appropriateness of the Bank's Management Board'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 auditor's report to the related disclosures in the 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 auditor's report. 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board 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 also provide the Bank's Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and that we will communicate with it 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 Supervisory Board, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report 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, including Report on the Activities

Other information includes a report on the Bank's activities in the financial year ended 31 December 2018 (the "Report on the Activities").

Responsibilities of the Management Board and the Supervisory Board

The Bank's Management Board is responsible for the preparation of the Report on the Activities in accordance with the applicable laws.

The Management Board and members of the Supervisory Board of the Bank are obliged to ensure that the Report on the Activities meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion does not include the Report on the Activities. In connection with our audit of the financial statements, our responsibility is to read the Report on the Activities and, in doing so, consider whether the Report on the Activities is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Report on the Activities, we are required to report that fact in our auditor's report. Additionally, under the Act on Statutory Auditors we are obliged to express an opinion on whether the Report on the Activities has been prepared in accordance with the applicable laws and whether it is consistent with

the information contained in the financial statements.

Further, pursuant to Article 111a.3 of the Banking Law of 29 August 1997 (Journal of Laws of 2015, item 128 as amended), henceforth referred to as the "Banking Law", we were obliged to audit financial information included in Section 11 of the Report on the Activities.

Opinion on the Report on the Activities

Based on our work performed during the audit, we are of the opinion that the Report on the Activities:

- has been prepared in accordance with Article 49 of the Accounting Act;
- is consistent with the information contained in the financial statements.

Furthermore, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements of the Report on the Activities.

Information on Non-Financial Information

In accordance with the requirements of the Act on Statutory Auditors, we would like to inform you that the Bank does not prepare a non-financial information statement referred to in Article 49b.1 of the Accounting Act, since its legal form does not require doing so.

Report on Other Legal and Regulatory Requirements

Information on Compliance with Prudential Regulations

The Management Board of the Bank is responsible for compliance with prudential regulations arising from the Banking Law of 29 August 1994 (Journal of Laws of 2015, item 128 as amended), resolutions of the Management Board of the National Bank of Poland and from the Polish Financial Supervision Authority. Our responsibility, based on the audit we performed, was to present information on whether or not the Bank complied with the applicable prudential regulations. It was not our objective to express an opinion on the Bank's compliance with the said regulations.

Based on our audit, we did not identify any instances of non-compliance with the prudential regulations applicable to the Bank or any irregularities which could have a significant effect on the Bank's financial statements, in particular with regard to the correctness of the calculation of its capital ratios.

Statement Concerning Provision of Non-Audit Services

To the best of our knowledge and belief, we represent that non-audit services which we have provided to the Bank and to its subsidiaries are in accordance with the laws and regulations applicable in Poland and that we have not provided any non-audit services which are prohibited under Article 5.1 of the EU Regulation and Article 136 of the Act on Statutory Auditors.

The non-audit services which we provided to the Bank and to its subsidiaries in the audited period have been listed in Section 10 of the Report on the Activities.

Appointing the Audit Firm

We were appointed to audit the financial statements of the Bank by the Resolution of the Supervisory Board no. 33/2018/IX of 25 October 2018. We have been auditing the Bank's financial statements for an uninterrupted period beginning with the financial year ended 31 December 2015, i.e. for four consecutive financial years.



The key statutory auditor on the audit resulting in this independent auditor's report is Dorota Snarska-Kuman.

Acting on behalf of Deloitte Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered seat in Warsaw, entered under number 73 on the list of audit firms, in the name of which the financial statements have been audited by the key statutory auditor

Dorota Snarska-Kuman
Registered under number 9667

Warsaw, 15 April 2019

The above 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.