

INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Bank Gospodarstwa Krajowego

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of Bank Gospodarstwa Krajowego (the "Bank"), which comprise the statement of financial position as at December 31, 2019, and profit and loss account, 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 accompanying financial statements:

- give a true and fair view of the economic and financial position of the Bank as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the applicable International Financial Reporting Standards ("IFRSs"), as endorsed by the European Union, and the adopted accounting policies;
- comply, as regards their form and content, with the applicable laws and the articles of association of the Bank;
- have been prepared based on properly kept accounting records, in accordance with Section 2 of the Accounting Act of 29 September 1994 (the "Accounting Act", Journal of Laws of 2019, item 351, as amended).

Our opinion is consistent with the Additional Report to the Audit Committee, which we issued on the day of this report.

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 2019, item 1421, 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
<i>Impairment losses on financial assets</i>	
<p>Value of impairment losses of financial assets as well as change of this position has been disclosed in detail in note number 2.5.4.5, 20, 21 and 45 to the financial statements.</p>	<p>We have critically analyzed the design and implementation of the impairment estimation process and policy for impairment of financial assets and we assessed the control system in this process, including automated controls in the Bank's IT systems, also taking into account possible bypassing of controls.</p>
<p>Impairment losses on financial assets contain a significant amount of judgment and estimates.</p>	<p>As part of the procedures we have carried out reconciliation of the loan receivables base with the Bank's accounting records in order to confirm completeness of recognition of loan receivables being the basis for expected credit losses calculation, as well as the correctness of these calculations.</p>
<p>This issue was considered key audit matter due to significant impact of impairment losses on the balance sheet valuation of credit receivables, and also because of the fact that it requires significant judgment of the Bank's Management Board and significant assumptions and estimates are taken into account during the process, especially in terms of credit risk parameter estimation in models for calculation of expected credit losses, as required by International Financial Reporting Standard 9 "Financial instruments" ("IFRS 9").</p>	<p>Regarding validation of the application of IFRS 9 requirements, our procedures included among others:</p> <ul style="list-style-type: none"> – assessment of the methodology used by the Bank in the field of financial instruments classification and valuation, compliance with IFRS 9 and market practice; – assessment of the correctness of the financial instruments valuation at fair value; – assessing the completeness and correctness of disclosures, especially in the area of financial assets credit risk.
	<p>In the area of collective impairment we performed, among others, the following procedures:</p> <ul style="list-style-type: none"> – analysis of the methodology used for estimating expected credit losses, including adequacy of risk parameters used by the Bank and compliance with the requirements of IFRS 9; – independent recalculation of expected credit losses for selected portfolios in the collective method; – assessment of changes in the assumptions for

Key audit matter	How we addressed the matter
	<p>models used for measuring credit risk and the approach used to model verification based on historical data (so-called "back-tests").</p> <p>In reference to impairment losses estimated based on individual approach:</p> <ul style="list-style-type: none"> - we analyzed the correctness of the process of identifying indications of impairment; - we assessed the correctness of the impairment estimation for selected exposure sample with identified indications of impairment in regards of correctness of accepted values of collateral and assumptions regarding other cash flows.
<p><i>Valuation of equity instruments</i></p>	
<p>Investments in subsidiaries, investments in associates and investments in equity instruments classified as measured at fair value through financial result and valued in fair value through other comprehensive income have been shown in detail respectively in notes number 18, 19, 23 and 24 to the financial statements.</p>	<p>During the audit, we documented our understanding of management's process of assuring adequate level of internal control in the process of valuation of equity instruments.</p>
<p>This issue has been recognized by us as the key audit matter due to the importance of equity investments, the complexity of assessing control existence and the fact that depending on the type of investment their valuation requires the Bank's Management Board to apply professional judgment and numerous assumptions, including, among others:</p> <ul style="list-style-type: none"> - assessment of impairment triggers; - estimation of expected cash flows and discount rates; - reliable estimation of fair value. 	<p>We have critically analyzed the design and implementation of the investment process in the Bank, as well as we reviewed the resolutions of the Bank's Management Board and reports from the Bank's Financial Committee to understand the Bank's investment activities.</p> <p>We have reconciled investment components in equity instruments and the portfolio of investment certificates with the Bank's accounting records.</p> <p>Our detailed procedures included among others:</p> <ul style="list-style-type: none"> - verification of the correctness of the classification of investments in equity instruments, including assessment of the existence of controls in the classification process; - assessment of the correctness of the valuation of these investments at purchase price or fair value; - for investments in equity instruments valued at purchase price, verification of correctness and completeness of estimated impairment; - for listed investments in equity instruments measured at fair value, independent investment valuation as at the balance sheet date; - for unlisted investments in equity instruments measured at fair value, review of valuation models used, including verification of adopted parameters and assumptions.

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

The Bank's Management Board is responsible for the preparation – based on properly kept accounting records – of financial statements which give a true and fair view of the economic and financial position of the Bank and of its financial performance in accordance with the applicable International Financial Reporting Standards, as endorsed by the European Union, the adopted accounting policies as well as the applicable laws and articles of association, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, 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 skepticism 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 Bank'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 Bank's 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 the Report on the Activities

Other information includes a report on the Bank's activities in the financial year ended December 31, 2019 (the "Report on the Activities").

Report of the Management Board on the activities of Bank Gospodarstwa Krajowego and the Bank's Capital Group in 2019, in accordance with art. 55 item 2a of the Accounting Act, has been prepared together.

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, meet the requirements of the Accounting Act.

Auditor's Responsibilities

Our opinion on the financial statements does not cover 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 this 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. Furthermore, as required by art. 111a section 3 of the Act of 29 August 1997 Banking Law (Journal of Laws of 2015, item 128, as amended), hereinafter referred to as "Banking Law", our it was the responsibility to audit the financial information contained in chapter 11 of the report on the Bank's operations.

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 Bank 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 confirm that the Bank has not prepared a non-financial information statement, as referred to in Article 49b.1 of the Accounting Act, as a separate part of the Report on the Activities, due to the lack of such a requirement for the Bank, due to its legal form.

Report on Other Legal and Regulatory Requirements

Information on compliance with prudential regulations

For ensuring compliance of operations with prudential regulations arising from regulations the Banking Law of August 29, 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 the Bank's Management Board is responsible. Our task was, based on carried out examination, presentation of information whether the Bank complied with applicable regulations prudential. Our goal was not to express an opinion on compliance with these regulations by the Bank.

Based on the research, we inform you that we have not identified cases violations of the Bank's prudential regulations and we have not found irregularities that could have a material impact on the financial statements of the Bank, in particular regarding the correctness of determining 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 not 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 chapter 10 in the Report on the Activities.

Appointment of the Auditor

We were appointed as the auditor of the Bank's financial statements by resolution 33/2018/IX of Supervisory Board of October 25, 2018. Our total uninterrupted period of engagement to audit the Bank's financial statements is five consecutive financial years, i.e. starting from the financial year ended December 31, 2015.



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, May 18, 2020

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