

## INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of Bank Gospodarstwa Krajowego

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

#### Opinion

We have audited the annual consolidated financial statements of the group (the "Group") with Bank Gospodarstwa Krajowego as the parent (the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the economic and financial position of the Group 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, 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.

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 Consolidated Financial Statements* section of our report.

We are independent of the Group 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 Group in accordance with the independence requirements set out in the Act on Statutory Auditors and in the EU Regulation.

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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 consolidated 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 consolidated 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 consolidated 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 Group'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 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"> <li>– assessment of the methodology used by the Group in the field of financial instruments classification and valuation, compliance with IFRS 9 and market practice;</li> <li>– assessment of the correctness of the financial instruments valuation at fair value;</li> <li>– assessing the completeness and correctness of disclosures, especially in the area of financial assets credit risk.</li> </ul>
	<p>In the area of collective impairment we performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>– analysis of the methodology used for estimating expected credit losses, including adequacy of risk parameters used by the Group and compliance with the requirements of IFRS 9;</li> <li>– independent recalculation of expected credit losses for selected portfolios in the collective method;</li> <li>– assessment of changes in the assumptions for models used for measuring credit risk and</li> </ul>

Key audit matter	How we addressed the matter
	<p>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"><li>– we analyzed the correctness of the process of identifying indications of impairment;</li><li>– we assessed the correctness of the allowance 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.</li></ul>
<i>Valuation of equity instruments</i>	
<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 note number 18, 19, 23 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"><li>– assessment of impairment triggers;</li><li>– estimation of expected cash flows and discount rates;</li><li>– reliable estimation of fair value.</li></ul>	<p>We have critically analyzed the design and implementation of the investment process in the Group, as well as we reviewed the resolutions of the Bank's Management Board and reports from the Bank's Financial Committee to understand the Group's investment activities.</p> <p>We agreed on lists of 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"><li>– verification of the correctness of the classification of investments in equity instruments, including assessment of the existence of controls in the classification process;</li><li>– assessment of the correctness of the valuation of these investments at purchase price or fair value;</li><li>– for investments in equity instruments valued at purchase price, verification of correctness and completeness of estimated impairment;</li><li>– for listed investments in equity instruments measured at fair value, independent investment valuation as at the balance sheet date;</li><li>– for unlisted investments in equity instruments measured at fair value, review of valuation models used, including verification of adopted parameters and assumptions.</li></ul>

## **Responsibilities of the Management Board and the Supervisory Board of the Bank for the Consolidated Financial Statements**

The Bank's Management Board is responsible for the preparation of consolidated financial statements which give a true and fair view of the economic and financial position of the Group 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 of the Bank, and for such internal control as the Bank's Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Bank's Management Board is responsible for assessing the Group'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 Bank's Management Board either intends to liquidate the Group 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 consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (the "Accounting Act", Journal of Laws of 2019, item 351, as amended). Members of the Bank's Supervisory Board are responsible for overseeing the financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are 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 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 consolidated financial statements.

The scope of an audit does not include an assurance about the future profitability of the Group or the effectiveness or efficiency of the Bank's Management Board in managing the Group'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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 Bank's Supervisory Board, we determined those matters that were the most significant in the audit of the consolidated financial statements in 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 Group'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 consolidated financial statements does not cover the Report on the Activities. In connection with our audit of the consolidated 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 consolidated 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 consolidated 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 Capital Group 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 consolidated financial statements.

Furthermore, in the light of the knowledge and understanding of the Group 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 Group 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 Group complied with applicable regulations prudential. Our goal was not to express an opinion on compliance with these regulations by the Group.

Based on the research, we inform you that we have not identified cases violations of the Group's prudential regulations and we have not found irregularities that could have a material impact on the financial statements of the Group, 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 Group's consolidated financial statements by resolution 33/2018/IX of the Bank's Supervisory Board of October 25, 2018. Our total uninterrupted period of engagement to audit the Group's consolidated 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 consolidated 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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