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# Independent Auditor's Report

## To the General Shareholders' Meeting and Supervisory Board of PKO Bank Hipoteczny SA

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

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#### Opinion

We have audited the accompanying annual financial statements of PKO Bank Hipoteczny SA (the "Bank"), which comprise:

- the statement of financial position as at 31 December 2019,

and for the period from 1 January to 31 December 2019:

- the statement of profit or loss;
  - the statement of comprehensive income;
  - the statement of changes in equity;
  - the statement of cash flows;
- and
- notes comprising a summary of significant accounting policies and other explanatory information

(the "financial statements").

In our opinion, the accompanying financial statements of the Bank:

- give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS EU") and the adopted accounting policy;
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Bank's articles of association;
- have been prepared, in all material respects, on the basis of properly maintained accounting records in accordance with chapter 2 of the accounting act dated 29 September 1994 (the "Accounting Act").

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Our audit opinion on the financial statements is consistent with our report to the Audit and Finance Committee dated 7 February 2020.

### Basis for Opinion

We conducted our audit in accordance with:

- International Standards on Auditing as adopted by the National Council of Certified Auditors as National Standards on Auditing (the “NSA”); and
- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (the “Act on certified auditors”); and
- 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 (the “EU Regulation”); and

- other applicable laws.

Our responsibilities under those regulations are further described in the Auditor’s Responsibility for the audit of the financial statements section of our report.

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

### Independence and Ethics

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants (“IFAC Code”) issued by the International Ethics Standards Board for Accountants as adopted by the resolutions of the National Council of Certified Auditors, as well as other independence and ethical requirements, applicable to audit engagement

in Poland. We have fulfilled all ethical responsibilities resulting from those requirements and IFAC Code. During our audit the key certified auditor and the audit firm remained independent of the Bank in accordance with requirements of the Act on certified auditors and the EU Regulation.

### 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 are the most significant assessed risks of material misstatements, including those due to fraud. Key audit matters were addressed in the

context of our audit of the financial statements as a whole, and in forming our opinion thereon we have summarised our response to those risks. We do not provide a separate opinion on these matters. We have determined the following key audit matters:

#### Impairment of loans and advances to customers

The carrying amount of loans and advances to customers amounted to PLN 25,821 million as at 31 December 2019 and PLN 21,070 million as at 31 December 2018. Impairment losses amounted to PLN (14.7) million in 2019 and PLN (8.7) million in 2018 (Notes 11, 22 and 23 of the financial statements).

<i>Key audit matter</i>	<i>Our response</i>
<p>Loans and advances to customers are measured at amortised cost less expected credit losses. The procedures to estimate credit losses comprise two major phases – identification of impairment triggers or significant increase of credit risk and measurement of expected credit losses.</p> <p>The impairment triggers and triggers indicating significant increase of credit risk are identified mainly on the basis of payment delinquencies and current probability of default level as compared to the date of initial recognition of a given exposure, while</p>	<p>Our audit procedures conducted with the support of our internal financial risk management and IT specialists included i.e.:</p> <ul style="list-style-type: none"> <li>• critical assessment of the Bank’s methodology used for estimating expected credit losses in terms of its compliance with the requirements of applicable financial reporting standards and market practice;</li> <li>• assessment of the design and implementation of relevant internal controls, including general IT system</li> </ul>

allowances for expected credit losses are estimated collectively using statistical methods on the basis of risk parameters. Risk parameters such as probability of default (PD), loss given default (LGD) or exposure at default (EAD) are determined for homogenous groups of loan exposures based on historical data taking into account forward looking information on expected macroeconomic conditions.

Allowances for expected credit losses are the best estimate of expected credit losses on loans and advances as at the balance sheet date to be incurred within the next 12 month period or within the lifetime of the exposure. We have considered this area as a key audit matter because of the size of the loan portfolio and the significant impact that estimation of expected credit losses may have on the Bank's financial statements. Furthermore, estimating allowances for credit losses involves certain uncertainty and requires from the Bank's Management to use substantial judgment. The main risk area comprises the failure to identify existing impairment triggers and significant increase of credit risk as well as the application of inappropriate data to calculate the parameters of the statistical model, which may not adequately reflect the expected credit losses existing as at a given balance sheet date. Moreover, there is a risk of errors occurring during the impairment allowances calculation process.

controls, applied in the process of identification of impairment triggers or significant increase in credit risk and estimation of expected credit losses;

- analysis of the structure and dynamics of the loan portfolio including quality ratios and provision coverage (i.e. share of overdue loans, coverage ratio) in order to identify groups of loans with underestimated impairment allowances;
- analysis of appropriateness of the Bank's identification of impairment triggers and significant increase in credit risk for the entire population of loan exposures (overdue status, significant increase in PD, forbearance);
- independent recalculation of expected credit losses for impaired loans;
- critical assessment of assumptions and input data used for key credit risk parameters, such as PD, LGD and EAD including analysis of results of tests performed by the Bank regarding appropriateness of models used for estimating of expected credit losses;
- recalculation of selected risk parameters and expected credit losses for a selected sample of exposures;
- an independent assessment of adequacy of allowances for expected credit losses through comparison with losses incurred historically on a given portfolio.

### Responsibility of the Management Board and Supervisory Board of the Bank for the financial statements

The Management Board 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, the adopted accounting policy, the applicable laws and the provisions of the Bank's articles of association and for such internal control as the Management Board of the Bank 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 of the Bank 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 of the Bank either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

According to the Accounting Act, the Management Board and members of the Supervisory Board of the Bank are required to ensure that the financial statements are in compliance with the requirements set forth in the Accounting Act. Members of the Supervisory Board of the Bank are responsible for overseeing the Bank's financial reporting process.

## Auditor's Responsibility 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 auditors' 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 NSAs 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 audit does not include assurance on the future viability of the Bank or on the efficiency or effectiveness with which the Management Board of the Bank has conducted or will conduct the affairs of the Bank.

As part of an audit in accordance with NSAs, 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 Management Board of the Bank;
- conclude on the appropriateness of the Management Board of the Bank'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 auditors' report on the audit of the financial statements 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 auditors' report on the audit of the financial statements. 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 Audit and Finance Committee of the Bank 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 provide the Audit and Finance Committee of the Bank with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them 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 Audit and Finance Committee of the Bank, we determine those matters that were of most significance in the audit of the financial statements of the current reporting period and are therefore the key audit matters. We describe these matters in our auditors' report on the audit of the financial statements 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 activities

### Other Information

The other information comprise:

- the letter of the President of the Management Board;
  - the Management report on activities of the Bank for the year ended 31 December 2019 (the “Report on activities”), including the corporate governance statement, which is a separate part of the Report on activities and the statement of the Management Board regarding the preparation of the financial statements and Report on activities;
  - the Management Board’s information regarding the appointment of the audit firm;
  - the statement of the Supervisory Board regarding the Audit and Finance Committee; and
  - the Supervisory Board’s assessment of the financial statements and the Report on activities;
- (together the “Other information”).

### Responsibility of the Management Board and Supervisory Board

The Management Board of the Bank is responsible for the Other information in accordance with applicable laws.

The Management Board and members of the Supervisory Board of the Bank are required to

ensure that the Report on activities, including separate parts of the Report on activities, is in compliance with the requirements set forth in the Accounting Act.

### Auditor’s Responsibility

Our opinion on the financial statements does not cover the Other information.

In connection with our audit of the financial statements, our responsibility was to read the Other information and, in doing so, consider whether the Other information 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 performed, we conclude that there is a material misstatement in the Other information, we are required to report that fact.

In accordance with the Act on certified auditors our responsibility was to report if the Report on

activities was prepared in accordance with applicable laws and the information given in the Report on activities is consistent with the financial statements.

Moreover, in accordance with the requirements of the Act on certified auditors our responsibility was to report whether the Bank included in the statement on corporate governance information required by the applicable laws and regulations, and in relation to specific information indicated in these laws or regulations, to determine whether it complies with the applicable laws and whether it is consistent with the financial statements.

### Opinion on the Report on activities

Based on the work undertaken in the course of our audit of the financial statements, in our opinion, the accompanying Report on activities, in all material respects:

- has been prepared in accordance with applicable laws, and
- is consistent with the financial statements.

### Opinion on the statement on corporate governance

In our opinion, the corporate governance statement, which is a separate part of the Report on activities, includes the information required by paragraph 70 subparagraph 6

point 5 of the Decree of the Ministry of Finance dated 29 March 2018 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 (the “decree”).

Furthermore, in our opinion, the information identified in paragraph 70 subparagraph 6 point 5 letter c-f, h and letter i of the decree,

#### *Statement on Other information*

Furthermore, based on our knowledge about the Bank and its environment obtained in the audit of the financial statements, we have not

included in the corporate governance statement, in all material respects:

- has been prepared in accordance with applicable laws; and
- is consistent with the financial statements.

identified material misstatements in the Report on activities and the Other information.

## **Report on other legal and regulatory requirements**

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### **Information on compliance with prudential regulations**

The Management Board of the Bank is responsible for the Bank’s compliance with the applicable prudential regulations defined in separate laws, in particular for the appropriate determination of the capital ratios.

Our responsibility was to inform in our auditor’s report whether the Bank complies with the applicable prudential regulations defined in separate laws, in particular whether the Bank appropriately determined the capital ratios presented in note 52.4 “Requirements regarding own funds (Pillar I)”.

The audit objective was not to express an opinion on the Bank’s compliance with the

applicable prudential regulations and therefore we do not express such an opinion.

Based on our audit of the financial statements of the Bank, we inform that we have not identified any instances of non-compliance, in the period from 1 January to 31 December 2019, of the Bank with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios as at 31 December 2019, that could have a material impact on the financial statements.

### **Statement on services other than audit of the financial statements**

To the best of our knowledge and belief, we did not provide prohibited non-audit services referred to in art. 5 paragraph 1 second subparagraph of the EU Regulation and art. 136 of the act on certified auditors.

Services other than audit of the financial statements, which were provided to the Bank in the audited period are listed in in point 7.2 ‘Entity authorised to audit the financial statements’ of the Report on activities.



### Appointment of the audit firm

We have been appointed for the first time to audit the annual financial statements of the Bank by resolution of the Supervisory Board dated 14 May 2015 and reappointed in the following years, including the resolution dated 3 March 2017, to audit the annual financial

statements for the year ended 31 December 2019. Our period of total uninterrupted engagement is 5 years, covering the periods ended 31 December 2015 to 31 December 2019.

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On behalf of audit firm

**KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.**

Registration No. 3546

*Signed on the Polish original*

Tadeusz de Ville

Limited Partner, Proxy

*Signed on the Polish original*

Katarzyna Łącka-Dziekan

Key Certified Auditor  
Registration No. 13131

Warsaw, 7 February 2020