

**BANK POLSKA KASA OPIEKI S.A.
WARSAW, GRZYBOWSKA 53/57**

**FINANCIAL STATEMENTS
FOR THE 2016 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

TABLE OF CONTENTS

AUDITOR'S OPINION	3
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF BANK POLSKA KASA OPIEKI S.A. FOR THE 2016 FINANCIAL YEAR.....	6
I. GENERAL INFORMATION.....	6
1. Details of the audited Bank	6
2. Information on the financial statements for the previous financial year	6
3. Details of the authorized entity and the key certified auditor acting on its behalf	7
4. Availability of data and management's representations	7
II. ECONOMIC AND FINANCIAL POSITION OF THE BANK	8
III. DETAILED INFORMATION	10
1. Evaluation of the accounting system.....	10
2. Information identifying the audited financial statements.....	10
3. Information about selected material items of the financial statements	10
4. Completeness and correctness of notes and explanations and the report on the activities of the Bank	11
IV. FINAL NOTES.....	12

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Polska Kasa Opieki S.A.

Auditor's report

We have audited the attached financial statements of Bank Polska Kasa Opieki S.A. ("Bank") with its registered office in Warsaw at Grzybowska 53/57, including income statement, statement on comprehensive income for the financial year from 1 January 2016 to 31 December 2016, statement of financial position prepared as of 31 December 2016, statement of changes in equity, cash flow statement for the financial year from 1 January 2016 to 31 December 2016 and notes comprising a summary of significant accounting policies and other explanatory information.

Responsibility of the Bank's manager and persons supervising the preparation of 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 their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws. It is also obliged to ensure internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act" the Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit works.

We conducted our audit in accordance with Section 7 of the Accounting Act and the National Auditing Standards in line with the wording of the International Standards on Auditing adopted by Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 as amended. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion on 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 2016 and its financial performance for the financial year from 1 January 2016 to 31 December 2016 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- have been prepared based on properly kept accounting books,
- comply, with respect to their form and content, with the applicable provisions of law and the articles of association of the Bank.

Report on other legal and regulatory requirements

Opinion on the report on the activities

We do not express an opinion on the report on the activities.

It is the responsibility of the Management Board of the Bank to prepare the report on the activities in accordance with the Accounting Act and other applicable laws. Moreover, the Management Board of the Bank and members of the Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act.

When auditing the financial statements we were obliged to examine the report on the activities and indicate whether the information contained therein complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed in the attached financial statements. Additionally, according to the Article 111a paragraph 3 of the Banking Law (Journal of Laws of 2016 item 1988 as amended, "Banking Law") our responsibility was to audit financial information presented in paragraph 8 of the Report on the activities. The audit was performed in accordance with the scope presented in the paragraph Auditor's responsibility. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the Bank and its business environment obtained in the course of the audit.

In our opinion, the information contained in the report on the activities complies with Article 49 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended) and is consistent with underlying information disclosed

in the attached financial statements. Moreover, based on our knowledge of the Bank and its business environment obtained in the course of the audit, we have not detected any material misstatements in the report on the activities. Additionally, information presented in the paragraph 8 of the Report on the activities are compliant with the requirements of the Article 111a, paragraph 1 and 2 of the Banking Law.

Statement of compliance with corporate governance principles

In relation to our audit of the financial statements, it was our responsibility to examine the Bank's statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities. In our opinion, the Bank's statement provides all information required by the secondary legislation issued under Article 60.2 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws of 2016 item 1639 as amended) and regulations issued under Article 61 thereof. The information is compliant with the applicable laws and information presented in the financial statements.

Dorota Snarska - Kuman
Key certified auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dorota Snarska - Kuman – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 9 February 2017

The above audit opinion together with 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.

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF BANK POLSKA KASA OPIEKI S.A.
FOR THE 2016 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Bank

The Company operates under the business name Bank Polska Kasa Opieki S.A. (hereinafter: the "Bank"). The Bank's registered office is located in Warsaw at Grzybowska 53/57.

The Bank operates as a joint stock company. The Bank is recorded in the Register of Entrepreneurs kept by the District Court in Capital City Warsaw, XII Business-Registry Division of the National Court Register, under KRS number 0000014843, based on the decision of 2 July 2001.

The Bank operates based on the provisions of the Code of Commercial Companies and Banking Law.

As of 31 December 2016, the Bank's share capital equaled PLN 262,470 thousand and was divided into 262,470,034 shares with a face value of PLN 1 each.

In the audited period, the Bank conducted activities mainly in the area of accepting cash as demand deposits or term deposits and keeping deposit accounts as well as granting credits and loans.

Composition of the Management Board as of the date of the opinion:

- | | |
|--------------------|---|
| - Luigi Lovaglio | President of the Management Board, |
| - Diego Biondo | Vice President of the Management Board, |
| - Andrzej Kopyrski | Vice President of the Management Board, |
| - Adam Niewiński | Vice President of the Management Board, |
| - Grzegorz Piwowar | Vice President of the Management Board, |
| - Stefano Santini | Vice President of the Management Board, |
| - Marian Ważyński | Vice President of the Management Board. |

There were no changes in the composition of the Management Board during the audited period and until the date of the opinion.

2. Information on the financial statements for the previous financial year

The activities of the Bank in 2015 resulted in a net profit of PLN 2,290,398 thousand. The financial statements of the Bank for the 2015 financial year were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the financial statements for the 2015 financial year was held on 16 June 2016. The General Shareholders' Meeting decided to distribute the net profit for 2015 in the following manner:

- | | |
|---------------------------------|---------------------------|
| - dividends for shareholders | - PLN 2,283,489 thousand; |
| - fund for general banking risk | - PLN 6,909 thousand. |

The financial statements for the 2015 financial year were submitted to the National Court Register (KRS) on 1 July 2016.

The consolidated financial statements for the 2016 financial year were submitted to the National Court Register (KRS) on 1 July 2016.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the Shareholders' Meeting. The audit of the financial statements was performed based on the agreement of 17 June 2013 concluded between the Bank Polska Kasa Opieki S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with registered office in Warsaw, al. Jana Pawła II 22, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Dorota Snarska - Kuman, key certified auditor, (No. 9667), in the registered office of the Bank, in its branches as well as outside the Bank's from 14 November 2016 until the opinion date.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting the audit confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on certified auditors and their self-government, entities authorized to audit financial statements and public supervision (Journal of Laws of 2016 item 1000 as amended) to express an unbiased and independent opinion on the financial statements of the Bank.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, necessary documents and data as well as detailed information and explanations were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 9 February 2017.

II. ECONOMIC AND FINANCIAL POSITION OF THE BANK

Presented below are the main items from the statement of financial position, income statement and statement of comprehensive income as well as financial ratios describing the financial performance of the Bank and its economic and financial position compared to the prior year.

<u>Main items from statement of financial position</u> <u>(PLN '000)</u>	<u>31.12.2016</u>	<u>31.12.2015</u>
Total assets	170,988,852	165,760,670
Cash and due from Central Bank	5,861,342	7,881,598
Loans and advances to banks	3,454,679	7,512,226
Loans and advances to customers	119,033,599	118,508,582
Investment (placement) securities	34,864,031	20,989,942
Amounts due to other banks	3,367,125	4,553,114
Amounts due to customers	138,066,129	129,256,866
Total equity, including:	22,282,557	22,794,403
Share capital	262,470	262,470
<u>Main items from the income statement and comprehensive</u> <u>income statement (PLN '000)</u>	<u>2016</u>	<u>2015</u>
Net interest income	4,266,873	4,039,623
Net fee and commission income	1,703,369	1,750,515
Result on financial assets and liabilities held for trading	470,184	418,506
Gains (losses) on disposal	435,903	229,601
Net impairment losses on financial assets and off-balance sheet commitments	(491,385)	(513,978)
Operating costs	(3,707,771)	(3,412,801)
Income tax expense	(584,818)	(501,157)
Net profit for the period	2,278,375	2,290,398
Total comprehensive income	1,771,643	2,031,860
<u>Ratio analysis</u>	<u>2016</u>	<u>2015</u>
Return on equity ratio (ROE)	10.10%	10.14%
Return on assets ratio (ROA)	1.35%	1.39%
Cost to income ratio	52.84%	51.85%
Capital ratio	18.17%	18.20%
Equity ratio	13.03%	13.75%

An analysis of the above figures and ratios indicated the following trends in 2016:

- return on equity ratio (ROE) calculated as a relation of net profit for the period to equity estimated as an average of the balance as at 31.12.2015 and balances as at the end of each month in 2016 decreased as at the end of 2016 and amounted to 10.10% in comparison to 10.14% as at the end of 2015;
- return on assets ratio (ROA) calculated as a relation of net profit for the period to total assets estimated as an average of the balances as at 31.12.2015 and 31.12.2016 decreased as at the end of 2016 and amounted to 1.35% in comparison to 1.39% as at the end of 2015;
- cost to income ratio calculated as a relation of total costs estimated as a sum of administrative expenses, depreciation and amortization, impairment allowances of property plant and equipment and intangible assets less refund of administrative expenses

to total income estimated as sum of net interest in, net fee and commission income, dividend income, result on financial assets and liabilities held for trading, result on fair value hedge accounting, gains (losses) on disposal and other operating income (less refund of administrative expenses) increased from 51.85% for 2015 to 52.84% for 2016;

- capital ratio calculated in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms as at the end of 2016 amounted to 18.17% in comparison to 18.20% as at the end of 2015;
- equity ratio calculated as a relation of total equity to the sum of total equity and total liabilities decreased as at the end of 2016 and amounted to 13.03% in comparison to 13.75% at the end of 2015.

Application of prudence principles

During our audit we have not identified significant discrepancies indicating lack of application in 2015 of prudence principles determined by Polish Law, resolutions of Management of National Bank of Poland and resolutions of Polish Financial Supervision Authority.

Capital ratio

During our audit we have not identified significant discrepancies in the area of calculation of capital ratio as at 31 December 2016 in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Bank has valid documentation describing the adopted accounting principles, complying in all material respects with Article 10 of the Accounting Act. The principles have been applied consistently and did not change compared to the principles applied in the prior year. The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period.

Based on tests performed during the audit procedures, we have verified the adopted accounting system and found no misstatements that would affect the financial statements. Our audit did not include, though, the entire accounting system used by the Bank.

The Bank performed a physical count of assets, equity and liabilities within the scope necessary to confirm the existence of the presented assets, equity and liabilities.

2. Information identifying the audited financial statements

The audited financial statements were prepared as of 31 December 2016 and include:

- income statement for the period from 1 January 2016 to 31 December 2016, with a net profit of PLN 2,278,375 thousand,
- statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 with a total comprehensive income of PLN 1,771,643 thousand,
- statement of financial position prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 170,988,852 thousand,
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an decrease in equity of PLN 511,846 thousand,
- cash flow statement for the period from 1 January 2016 to 31 December 2016, showing a cash outflow of PLN 5,818,411 thousand,
- notes, comprising a summary of significant accounting policies and other explanatory information.

3. Information about selected material items of the financial statements

The structure of assets and liabilities plus equity as well as items affecting the profit or loss has been presented in the financial statements.

Financial assets and liabilities

The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss,
- loans and receivables,
- financial assets held to maturity,
- available-for-sale financial assets,
- other financial liabilities.

The structure by terms and types of financial assets and liabilities has been presented in details in the respective explanatory notes to the statement of financial position.

Structure of loans and advances from banks and customers

In Bank Polska Kasa Opieki S.A. impairment allowances are recognised in accordance with the IAS/IFRS. The allowances reflect impairment, which is recognised if the Bank has objective evidence that the receivables cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39).

The impairment allowance is calculated based on the estimated recoverable amount. Impairment is analysed using both the individual (for individually significant impaired exposures) and collective approach (individually insignificant exposures with impairment, and exposures with incurred but not reported losses).

The Bank systematically on an annual basis compares the assumptions and parameters used for loss calculations with the actual situation, including loss identification period. The comparison takes into account changes of economic conditions, amendments to Bank's credit policies and loans collection process. The process provides assurance that the level of impairment allowances is adequate. Credit Committee of the Bank is responsible for adequate level of impairment allowance. The disclosures regarding management of credit risk and exposure to credit risk were presented in explanatory notes to the financial statements.

Structure of deposits from banks and customers

The structure by terms and types of deposits from banks and customers has been presented details in the respective explanatory notes to the financial statements.

Accrued income and expense

The explanatory notes describe the structure of accrued income and expense.

Significant accrued income and expense were properly included in the financial year. The items have been recognized correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of notes and explanations and the report on the activities of the Bank

The Bank confirmed the validity of the going concern principle in the preparation of the financial statements. The notes and explanations give a correct and complete description of measurement principles regarding assets, equity, liabilities, financial result and principles of preparation of the financial statements.

The notes to the financial statements give a correct and complete description of the reporting items and clearly present other information required under IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Bank in the 2016 financial year. The report contains information required under Article 49.2 of the Accounting Act, Article 111a paragraph 1 and 2 of the Banking Law (Journal of Laws of 2016 item 1988 as amended, "Banking Law") and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133 as amended). In accordance with the Article 111a, paragraph 3 of the Banking Law, we have audited the report with respect to the disclosed information derived directly from the audited financial statements and with respect to the information required under Article 111a paragraph 2 of the Banking Law we have audited correctness and compliance with the mentioned above regulations.

IV. FINAL NOTES

Management Board's Representations

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Bank's Management Board, in which the Board stated that the Bank complied with the laws in force.

Dorota Snarska - Kuman
Key certified auditor
conducting the audit
No. 9667

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dorota Snarska - Kuman – Vice-President of the Management Board of Deloitte Polska Sp. z o.o.
– which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 9 February 2017