

**BANK GOSPODARSTWA KRAJOWEGO  
WARSAW, AL. JEROZOLIMSKIE 7**

**FINANCIAL STATEMENTS  
FOR THE PERIOD  
FROM 1 JANUARY 2016  
TO 31 DECEMBER 2016**

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

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**REPORT ON THE ACTIVITIES OF THE BANK GOSPODARSTWA KRAJOWEGO FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016**

## **AUDITOR'S OPINION**

### **To the Supervisory Board of Bank Gospodarstwa Krajowego**

#### ***Auditor's report***

We have audited the attached financial statements of Bank Gospodarstwa Krajowego with its registered office in Warsaw, Al. Jerozolimskie 7 (hereinafter: the "Bank"), including an introduction to the financial statements, balance sheet prepared as at 31 December 2016, profit and loss account, statement of changes in equity, cash flow statement for the financial year from 1 January 2016 to 31 December 2016 and notes.

#### *Responsibility of the Bank's manager and those charged with governance for the financial statements*

The Management Board of the Bank is obliged to prepare the financial statements based on property kept accounting records and to present them fairly in line with the Accounting Act of 29 September 1994 (Journal of Laws of 2016 item 1047 as amended), hereinafter referred to as the "Accounting Act", its implementing regulations, the Banking Law of 29 August 1997 (Journal of Laws of 2016 item 1998 as amended), hereinafter referred to as the "Banking Law") and other applicable laws. The Management Board of the Bank is also responsible for ensuring internal control necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under 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 and Banking Law.

#### *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 Management Board of the Bank, 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 statement*

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 applicable provisions of the Accounting Act and the adopted accounting principles (policies),
- have been prepared based on properly kept accounting records,
- 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 is consistent with underlying information disclosed in the attached financial statements. Additionally, according to the requirements of the 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 included in the report on the activities is complete within the meaning of Article 49 of the Accounting Act and consistent with the underlying information disclosed in the attached financial statements. Furthermore, based on our knowledge of the Bank and its business environment obtained in the course of the audit we believe that the report

on the activities is free from material misstatement. Additionally, information presented in the paragraph 8 of the Report on the activities is compliant with the requirements of the Article 111a, paragraph 1 and 2 of the Banking Law.

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, 23 March 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 GOSPODARSTWA KRAJOWGO  
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016**

**I. GENERAL INFORMATION**

**1. Details of the audited Bank**

The entity operates under the name Bank Gospodarstwa Krajowego (hereinafter: the "Bank"). Its registered office is located in Warsaw, Al. Jerozolimskie 7.

The Bank operates as a state-owned Bank.

The Bank operates based on the Banking Law and Act on Bank Gospodarstwa Krajowego of 14 March 2003 (Journal of Laws of 2016 item 1787, as amended).

According to the Act of Bank Gospodarstwa Krajowego primary objective of the Bank is to support government social and economic programs, as well as local government and regional development projects. The Bank also conducts its own activities by performing operations provided in the Banking Law.

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

- Beata Daszyńska - Muzyczka – Chairman of the Management Board,
- Paweł Nierada – First Deputy Chairman of the Management Board,
- Włodzimierz Kocon – Vice-President of the Management Board,
- Przemysław Cieszyński – Member of Management Board,
- Wojciech Hann – Member of Management Board,
- Radosław Kwiecień – Member of Management Board.

Changes in the composition of the Management Board during the audited period and until the date of the opinion:

- on 3 March 2016 the Supervisory Board revoked Dariusz Kacprzyk from the position of the Chairman of the Management Board effective from 7 March 2016,
- on 3 March 2016 the Supervisory Board revoked Andrzej Ladko from the position of the Vice-President of the Management Board effective from 9 March 2016,
- on 3 March 2016 the Supervisory Board revoked Radosław Stępień from the position of the First Deputy Chairman of the Management Board effective from 3 March 2016,
- on 3 March 2016 the Supervisory Board appointed Mirosław Panek to hold the position of the acting Chairman of the Management Board effective from 8 March 2016,
- on 21 March 2016 the Supervisory Board appointed Włodzimierz Kocon to hold the position of the First Deputy Chairman of the Management Board effective from 23 March 2016,
- on 17 August 2016 Adam Świrski resigned from the position of the Member of the Management Board effective from 31 August 2016,
- on 26 September 2016 Prime Minister revoked Piotr Puczyński from the position of the Vice-President of the Management Board;
- on 26 September 2016 Prime Minister revoked Jerzy Jacek Szugajew from the position of the Vice-President of the Management Board;
- on 26 September 2016 Prime Minister revoked Włodzimierz Kocon from the position of the First Deputy Chairman of the Management Board;
- on 26 September 2016 Prime Minister revoked Mirosław Panek from the position of the acting Chairman of the Management Board;
- on 22 September 2016 the Prime Minister appointed Paweł Nierada to hold the position of the First Deputy Chairman of the Management Board effective from 27 September 2016,

- on 22 September 2016 the Prime Minister appointed Wojciech Hann to hold the position of the Member of the Management Board effective from 27 September 2016,
- on 22 September 2016 the Prime Minister appointed Włodzimierz Kocon to hold the position of the Vice-President of the Management Board effective from 27 September 2016,
- on 22 September 2016 the Prime Minister appointed Przemysław Cieszyński to hold the position of the Member of the Management Board effective from 27 September 2016,
- on 30 November the Prime Minister appointed Beata Daszyńska – Muzyczka to hold the position of the Chairman of the Management Board effective from 9 December 2016,
- on 14 November 2016 the Prime Minister appointed Radosław Kwiecień to hold the position of the Member of the Management Board effective from 15 December 2016.

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

In 2015 the Bank reported a net profit of PLN 362,679 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 Supervisory Board which approved the financial statements for the 2015 financial year was held on 20 April 2016. The Supervisory Board Meeting decided to distribute the net profit for 2015 in the following manner:

- increase of the statutory fund	PLN 36,267,941.39;
- increase of the supplementary fund	PLN 29,014,353.11;
- increase of the Inland Waterway Fund	PLN 395,549.15;
- income tax related to the Inland Waterway Fund	PLN 6,645.00;
- advance contribution to the State budget	PLN 252,104,000.00,
- contribution to the State budget	PLN 44,890,925.26.

On 23 December 2015 the Bank made an advance dividend payment for the state budget from the net profit generated by the Bank Gospodarstwa Krajowego within the period from 1 January 2015 to 30 September 2015.

The financial statements for the 2015 financial year were submitted for publication in the national journal "Monitor Sądowy i Gospodarczy" No. 111/2016 (4996) on 10 June 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 Supervisory Board. The audit of the financial statements was performed based on the agreement of 16 September 2015 concluded between the Bank 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 from 14 November 2016 to 2 December 2016, 11 February 2017 to 17 March 2017 and outside the Bank's premises 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 23 March 2017.

**II. ECONOMIC AND FINANCIAL POSITION OF THE BANK**

Presented below are the main items from the profit and loss account and balance sheet as well as financial ratios describing the financial performance of the Bank and its economic and financial position compared to the prior year.

<i>Main items from the profit and loss account (PLN '000)</i>	<i>01.01.2016 31.12.2016</i>	<i>01.01.2015 31.12.2015</i>
Net interest income	597,748	636,263
Net commission income	120,094	110,271
Net banking income	853,221	790,639
Operating profit	353,064	413,839
Income tax	3,891	51,160
Net profit	349,173	362,679
<i>Main items from the balance sheet (PLN '000)</i>	<i>31.12.2016</i>	<i>31.12.2015</i>
Total assets	67,258,176	43,419,051
Receivables from the financial sector	3,687,372	2,129,544
Receivables from the non-financial sector	19,319,807	13,944,642
Receivables from the public sector	5,498,018	5,929,980
Receivables due to reverse repo and buy-sell-back transactions	3,946,887	1,173,713
Debt securities	30,953,747	13,347,140
Shares in subsidiaries	39,059	27,059
Shares in associates	113,184	115,301
Shares in other entities	810,432	826,245
Other securities and other financial assets	1,739,911	718,819
Liabilities to the financial sector	5,640,389	4,889,197
Liabilities to the non-financial sector	12,987,248	6,581,657
Liabilities to the public sector	22,568,087	12,414,358
Liabilities due to repo and sell-buy-back transactions	5,752,184	2,883,773
Long-term liabilities due to issue of debt securities	5,800,903	5,801,710
Other liabilities due to financial instruments	608,005	242,258
Special funds and other liabilities	353,418	257,484
Deferred income, deferred costs and restricted revenue	491,460	479,599
Provisions	574,656	515,630
Equity	12,481,826	9,353,385
<i>Ratio analysis</i>	<i>31.12.2016</i>	<i>31.12.2015</i>
– total profitability ratio	20.4%	24.4%
– solvency ratio	30.6%	32.3%
– share of net receivables in total assets ratio	42.4%	50.7%
– share of non-performing receivables in total receivables ratio	8.8%	10.4%
– deposit ratio	53.4%	44.5%

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

- total profitability ratio, calculated as the net result to interest income, commission income, income on shares, other securities and other variable income financial instruments, gains on financial transactions and gains on foreign exchange transactions decreased from the 24.4% as of 31 December 2015 reaching 20.4% as of 31 December 2016;
- solvency ratio decreased from the level 32.3% as of 31 December 2015, reaching 30.6% as of 31 December 2016;
- share of net receivables in total assets ratio, calculated as net receivables to total assets, decreased from 50.7% as of 31 December 2015 to 42,4% as of 31 December 2016;
- share of non-performing receivables in total receivables ratio, calculated as receivables classified as non-performing to total receivables (nominal value), decreased from 10.4% at 31 December 2015 to 8.8% at 31 December 2016;
- deposit ratio, calculated as cash in bank and deposits to total assets, increased from 44.5% as of 31 December 2015 reaching 53.4% as of 31 December 2016.

#### *Application of prudence principles*

As of 31 December 2016 total exposure of the Bank due to credits, cash loans and off-balance sheet liabilities granted to one entity or entities having capital and organizational relationships did not exceed 25% of the Bank's equity or EUR 150 million respectively. During the audit we did not detect facts indicating that as of 31 December 2016 the Bank did not comply with prudence principles defined by provisions of the Banking Act, resolutions of the Management Board of the National Bank of Poland and resolutions of the Polish Financial Supervision Authority.

#### *Solvency ratio*

During our audit we have not identified significant discrepancies in the area of calculation of solvency ratio as at 31 December 2016 in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 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 and liabilities within the scope necessary to confirm the existence of the presented assets and liabilities.

**2. Information identifying the audited financial statements**

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

- introduction to the financial statements;
- balance sheet prepared as of 31 December 2016, with total assets and liabilities plus equity of PLN 67,258,176 thousand;
- off – balance sheet items as of 31 December 2016 amounting to PLN 160,785,374 thousand;
- profit and loss account for the period from 1 January 2016 to 31 December 2016, disclosing a net profit of PLN 349,173 thousand;
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016, disclosing an increase in equity of PLN 3,128,441 thousand;
- cash flow statement for the period from 1 January 2016 to 31 December 2016, showing a cash outflow of PLN 2,685,258 thousand;
- notes.

**3. Information about selected material items of the financial statements**

The structure of assets and liabilities as well as items affecting the financial result 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, including financial assets or financial liabilities held for trading;
- financial assets held to maturity;
- loans and receivables and other receivables;
- available-for-sale financial assets and other financial liabilities.

Types of financial assets and liabilities have been presented in details in the respective explanatory note to the balance sheet.

*Prepayments, accruals and provisions for liabilities*

The explanatory notes to prepayments, accruals and provisions for liabilities present the structure of the items in details.

Deferred expenses and income have been classified with respect to the audited financial period. The items have been recognized completely and correctly in all material respects in relation to the financial statements as a whole.

**4. Completeness and correctness of drawing up the introduction to the financial statements, notes and explanations and the report on the activities of the Bank**

The introduction to the financial statements includes material information required under Minister of Finance's ordinance of 1 October 2010 on special principles of banks accounting (Journal of Laws of 2013, item 329, as amended). The Bank confirmed the validity of the going concern principle in the preparation of the financial statements. The introduction to the financial statements gives a correct and complete description of measurement principles regarding assets, 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 Attachment to the Minister of Finance's ordinance of 1 October 2010 on special principles of banks accounting.

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 and Article 111a paragraph 1 and 2 of the Banking Law. 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.

According to the articles of association of the Bank and laws and regulations establishing funds entrusted and transferred to Bank Gospodarstwa Krajowego, the Bank attached to these financial statements: balance sheets, profit and loss statements and off-balance sheet items of these funds which were not subject of the audit.

**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, 23 March 2017