



Powszechna Kasa Oszczędności  
Bank Polski SA Group

**Opinion and Report  
of the Independent Auditor**

**Financial Year ended**

**31 December 2016**

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.*

## **OPINION OF THE INDEPENDENT AUDITOR**

*To the General Meeting of Powszechna Kasa Oszczędności Bank Polski SA*

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, ul. Puławska 15 (“the Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

#### *Management’s and Supervisory Board’s Responsibility*

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) (“the Accounting Act”), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

#### *Auditor’s Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### *Opinion*

In our opinion, the accompanying consolidated financial statements of Powszechna Kasa Oszczędności Bank Polski SA Group:

- give a true and fair view of the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union; and
- comply, in all material respects, with applicable regulations that apply to the consolidated financial statements of the Group.

#### **Specific Comments on Other Legal and Regulatory Requirements**

##### *Report on the Group's Activities*

Management of the Parent Entity is responsible for the report on the Group's activities.

Our opinion on the consolidated financial statements does not cover the report on the Group's activities.

As required by the Accounting Act and the Decree of the Ministry of Finance dated 19 February 2009 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 (Official Journal from 2014, item 133 with amendments) (the "Decree") we report that the accompanying report on the Group's activities includes the information required by Art. 49 of the Accounting Act and the Decree and the information is consistent, in all material respect, with the consolidated financial statements. Furthermore, based on our knowledge about the Group and its environment obtained in the audit, we have not identified material misstatements in the report on the Group's activities.

As required by the Accounting Act and the Decree we report that the statement of corporate governance, which is a separate part of the report on the Group's activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j and k of the Decree. Furthermore we report that the information identified in paragraph 91 subparagraph 5 point 4 letter c, d, e, f, h and i of the Decree included in the statement of corporate governance, in all material respects:

- has been prepared in accordance with the applicable regulations; and
- is consistent with the information contained in the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
Registration No. 3546  
ul. Inflancka 4A  
00-189 Warsaw

*Signed on the Polish original*

.....  
Marcin Podsiadły  
Key Certified Auditor  
Registration No. 12774  
Limited Liability Partner  
with power of attorney

*Signed on the Polish original*

.....  
Stacy Ligas  
Member of the Management Board of  
KPMG Audyt Sp. z o.o., entity which is  
the General Partner of KPMG Audyt  
Spółka z ograniczoną  
odpowiedzialnością sp.k.

2 March 2017



Powszechna Kasa Oszczędności  
Bank Polski SA Group

**Report on the audit  
of the consolidated financial statements**

**Financial Year ended**

**31 December 2016**



## **Powszechna Kasa Oszczędności Bank Polski SA Group**

The report on the audit of the consolidated financial statements  
for the financial year ended 31 December 2016

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## **1. General**

### **1.1. Identification of the Group**

#### **1.1.1. Name of the Group**

Powszechna Kasa Oszczędności Bank Polski SA Group

#### **1.1.2. Registered office of the Parent Entity of the Group**

ul. Puławska 15  
02-515 Warsaw

#### **1.1.3. Registration of the Parent Entity in the National Court Register**

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XIII Commercial Department of the National Court Register
Date:	12 July 2001
Registration number:	KRS 0000026438
Share capital as at the end of reporting period:	PLN 1,250,000,000

#### **1.1.4. Management of the Parent Entity**

The Management Board is responsible for management of the Parent Entity.

As at 31 December 2016, the Management Board of the Parent Entity was comprised of the following members:

- Zbigniew Jagiełło – President of the Management Board,
- Janusz Derda – Vice President of the Management Board,
- Bartosz Drabikowski – Vice President of the Management Board,
- Maks Kraczkowski – Vice President of the Management Board,
- Mieczysław Król – Vice President of the Management Board,
- Piotr Mazur – Vice President of the Management Board,
- Jakub Papierski – Vice President of the Management Board,
- Jan Emeryk Rościszewski – Vice President of the Management Board.

On 21 March 2016 Mr. Jacek Obłąkowski resigned from the position of Vice President of the Management Board of the Bank effective from 21 March 2016.

On 22 March 2016 Mr. Jarosław Myjak resigned from the position of Vice President of the Management Board of the Bank effective from 22 March 2016.

On 2 June 2016 the Supervisory Board of the Bank appointed Mr. Mieczysław Król for the position of Vice President of the Management Board of the Bank effective from 6 June 2016.

On 30 June 2016 the Supervisory Board of the Bank appointed Mr. Maks Kraczkowski for the position of Vice President of the Management Board of the Bank effective from 4 July 2016.

On 14 July 2016 the Supervisory Board of the Bank appointed Mr. Jan Emeryk Rościszewski for the position of Vice President of the Management Board of the Bank effective from 18 July 2016.



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On 5 October 2016 r. Mr. Piotr Alicki resigned from the position of Vice President of the Management Board of the Bank effective from 30 October 2016.

On 3 November 2016 the Supervisory Board of the Bank appointed Mr. Janusz Derda for the position of Vice President of the Management Board of the Bank effective from 1 December 2016.

## **1.2. Key Certified Auditor and Audit Firm Information**

### **1.2.1. Key Certified Auditor information**

Name and surname: Marcin Podsiadły  
Registration number: 12774

### **1.2.2. Audit Firm information**

Name: KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k.  
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw  
Registration number: KRS 0000339379  
Registration court: District Court for the Capital City of Warsaw in Warsaw,  
XII Commercial Department of the National Court Register  
NIP number: 527-26-15-362

KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

## **1.3. Prior period consolidated financial statements**

The consolidated financial statements for the financial year ended 31 December 2015 were audited by KPMG Audyty Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 30 June 2016.

The consolidated financial statements were submitted to the Registration Court on 6 July 2016.

## **1.4. Audit scope and responsibilities**

The Parent Entity prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Ordinary General Shareholders' Meeting dated 19 May 2005.

The consolidated financial statements were audited in accordance with the contract dated 10 April 2015, concluded on the basis of the resolution of the Supervisory Board dated 11 March 2015 on the appointment of the auditor.

We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2016, item 1047 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the resolution dated 10 February 2015 of the National Council of Certified Auditors as National Standards on Assurance.

In accordance with Article 111a paragraph 3 of the Banking Act dated 29 August 1997 (Official Journal from 2016, item 1988 with amendments) ("Banking Act") our responsibility was to audit





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financial information, described in Article 111a paragraph 2 of the Banking Act presented in the report on the Group's activities. The audit was performed in accordance with the scope presented in the paragraph "Auditor's Responsibility" of the opinion of the independent auditor.

We audited the consolidated financial statements at the Group entities during the period from 7 November 2016 to 2 March 2017.

Management of the Parent Entity is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. Management of the Parent Entity is also responsible for the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a report on the audit of the consolidated financial statements.

The Management Board of the Parent Entity submitted a statement, dated as at the same date as this report, as to the preparation of the consolidated financial statements that give a true and fair view, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Parent Entity and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm are independent of the entities within the Group in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants' as adopted by the resolution of National Council of Certified Auditors dated 13 June 2011 ("IESBA Code") and the impartiality and independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2016, item 1000) and have fulfilled other ethical responsibilities in accordance with these regulations and the IESBA Code.

## 2. Financial information of the Group

### 2.1. Financial data included in the consolidated financial statements

#### 2.1.1. Consolidated statement of financial position

<b>ASSETS</b>	<b>31.12.2016</b>	<b>% of total</b>	<b>31.12.2015</b>	<b>% of total</b>
	<b>PLN mln</b>	<b>assets</b>	<b>PLN mln</b>	<b>assets</b>
Cash and balances with the Central Bank	13,325.1	4.7	13,743.9	5.2
Amounts due from banks	5,345.4	1.9	4,553.0	1.7
Trading assets excluding derivative financial instruments	326.4	0.1	783.2	0.3
Derivative financial instruments	2,900.6	1.0	4,347.3	1.6
Financial assets designated upon initial recognition at fair value through profit and loss	13,937.2	4.9	15,154.1	5.7
Loans and advances to customers	200,606.5	70.2	190,413.7	71.3
Investment securities available for sale	36,675.6	12.8	28,309.5	10.6
Investment securities held to maturity	465.6	0.2	210.3	0.1
Investments in associates and joint ventures	385.6	0.1	391.8	0.2
Non-current assets held for sale	14.4	-	220.0	0.1
Inventories	259.9	0.1	400.9	0.2
Intangible assets	3,422.2	1.2	3,271.0	1.2
Tangible fixed assets	3,085.7	1.1	2,782.2	1.0
Current income tax receivables	10.0	-	46.5	-
Deferred income tax assets	1,779.0	0.6	901.6	0.3
Other assets	3,033.5	1.1	1,410.9	0.5
<b>TOTAL ASSETS</b>	<b>285,572.7</b>	<b>100.0</b>	<b>266,939.9</b>	<b>100.0</b>

  

<b>EQUITY AND LIABILITIES</b>	<b>31.12.2016</b>	<b>% of total</b>	<b>31.12.2015</b>	<b>% of total</b>
	<b>PLN mln</b>	<b>equity and liabilities</b>	<b>PLN mln</b>	<b>equity and liabilities</b>
<b>Liabilities</b>				
Amounts due to the Central Bank	4.1	-	4.2	-
Amounts due to banks	19,208.4	6.7	18,288.8	6.9
Derivative financial instruments	4,197.9	1.5	4,624.8	1.7
Amounts due to customers	205,066.4	71.8	195,758.5	73.3
Liabilities due to insurance operations	2,943.6	1.0	2,400.5	0.9
Debt securities in issue	14,493.2	5.1	9,432.9	3.5
Subordinated liabilities	2,539.0	0.9	2,499.2	0.9
Other liabilities	3,987.1	1.4	3,356.2	1.3
Current income tax liabilities	304.9	0.1	26.1	-
Deferred income tax liabilities	30.9	-	31.8	0.1
Provisions	228.6	0.1	252.0	0.1
<b>TOTAL LIABILITIES</b>	<b>253,004.1</b>	<b>88.6</b>	<b>236,675.0</b>	<b>88.7</b>
<b>Equity</b>				
Share capital	1,250.0	0.4	1,250.0	0.5
Other capital	28,700.9	10.1	25,417.8	9.5
Currency translation differences from foreign operations	(221.5)	(0.1)	(216.5)	(0.1)
Undistributed profits	(18.6)	-	1,222.4	0.4
Net profit for the period	2,874.0	1.0	2,609.5	1.0
Capital and reserves attributable to equity holders of the parent company	32,584.8	11.4	30,283.2	11.3
Non-controlling interest	(16.2)	-	(18.3)	-
<b>TOTAL EQUITY</b>	<b>32,584.8</b>	<b>11.4</b>	<b>30,264.9</b>	<b>11.3</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>285,572.7</b>	<b>100.0</b>	<b>266,939.9</b>	<b>100.0</b>



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**2.1.2. Consolidated income statement**

	1.01.2016 - 31.12.2016	1.01.2015 - 31.12.2015
	PLN mln	PLN mln
Interest and similar income	9,964.4	9,657.8
Interest expense and similar charges	(2,209.6)	(2,629.2)
<b>Net interest income</b>	<b>7,754.8</b>	<b>7,028.6</b>
Fee and commission income	3,579.6	3,598.3
Fee and commission expense	(886.2)	(747.7)
<b>Net fee and commission income</b>	<b>2,693.4</b>	<b>2,850.6</b>
Dividend income	10.3	10.7
Net income from other financial instruments measured at fair value	4.4	40.6
Gains and losses from investments securities	506.1	87.7
Net foreign exchange gains (losses)	503.2	369.0
Other operating income	648.5	513.1
Other operating expense	(330.0)	(235.6)
<b>Net other operating income and expense</b>	<b>318.5</b>	<b>277.5</b>
Net impairment allowance and write-downs	(1,622.7)	(1,475.9)
Administrative expences	(5,590.4)	(6,036.2)
Tax on certain financial institutions	(828.9)	-
<b>Operating result</b>	<b>3,748.7</b>	<b>3,152.6</b>
Share in profit (loss) of associates and joint ventures	34.5	38.1
<b>Profit before income tax</b>	<b>3,783.2</b>	<b>3,190.7</b>
Income tax expense	(907.1)	(589.5)
Net profit (including non-controlling shareholders)	2,876.1	2,601.2
Profit (loss) attributable to non-controlling shareholders	2.1	(8.3)
<b>Net profit attributable to equity holders of the parent company</b>	<b>2,874.0</b>	<b>2,609.5</b>



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**2.1.3. Consolidated statement of comprehensive income**

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015
	PLN mln	PLN mln
<b>Net profit (including non-controlling shareholders)</b>	<b>2,876.1</b>	<b>2,601.2</b>
<b>Other comprehensive income</b>	<b>(572.4)</b>	<b>48.1</b>
<b>Items that may be reclassified to the income statement</b>	<b>(574.4)</b>	<b>51.7</b>
Cash flow hedges (gross)	(62.7)	(77.6)
Deferred tax on cash flow hedges	11.9	14.7
Cash flow hedges (net)	(50.8)	(62.9)
Unrealised net gains on financial assets available for sale (gross)	(636.1)	171.3
Deferred tax on unrealised net gains on financial assets available for sale	118.1	(31.7)
Unrealised net gains on financial assets available for sale (net)	(518.0)	139.6
Currency translation differences from foreign operations	(5.0)	(23.8)
Share in other comprehensive income of associates and joint ventures	(0.6)	(1.2)
<b>Items that may not be reclassified to the income statement</b>	<b>2.0</b>	<b>(3.6)</b>
Actuarial gains and losses (gross)	2.4	(4.5)
Deferred tax	(0.4)	0.9
Actuarial gains and losses (net)	2.0	(3.6)
<b>Total net comprehensive income</b>	<b>2,303.7</b>	<b>2,649.3</b>
Total net comprehensive income, of which attributable to:	2,303.7	2,649.3
equity holders of PKO Bank Polski SA	2,301.6	2,657.6
non-controlling shareholders	2.1	(8.3)

**2.2. Selected financial ratios**

	2016	2015	2014
Total assets (PLN mln)	285,572.7	266,939.9	248,700.6
Profit before income tax (PLN mln)	3,783.2	3,190.7	4,034.6
Net profit attributable to equity holders of the parent company (PLN mln)	2,874.0	2,609.5	3,254.1
Equity (PLN mln) <sup>1</sup>	29,710.8	27,673.7	24,371.4
Return on equity <sup>2</sup>	9.67%	9.43%	13.35%
Return on assets <sup>3</sup>	1.01%	0.98%	1.31%
Cost to income ratio <sup>4</sup>	47.41%	56.60%	47.06%
Capital adequacy ratio	15.81%	14.61%	12.96%
Loan to deposit ratio <sup>5</sup>	97.83%	97.27%	102.93%
Share of impaired loans <sup>6</sup>	5.86%	6.59%	6.92%
Coverage ratio of impaired loans <sup>7</sup>	60.22%	58.81%	56.83%

<sup>1</sup> excluding current year net profit and non-controlling interest

<sup>2</sup> net profit attributable to equity holders of the parent company for the period / total equity excluding net profit for the year and non-controlling interest as at the end of the period

<sup>3</sup> net profit attributable to equity holders of the parent company for the period / total assets as at the end of the period

<sup>4</sup> administrative expenses / result on business activities (operating profit adjusted by net impairment allowance and write-downs, administrative expenses and tax on certain financial institutions)

<sup>5</sup> loans and advances to customers / amounts due to customers

<sup>6</sup> impaired loans and advances to customers gross / loans and advances to customers gross

<sup>7</sup> impairment allowances on impaired loans and advances to customers / impaired loans and advances to customers gross



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### **3. Detailed report**

#### **3.1. Accounting principles**

The Parent Entity maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Entity.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Entity.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Entity.

#### **3.2. Basis of preparation of the consolidated financial statements**

The consolidated financial statements of the Powszechna Kasa Oszczędności Bank Polski SA Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation.

#### **3.3. Method of consolidation**

The method of consolidation is described in note 3.2 to the consolidated financial statements.

#### **3.4. Goodwill arising on consolidation**

The method of calculating goodwill arising on consolidation is described in note 30 to the consolidated financial statements.

#### **3.5. Consolidation of equity and calculation of non-controlling interest**

The share capital of the Group is equal to the share capital of the Parent Entity.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Entity's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Entity.

Only equity of subsidiaries arising after the Parent Entity obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.



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### **3.6. Consolidation eliminations**

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Powszechna Kasa Oszczędności Bank Polski SA (or subsidiary entities) and agreed with information received from the subsidiaries.

### **3.7. Compliance with prudential regulatory norms**

Based on our audit, we have not identified significant incompliance by the Group with banking prudential regulatory norms and we have not identified any material misstatements in determination of the capital adequacy ratio.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.

Registration No. 3546

ul. Inflancka 4A

00-189 Warsaw

*Signed on the Polish original*

.....  
Marcin Podsiadły  
Key Certified Auditor  
Registration No. 12774  
Limited Liability Partner  
with power of attorney

*Signed on the Polish original*

.....  
Stacy Ligas  
Member of the Management Board of  
KPMG Audyt Sp. z o.o., entity which is  
the General Partner of KPMG Audyt  
Spółka z ograniczoną  
odpowiedzialnością sp.k.

2 March 2017