



Bank Handlowy w Warszawie S.A.  
Capital Group

**Independent Auditor's Report**  
**Financial Year ended**  
**31 December 2017**

*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.*

## **INDEPENDENT AUDITOR'S REPORT**

*To the General Shareholders' Meeting of Bank Handlowy w Warszawie S.A.*

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

We have audited the accompanying annual consolidated financial statements of the Group, whose parent entity is Bank Handlowy w Warszawie S.A. (the "Parent Entity"), with its registered office in Warszawa, Senatorska 16 (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in consolidated 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 (the "consolidated financial statements").

#### **Responsibility of the Management Board and Supervisory Board for the consolidated financial statements**

The Management Board 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 ("IFRS EU") and other applicable laws. The Management Board of the Parent Entity is also responsible for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the accounting act dated 29 September 1994 (Official Journal from 2017, item 2342 with amendments) ("the Accounting Act"), the Management Board of the Parent Entity and members of the Supervisory are required to ensure that the consolidated financial statements are in compliance with the requirements set forth in the Accounting Act.

#### **Auditor's Responsibility for the audit of the consolidated financial statements**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with:

- the act on certified auditors, audit firms and public oversight dated 11 May 2017 (Official Journal from 2017, item 1089) (the „Act on certified auditors”);

- 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; 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-listed entities and repealing Commission Decision 2005/909/EC (Official Journal of the European Union L 158 dated 27.05.2014, page 77 and Official Journal of the European Union L 170 dated 11.06.2014, page 66) (the “EU Regulation”); and
- other applicable laws.

Those regulations 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the regulations mentioned above will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve collusion, forgery, deliberate omission, intentional misrepresentations or override of internal controls.

The scope of audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the Management Board of the Parent Entity has conducted or will conduct the affairs of the Group.

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 Group’s preparation of the 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 Group’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 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.

#### *The most significant assessed risks of material misstatements*

During our audit we identified the most significant assessed risks of material misstatements (the “key audit matters”), including those due to fraud, described below and we performed appropriate audit procedures to address these matters. Key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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## Impairment of loans and other receivables to customers and provision for off-balance sheet liabilities

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The carrying value of loans and other receivables to customers amounted to PLN 19 849 million as at 31 December 2017 and PLN 18 860 million as at 31 December 2016. Impairment allowances for losses on loans and other receivables to customers amounted to PLN 588 million as at 31 December 2017 and PLN 563 million as at 31 December 2016. Provision for off-balance sheet liabilities amounted to PLN 13 million as at 31 December 2017 and PLN 7 million as at 31 December 2016. Net impairment losses and provisions for off-balance sheet liabilities amounted PLN 103 million for 2017 and PLN 46 million for 2016.

Reference to disclosures in financial statements: note 13 “Net impairment allowances for financial assets and net provisions for financial liabilities and guarantees granted”, note 24 “Amounts due from customers”, note 33 “Provisions”, note 41 “Contingent liabilities and litigation proceedings” and note 49 “Risk management”.

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### Key audit matters

Loans and other receivables to customers are measured at amortized cost less impairment allowance for losses.

The impairment allowance for losses represents the best estimate of incurred credit risk losses on loans and other receivables to customers by Management Board at the reporting date.

We assessed this area as a key audit matter due to its significance for the financial statements given the size of credit portfolio and impairment allowance for losses, and the fact that it involves significant estimates with a high degree of estimation uncertainty and requires significant judgement by the Management Board. In particular:

- For the loans assessed collectively, there is a risk of using inappropriate statistical models, data inputs and key assumptions to estimate credit risk parameters, which may not reflect the actual level of incurred losses as at the reporting date. There is also a risk of an error during the impairment allowances calculation process;
- For the non-impaired loans, there is a risk of not identifying of impairment triggers on a timely basis that involves a significant judgement and in consequence incorrect valuation of loans and other receivables to customers as at the reporting date;
- For the impaired loans assessed individually, there is a risk of using inappropriate assumptions in the valuation relating to recovery scenarios and expected future cash flows and their timing.

### Our procedures

Our audit procedures include among others:

- Critical evaluation of design and implementation of key internal controls in the process of identification of impairment triggers and estimation of impairment allowances, as well as, testing of operating effectiveness of these internal controls;
- Critical analysis of the Bank’s impairment methodology for estimation of risk parameters and impairment allowance for both collective and individual loans in terms of compliance with relevant international financial reporting standards as well as, the best market practice;
- Analytical procedures encompassing the structure and dynamics of changes of loan portfolio and risk parameters including the quality of loan portfolio, and the level of impairment allowance for losses, in particular with aim to identify portfolios with underestimated impairment allowances.

Specific audit procedures for loans assessed collectively for impairment:

- Critical evaluation, taking into account the results of validation of impairment models performed by the Bank, statistical models applied to the estimation of impairment allowance for losses and assumptions and data inputs used to estimate key risk parameters;
  - Evaluation of the adequacy of incurred but not reported allowance (IBNR) by comparison to prior years actual incurred losses observed on particular homogenous portfolios;
  - Review of the appropriateness of application of risk parameters in statistical models based on the credit risk characteristics for homogenous portfolios, i.e. rating class, past due status,
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- Independent recalculation, on a sample basis, of the impairment allowance (IBNR and collective) based on credit risk parameters estimated by the Bank.

Specific procedures for loans assessed individually for impairment:

- Independent assessment, for the selected credit files sample, of impairment trigger identification based on the financial standing of a customer, evaluation of the Bank's internal documentation and analysis of compliance with terms and conditions of a loan agreement and any changes to them since origination;
  - For the selected credit files sample, for which impairment triggers have been identified and impairment allowance calculated – recalculation of impairment allowance for losses and critical evaluation of key assumptions applied by the Bank, including in particular actual financial standing of the customer, the Bank's strategy towards the given customer and other components of impairment allowance for losses calculation, such as assessment of recovery scenarios applied by the Bank, including probability of each scenario and expected timing of future cash flows (e.g. from the sale of collateral).
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### *Opinion*

In our opinion, the accompanying consolidated financial statements of Bank Handlowy w Warszawie S.A. Capital Group:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS EU and the adopted accounting policies; and
- comply, in all material respects, with regard to form and content, with applicable laws and the provisions of the Parent Entity's articles of association.

### *Other matters*

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 were audited by another audit firm who expressed an unmodified opinion on those financial statements dated 21 March 2017.

## *Report on other legal and regulatory requirements*

### *Report on activities*

Our opinion on the consolidated financial statements does not cover the consolidated Management Board report on operations of the Bank Handlowy w Warszawie S.A. Group (comprising Management Board report on operations of Bank Handlowy w Warszawie S.A.) (the "report on activities").

The Management Board of the Parent Entity is responsible for the preparation of the report on activities in accordance with the requirements of the Accounting Act and other applicable laws. Furthermore, the Management Board of the Parent Entity and members of the Supervisory Board are also required to ensure that the report on activities is in compliance with the requirements set forth in the Accounting Act. Our responsibility was also to state, if based on our knowledge about the Group and its environment obtained in the audit, we have identified material misstatements in the report on the activities and describe the nature of each material misstatement.

In accordance with Act on certified auditors our responsibility was to determine 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 consolidated financial statements. In addition in accordance with Art. 111a paragraph 3 of the Banking Act dated 29 August 1997 (Official Journal from 2017, item 1876 with amendments) ("Banking Act") our responsibility was to audit financial information, described in Art. 111a paragraph 2 of the Banking Act presented in the report on the Bank's and its Capital Group activities. We conducted our audit in this respect in accordance with the paragraph "Auditor's responsibility for the audit of the consolidated financial statements".

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

- was prepared in accordance with applicable laws, and
- is consistent with the consolidated financial statements.

Furthermore, based on our knowledge about the Group and its environment obtained in the audit, of the consolidated financial statements, we have not identified material misstatements in the report on activities.

### *Opinion on corporate governance statement*

The Management Board of the Parent Entity and members of the Supervisory Board are responsible for preparation of the corporate governance statement in accordance with the applicable laws.

In connection with the audit of the consolidated financial statements, our responsibility in accordance with the requirements of the Act on certified auditors was to report whether the issuer of securities obliged to file a corporate governance statement, constituting a separate part of the report on activities, included 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 consolidated financial statements.

In our opinion the corporate governance statement, which is a separate part of the report on activities, includes the information required by paragraph 91 subparagraph 5 point 4 letter a, b, j, k and letter l of 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”). Furthermore, in our opinion the information identified in paragraph 91 subparagraph 5 point 4 letter c-f, h and letter i of the decree, included in the corporate governance statement, in all material respects:

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

#### *Information about non-financial statement*

In accordance with the requirements of the Act on certified auditors, we report that the Parent Entity has prepared a statement on non-financial information referred to in art. 49b paragraph 9 of the Accounting act.

We have not performed any assurance procedures in relation to the statement on non-financial information of the Group and, accordingly, we do not express any assurance thereon.

#### *Independence and the appointment of the audit firm*

Our opinion on the audit of consolidated financial statements is consistent with our report to the audit committee.

During our audit the key certified auditor and the audit firm remained independent of the Group in accordance with requirements of the Act on certified auditors, the EU Regulation and the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants’ (IFAC) as adopted by the resolutions of National Council of Certified Auditors.

We declare that, 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 including transitional provisions in art. 285 of the act on certified auditors.

We had been appointed to audit the consolidated financial statements of the Bank for the first time based on resolution of Supervisory Board dated 22 March 2017.

Our total uninterrupted period of engagement is 1 year, starting from 31 December 2017.

#### *Information required by the Act on certified auditors on compliance with the applicable prudential regulations*

The Management Board of the Parent Entity is responsible for the Group’s compliance with the applicable prudential regulations, in particular for the appropriate determination of the capital ratios. The audit objective was not to express an opinion on the Group’s compliance with applicable prudential regulations and in particular whether the Parent Entity appropriately determined the capital ratios of the Group and therefore we do not express such an opinion.

Our audit of the Group’s consolidated financial statements included audit procedures designed to identify instances of the Group’s non-compliance with the applicable prudential regulations, defined in separate laws, in particular with respect to the determination of the capital ratios by

the Parent Entity, that could have a material impact on the consolidated financial statements of the Group.

Based on our audit of the consolidated financial statements of the Group, we have not identified any instances of non-compliance, in the period from 1 January 2017 to 31 December 2017, of the Group with the applicable prudential regulations, defined in separate laws and in particular with respect to the determination of the capital ratios as at 31 December 2017, that could have a material impact on the consolidated financial statements of the Group.

On behalf of audit firm  
KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.  
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*Signed on the Polish original*

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Ewa Józwik  
Key Certified Auditor  
Registration No. 11154  
Limited Liability Partner  
with power of attorney

*Signed on the Polish original*

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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.

21 March 2018