

**Powszechna Kasa Oszczędności
Bank Polski SA Group
Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2015**

The opinion contains 3 pages
The supplementary report contains 13 pages
Opinion of the independent auditor
and the supplementary report
on the audit of the consolidated financial statements
for the financial year ended
31 December 2015

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 2015, the consolidated profit and loss account, 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 for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group’s activities. 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 2013, item 330 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 and the report on the Group’s activities 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 National Council of Certified Auditors as the 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 and fair presentation of the consolidated 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and 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 are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Other Matters

The financial statements of the Group as at and for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those financial statements dated 16 March 2015.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act and the Banking Act dated 29 August 1997 (Official Journal from 2015, item 128 with amendments) ("the Banking Act"), we report that the accompanying report on the Powszechna Kasa Oszczędności Bank Polski SA Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act, by Art. 111a of the Banking Act and by 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 information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with 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

3 March 2016

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

**Powszechna Kasa Oszczędności
Bank Polski SA Group**

**Supplementary report
on the audit of the consolidated
financial statements
Financial Year ended
31 December 2015**

The supplementary report contains 13 pages
The supplementary report
on the audit of the consolidated financial statements
for the financial year ended
31 December 2015

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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 1,250,000,000.00

1.1.4. Management of the Parent Entity

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

As at 31 December 2015, the Management Board of the Parent Entity was comprised of the following members:

- | | |
|-----------------------|---|
| • Zbigniew Jagiełło | – President of the Management Board, |
| • Piotr Alicki | – Vice President of the Management Board, |
| • Bartosz Drabikowski | – Vice President of the Management Board, |
| • Piotr Mazur | – Vice President of the Management Board, |
| • Jarosław Myjak | – Vice President of the Management Board, |
| • Jacek Obłękowski | – Vice President of the Management Board, |
| • Jakub Papierski | – Vice President of the Management Board. |

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

List of the consolidated subsidiaries have been disclosed in point 1.6 of this report and in Note 1 to the consolidated financial statements.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2015, as a result of the Parent Entity acquiring a controlling interest:

- PKO Towarzystwo Ubezpieczeń SA – subject to consolidation for the period from 13 April 2015 to 31 December 2015,
- NEPTUN - fizan – subject to consolidation for the period from 11 June 2015 to 31 December 2015.

1.2.2 Entities excluded from consolidation

As at 31 December 2015, there was no subsidiaries included in the Group, which were not consolidated.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname: Marcin Podsiadły
Registration number: 12774

1.3.2 Audit Firm information

Name: KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address: ul. Inflancka 4A,
of registered office: 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 Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of entities authorised to audit financial statements, maintained by the National Council of Certified Auditors, under number 3546.

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2014 were audited by PricewaterhouseCoopers Sp. z o.o. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 25 June 2015.

The consolidated financial statements were submitted to the Registry Court on 1 July 2015.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of Powszechna Kasa Oszczędności Bank Polski SA with its registered office in Warsaw, ul. Puławska 15 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2015, the consolidated profit and loss account, 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.

The consolidated financial statements have been audited in accordance with the contract dated 10 April 2015, concluded on the basis of the resolution of 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 2013, item 330 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance.

We audited the consolidated financial statements at the Group entities during the period from 1 October 2015 to 3 March 2016.

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

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

The Management Board of the Parent Entity submitted a statement, dated the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, 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 Group 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 fulfil the independence requirements from the companies included in the Group 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 2015, item 1011 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Entity

The separate financial statements of the Parent Entity for the year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
PKO Leasing SA	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
PKO Życie Towarzystwo Ubezpieczeń SA	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
PKO Bank Hipoteczny SA	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
Qualia Development Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
PKO Towarzystwo Funduszy Inwestycyjnych SA	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
PKO BP BANKOWY PTE SA	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
PKO Finance AB	KPMG AB	31 December 2015	unmodified
KREDOBANK SA	JSC KPMG Audit	31 December 2015	audit not completed
Merkury - fiz an	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	audit not completed
Finansowa Kompania „Prywatne Inwestycje” Sp. z o.o.	JSC KPMG Audit	31 December 2015	audit not completed
„Inter-Risk Ukraina” Spółka z dodatkową odpowiedzialnością	JSC KPMG Audit	31 December 2015	audit not completed
PKO Towarzystwo Ubezpieczeń SA	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
PKO BP Finat Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	unmodified
Neptun - fizan	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015	audit not completed

The Capital Group of Powszechna Kasa Oszczędności Bank Polski SA also includes subsidiaries of: PKO Leasing SA, PKO Życie Towarzystwo Ubezpieczeń SA, Qualia Development Sp. z o.o., Kredobank SA, Merkury – fiz an and NEPTUN – fizan.

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2015 PLN '000	% of total assets	31.12.2014 PLN '000	% of total assets
Cash and balances with the Central Bank	13 743 864	5.2	11 738 371	4.7
Due from banks	4 552 972	1.7	2 486 686	1.0
Financial assets held for trade	783 199	0.3	1 924 426	0.8
Derivative financial instruments	4 347 269	1.6	5 494 822	2.2
Financial assets designated upon initial recognition at fair value through profit and loss	15 154 100	5.6	15 723 148	6.3
Loans and advances to customers	190 413 708	71.3	179 497 384	72.2
Investment securities held for sale	28 309 515	10.6	22 279 225	9.0
Investment securities held to maturity	210 330	0.1	233 358	0.1
Investments in associates and joint ventures	391 871	0.2	322 486	0.1
Assets held for sale	220 020	0.1	624 992	0.2
Inventories	400 948	0.2	138 716	0.1
Intangible assets	3 270 983	1.2	3 379 501	1.3
Property and equipment	2 782 186	1.0	2 653 555	1.1
<i>investment property</i>	<i>141 813</i>	<i>0.1</i>	<i>129 693</i>	-
Current tax assets	46 532	-	118 810	-
Deferred tax asset	901 645	0.3	863 677	0.4
Other assets	1 410 777	0.5	1 221 432	0.5
TOTAL ASSETS	266 939 919	100.0	248 700 589	100.0

EQUITY AND LIABILITIES	31.12.2015 PLN '000	% of total equity and liabilities	31.12.2014 PLN '000	% of total equity and liabilities
Liabilities				
Deposits from Central Bank	4 219	-	4 427	-
Deposits from banks	18 288 797	6.9	19 394 482	7.8
Derivative financial instruments	4 624 767	1.7	5 545 141	2.2
Deposits from customers	195 758 461	73.3	174 386 766	70.1
Liabilities due to insurance operations	2 400 493	0.9	2 679 722	1.1
Liabilities associated with assets classified as held for sale	-	-	34 964	-
Liabilities under issue of debt securities	9 432 973	3.5	13 300 610	5.3
Subordinated liabilities	2 499 163	0.9	2 413 985	1.0
Other liabilities	3 356 170	1.3	2 954 603	1.2
Current tax liabilities	26 057	-	17 453	-
Deferred tax liabilities	31 812	-	29 047	0.1
Provisions	252 094	-	323 838	0.1
Total liabilities	236 675 006	88.7	221 085 038	88.9
Equity				
Share capital	1 250 000	0.5	1 250 000	0.5
Other capital	25 417 809	9.4	23 374 794	9.4
Currency translation differences from foreign operations	(216 501)	(0.1)	(192 692)	(0.1)
Undistributed profits	1 222 413	0.5	(60 658)	-
Net profit for the period	2 609 564	1.0	3 254 122	1.3
Equity attributable to shareholders of parent entity	30 283 285	11.3	27 625 566	11.1
Non-controlling interest	(18 372)	-	(10 015)	-
Total equity	30 283 285	11.3	27 615 551	11.1
TOTAL EQUITY AND LIABILITIES	266 939 919	100.0	248 700 589	100.0

2.1.2. Consolidated profit and loss account

	1.01.2015 - 31.12.2015 PLN '000	1.01.2014 - 31.12.2014 PLN '000
CONTINUING OPERATION		
Interest income	9 657 763	10 737 431
Interest expense	(2 629 168)	(3 214 500)
Net interest income	7 028 595	7 522 931
Fee and commission income	3 598 330	3 901 936
Fee and commission expense	(747 702)	(968 430)
Net fee and commission income	2 850 628	2 933 506
Income from dividends	10 658	6 511
Net income from other financial instruments carried at fair value	40 577	75 188
Net income on investments	87 747	150 050
Net foreign exchange gains (losses)	369 094	235 797
Other operating income	574 640	570 779
Other operating costs	(297 116)	(348 198)
Other operating income and costs net	277 524	222 581
Net impairment allowance and write-downs	(1 475 918)	(1 898 670)
Total administrative expenses	(6 036 270)	(5 245 141)
Operating result	3 152 635	4 002 753
Share in profit (loss) of associates and joint ventures	38 115	31 810
Profit before income tax	3 190 750	4 034 563
Income tax expense	(589 497)	(791 747)
Net profit (including non-controlling shareholders)	2 601 253	3 242 816
Profit (loss) attributable to non-controlling shareholders	(8 311)	(11 306)
Net profit attributable to equity holders of the parent company	2 609 564	3 254 122



2.1.3 Consolidated statement of comprehensive income

	01.01.2015 - 31.12.2015 PLN '000	01.01.2014 - 31.12.2014 PLN '000
Net income	2 601 253	3 242 816
Other comprehensive income	48 109	155 910
Items that may be reclassified to the profit and loss	51 692	157 210
Cash flow hedges (gross)	(77 607)	161 478
Deferred tax on cash flow hedges	14 746	(30 681)
Cash flow hedges (net)	(62 861)	130 797
Unrealised net gains on financial assets available for sale (gross)	171 281	110 437
Deferred tax on unrealised net gains on financial assets available for sale	(31 681)	(21 594)
Unrealised net gains on financial assets available for sale (net)	139 600	88 843
Currency translation differences from foreign operations	(23 855)	(63 490)
Share in other comprehensive income of an associate	(1 192)	1 060
Items that may not be reclassified to the profit and loss	(3 583)	(1 300)
Actuarial gains and losses / Shares settlement (net)	(3 583)	(1 300)
Actuarial gains and losses (gross)	(4 491)	(1 537)
Deferred tax	908	237
Total comprehensive income	2 649 362	3 398 726
Total comprehensive income including:	2 649 362	3 398 726
shareholders of PKO Bank Polski SA	2 657 719	3 410 250
non-controlling shareholders	(8 357)	(11 524)

2.2 Selected financial ratios

	2015	2014	2013
Total assets (PLN '000)	266 939 919	248 700 589	199 231 110
Profit before income tax (PLN '000)	3 190 750	4 034 563	4 044 464
Net profit attributable to shareholders for the period (PLN '000)	2 609 564	3 254 122	3 229 793
Shareholders' equity (PLN '000)*	27 673 721	24 371 444	21 923 023
Return on Equity*	9.43%	13.35%	12.84%
Return on Assets**	0.98%	1.31%	1.62%
Cost to Income ratio***	56.60%	47.06%	43.17%
Capital adequacy ratio	14.61%	12.96%	13.58%
Loan to Deposit ratio****	97.27%	102.93%	98.50%
Loan Portfolio Coverage ratio*****	4.17%	4.28%	4.26%

* excluding current-year net profit and non-controlling interest

** net profit for the period / average total assets

*** general administrative expenses / result on core activities

**** loans and receivables from customers / liabilities due to customers

***** impairment on loans and receivables from customers / gross loans and receivables from customers

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 2.4 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 2.4 of the notes 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.

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 banking regulations

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

3.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory information, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.9 Report of the Management Board of the Parent Entity on the Group's activities

The report of the Management Board of the Parent Entity on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act (Official Journal from 2013, item 330 with amendments), by Art. 111a of the Banking Act dated 29 August 1997 (Official Journal from 2015, item 128 with amendments) and by 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 information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with 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

3 March 2016

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