

Independent auditor's report on audit of the annual consolidated financial  
statements of the Capital Group of Bank Ochrony Środowiska S.A.  
for the financial year ended on 31 December 2019

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INDEPENDENT AUDITOR'S REPORT ON AUDIT OF THE ANNUAL CONSOLIDATED  
FINANCIAL STATEMENTS

For the General Meeting and the Supervisory Board of the Capital Group of Bank Ochrony Środowiska S.A.

**Audit of the annual consolidated financial statements**

**Opinion**

We have reviewed the accompanying annual consolidated financial statements of the capital group, in which the parent entity is Bank Ochrony Środowiska S.A. ("the Parent Entity") ("the Group"), containing the consolidated statement of financial position as at 31 December 2019 and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows from the period of 1 January to 31 December 2019 and additional notes, containing a description of the adopted accounting principles and other explanations ("the consolidated financial statements").

In our opinion the attached consolidated financial statements:

- present a true and fair view of the consolidated assets and financial condition of the Group as at 31 December 2019 and its consolidated financial result and consolidated cash flows for fiscal year ended on this date in accordance with the applicable International Financial Reporting Standards approved by the European Union and the adopted accounting policy (principles);
- are consistent in form and content with the law provisions mandatory for the Group and the articles of association of the parent.

This opinion is consistent with the additional report for the Audit Committee, which we issued on 16 March 2020.

## **Basis for the opinion**

We conducted the audit in accordance with the National Auditing Standards as provided in the International Auditing Standards adopted by resolution 3430/52a/2019 of the National Council of Statutory Auditors of 21 March 2019 on the national auditing standards and other documents (as amended) (“NAS”) and in accordance with the act of 11 May 2017 on statutory auditors, auditing firms and public supervision (“Act on statutory auditors” - Journal of Laws of 2019, item 1421 as amended) and the 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-interest entities (“EU Regulation” - OJ L 158). Our liability in accordance with these standards has been described further in the section of our report “Liability of statutory auditor for the audit of consolidated financial statements.”

We are independent of the Group’s Companies in accordance with the Code of Ethics of Professional Accountants of the International Federation of Accountants (“IFAC Code”), adopted by resolutions of the National Council of Statutory Auditors and with other ethical requirements that apply to auditing of financial statements in Poland. We have fulfilled our other ethical duties in accordance with these requirements and the IFAC Code. In the course of the audit, the key statutory auditor and the audit firm remained independent of the Group’s Companies in accordance with the independence requirements specified in the Act on statutory auditors and in the EU Regulation.

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

## **Explanation with remark - event after the end of the reporting period**

We would like to put emphasis on note 52 to the consolidated financial statements, describing an event after the balance sheet date, associated with spreading of the coronavirus, the effects of which have been subject to analysis by the Management Board of the Parent Entity in the subsequent reporting periods. Our opinion contains no reservations with regard to this issue.

## **Key audit aspects**

Key aspects of the audit were issues, which in accordance with our professional opinion were of utmost importance during the audit of the consolidated financial statements for the current reporting period. They include the most significant assessed types of risk of material misstatement, including the assessed types of risk of material misstatement due to fraud. We have referred to these issues in the context of our audit of the consolidated financial statements as a whole and in formulating of our opinion, and we summarized our response to these types of risk, and in the cases we decided it would be proper, we presented the key observations related to these types of risk. We give no separate opinion on these issues.

Key audit aspect	How our audit related to this issue
<p><b>Impairment loss on financial assets and provisions for contingent liabilities</b></p> <p>As at 31 December 2019, the value of receivables from clients measured at amortized cost amounted to PLN 13,132,205 thousand, and the balance of write-offs for expected credit losses amounted to PLN 1,171,013 thousand.</p> <p>Detailed information on the methods and models applied by the Bank and the level of impairment write-offs for credits granted to clients have been presented in note 5.1.Key estimates and assessments - in note 4 Credit risk and note 23 Receivables from clients.</p> <p>In accordance with IFRS 9 Financial instruments (“IFRS 9”), the Management Board of the parent entity should specify the value of the expected credit losses, which may emerge in the period of 12 months or in the remaining lifetime of the exposure, depending on classification of individual assets into baskets.</p> <p>Determination of the level and time of recognition of a write-off for expected credit losses requires material judgment and material and complex estimates, in particular, with regard to estimation of credit risk parameters in the calculation models for expected credit losses.</p>	<p>We have conducted a critical analysis of designing and functioning of the process of credit risk assessment and estimation of write-offs for expected credit losses and we assessed the control mechanisms in these processes.</p> <p>As a part of the procedures implemented, we analyzed the procedures and regulations of the Parent Entity with regard to classification and measurement of financial assets, including valuation of write-offs for expected credit losses in terms of compliance with the IFRS 9 and the market practice.</p> <p>We reconciled the database of credits and loans granted to clients and write-offs for expected credit losses with the accounting books to confirm completeness of recognition of receivables, which serve as a basis for establishment of impairment losses.</p> <p>With regard to portfolio of clients assessed in terms of the portfolio:</p> <ul style="list-style-type: none"> <li>- we analyzed the used methodology for calculation of impairment write-offs for exposures assessed using the group method, including adequacy of the risk parameters applied by the Bank,</li> <li>- we verified the calculation of write-offs for expected losses for selected exposures,</li> <li>- we assessed changes in the assumptions made to develop the models used to measure credit risk and the approach used to verification of models on the basis of historic data (the so-called back tests).</li> </ul>
	<p>With regard to the portfolio of clients assessed individually, on the basis of a selected credit sample:</p> <ul style="list-style-type: none"> <li>- we analyzed correctness of the process for impairment identification and classification into baskets,</li> <li>- for exposures with confirmed impairment, we conducted a critical analysis of the key assumptions made by the Parent Entity with regard to value of collaterals and assumptions concerning other cash flows and we calculated the value of write-offs independently.</li> </ul>

<p><b>Provisions for lawsuits and contingent liabilities:</b></p> <p>Provisions for lawsuits amounted in total to PLN 23,181 thousand as at 31 December 2019, and the commission for reimbursement of commission fees due to early loan repayment amounted to PLN 1,183 thousand.</p> <p>A description of key lawsuits and provisions established can be found in note 37 Contingent assets and contingent liabilities and in note 33 Provisions.</p> <p>Judgments of the Management Board with regard to assumptions for measurement of provisions for lawsuits and potential lawsuits are subject to a number of uncertainties with regard to the future court decisions (both in terms of the content of the decision and its value) and may change over time.</p> <p>At the same time, the ruling of the Court of Justice of the European Union (CJEU) of 3 October 2019 on credits indexed to CHF and the ruling of the CJEU of 11 September 2019 on reduction of the total amount of consumer loan costs in the case of its early repayment increase the uncertainty of provision estimates.</p>	<p>In the framework of the audit, we conducted i.a. the following procedures:</p> <ul style="list-style-type: none"> <li>- We got familiar with the list of litigations, in which the Parent Entity is the party, and assessment of lawyers with regard to the related rulings, including obtaining of independent confirmations from external law firms.</li> <li>- We analyzed the methodology used to establish individual provisions for lawsuits.</li> <li>- We verified the methodology for estimation of provisions for mortgage loans granted in CHF, including analysis of correctness of input data and provision estimate calculations, analysis of rationality and grounds for the assumptions made, including: <ul style="list-style-type: none"> <li>• assumptions with regard to the population of borrowers to file lawsuits against the Parent Entity, including the time spread of such lawsuits,</li> <li>• the probability of losing the case for each of the rulings being considered,</li> <li>• distribution of rulings to be issued by courts,</li> <li>• loss suffered by the Parent Entity in case of losing a lawsuit for a given ruling.</li> </ul> </li> <li>- We analyzed and verified the methodology for estimation of provisions for reimbursement of charges to clients due to historic early repayment of consumer and mortgage loans, in particular, an analysis of rationality and grounds for the assumptions made and correctness of input data and calculations.</li> <li>- We assessed the adequacy and completeness of provisions for litigations and contingent liabilities, established by the Parent Entity in the light of the existing legal documentation.</li> </ul>
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## **Liability of the Management Board and the Supervisory Board of the Parent Entity for the consolidated financial statements**

The Management Board of the parent entity is responsible for preparation of consolidated financial statements, which would provide a reliable and clear representation of the assets, financial position and financial results of the Group in accordance with the International Financial Reporting Standards approved by the European Union, the adopted accounting principles (policy) and legal provisions mandatory to the Group and articles of association of the Parent Entity, as well as for internal control, which the Management Board of the Parent Entity considers to be necessary to enable preparation of consolidated financial statements containing no material misstatements due to error or fraud.

In preparation of the consolidated financial statements, the Management Board of the parent entity is responsible for assessment of capability of the Group to continue its operations, disclosure, if applicable, of issues related to continuation of operations and adopting of the assumption of going concern as the accounting basis, with the exception of a situation, in which the Management Board either intends to liquidate the Group or discontinue operations or there is no realistic alternative to liquidation or discontinuation of operations.

The Management Board of the parent entity and members of the Supervisory Board of the parent entity are obliged to make sure that the consolidated financial statements meet the requirements specified in the Act of 29 September on accounting ("Act on accounting" - Journal of Laws of 2019 item 351 as amended), Members of the Supervisory Board of the Parent Entity are responsible for supervision of the financial reporting process.

## **Liability of the statutory auditor for auditing of the consolidated financial statements**

Our objective is to obtain rational certainty whether the consolidated financial statements as a whole contain material misstatements due to fraud or error and to issue an audit report, containing our opinion. Rational certainty is a high level of certainty, however, it does not warrant that the audit conducted in accordance with the NAS will always detect the existing material misstatements. Misstatements may arise from fraud or error and are considered material, if they can be rationally expected to influence collectively or individually the business decisions of users, made on the basis of these consolidated financial statements.

The scope of the audit does not include an assurance with regard to future profitability of the Group or effectiveness of handling of its affairs by the Management Board of the Parent Entity at present or in the future.

During an audit consistent with the NAS, we apply professional judgment and retain professional skepticism, as well as:

- we identify and assess the risk of a material misstatement in the consolidated financial statements due to error or fraud, we develop and implement audit procedures consistent with this risk and obtain audit evidence, which is sufficient and proper to serve as a basis for our opinion. The risk of a failure to detect a material misstatement resulting from fraud is greater than the risk associated with a material misstatement resulting from errors, as fraud may pertain to collusive schemes, forgery, intentional omissions, deception or circumventing of internal control;
- we obtain understanding of internal control applicable to the audit in the order to develop the audit procedures, which would be proper under the circumstances, but not for the purpose of issuing of an opinion on effectiveness of the Group's internal control;

- we assess the adequacy of the accounting principles (policy) applied and the grounds for accounting estimates and linked disclosures made by the Management Board of the Parent Entity;
- we draw conclusions on adequacy of application by the Management Board of the Parent Entity of the principle of going concern as the basis for accounting and, on the basis of the audit evidence obtained, on whether any material uncertainty exists in association with events or conditions, which could result in a material doubt as to the capability of the Group to continue as a going concern. If we conclude that such material uncertainty exists, we are required to note in our statutory auditor's report the linked disclosures in the consolidated financial statements, or, if such disclosures are inadequate, we modify our opinion. Our conclusions are based on audit evidence obtained until the date of preparation of our statutory auditor's report, however, future events or circumstances may result in discontinuation of the Group's operations;
- we assess the general presentation, structure and content of the consolidated financial statements, including disclosures and whether the consolidated financial statements present the transactions and events, serving as a basis for them, in a manner that ensures their reliable presentation;
- we obtain sufficient audit evidence with regard to financial information of entities or business within the Group in order to issue an opinion on the consolidated financial statements. We are responsible for management, supervision and conducting of the Group's audit and we remain exclusively responsible for our opinion on the audit.

We submit to the Supervisory Board of the Parent Entity information on, among others, the planned scope and time of the audit and material findings, including all of the material weaknesses of the internal control system, identified during the audit.

We submit to the Supervisory Board of the Parent Entity a statement that we complied with the proper ethical requirements of independence and that we will inform the Board of any links and other issues, which could be rationally considered to pose a threat to our independence and, where applicable, we inform of the security measures applied.

Among the issues submitted to the Supervisory Board of the Parent Entity, we have identified those, which were of utmost importance during the audit of the consolidated financial statements for the current reporting period and were thus recognized by us as the key audit aspects. We describe these issues in our statutory auditor's report, unless the legal provisions or regulations prohibit their disclosure or if, under exceptional circumstances, we find that a given issue should not be presented in our report, as it could be reasonably expected that the negative consequences would outweigh the benefits of such information for public interest.

### **Other information, including the report on activity**

Other information include report on activity of the Group for the fiscal year ended on 31 December 2019 ("Activity Report") along with the statement of compliance with corporate governance and a statement concerning non-financial information, referred to in art. 55 section 2b of the Act on accounting, which are separated parts of this Activity Report (collectively, "Other information").

The report on activity of the Capital Group of the Bank and the Bank for year 2019, in accordance with art. 55 section 2a of the Act on Accounting, has been prepared jointly.

## **Responsibility of the Management Board and the Supervisory Board of the Parent Unit**

The Management Board of the Parent Entity is responsible for preparation of Other Information in accordance with the law.

The Management Board of the Parent Entity and members of the Supervisory Board of the Parent Entity are obliged to make sure that the Report on activity of the Group along with its separated parts fulfills the requirements specified in the Act on accounting.

## **Responsibility of the statutory auditor**

Our opinion on the consolidated financial statements does not include Other Information. In association with the audit of the consolidated financial statements, it is our obligation to get familiar with Other Information, and in performance of this task, to verify whether Other Information is not internally incoherent with the consolidated financial statements or our knowledge gained in the course of the audit or seems materially misstated in any other manner. If, on the basis of the work conducted, we find material misstatements in the Other Information, we are obliged to inform of this fact in our audit report. Our obligation, in accordance with requirements of the Act on statutory auditors, is also to issue the opinion on whether the activity report has been prepared in accordance with the law and whether it is consistent with information contained in the consolidated financial statements. Moreover, we are obliged to inform whether the Group has prepared a statement on non-financial information and issue an opinion whether the Group has contained in its statement of application of corporate governance the required information.

## **Opinion on the Activity report**

On the basis of our work conducted in the course of the audit, in our opinion, the Activity report of the Group:

- has been prepared in accordance with requirements of art. 49 of the Act on accounting, § 71 of the Regulation of the Minister of Finance of 29 March 2018 regarding current and periodical information submitted by issuers of securities and the conditions for recognition as equivalent of the information whose disclosure is required under the laws of a state which is not an EU Member State (“Regulation on current information” - Journal of Laws of 2018, item 757) and art. 111a item 1-2 of the Banking Law Act,
- is consistent with the information contained in the consolidated financial statements.

Moreover, in the light of our knowledge of the Group and its environment obtained during the audit, we hereby state that we have found no material misstatements in the Activity Report of the Group.

## **Opinion on the statement on implementation of corporate governance principles**

In our opinion, in the statement on implementation of corporate governance principles, the Group contained information specified in § 70 section 6 clause 5 of the Regulation on current information. Moreover, in our opinion, information specified in § 70 section 6 clause 5 letter c-f, h and letter i of this Regulation contained in the statement on implementation of corporate governance principles is consistent with the applicable legal provisions and information contained in the consolidated financial statements.



## **Information on non-financial information**

In accordance with requirements of the Act on statutory auditors, we hereby confirm that the Group has prepared a statement on non-financial information, referred to in art. 55 section 2b of the Act on Accounting as a separate part of the Group's Activity Report.

We conducted no attestation works concerning the statement on non-financial information and we give no assurances with regard to this statement.

## **Report on other legal requirements and regulations**

### **Information concerning compliance with the applicable prudence regulations**

The Management Board of the Parent Entity is responsible for ensuring compliance of activity of the Group with prudence regulations, including correctness of determination of capital ratios.

It is our duty to inform in the audit report whether the Capital Group complies with the applicable prudence regulations specified in separate legislation, in particular, whether the Capital Group has properly determined the capital ratios provided in note 5.3.

The aim of the audit of the financial statements was not to issue an opinion on the Group's compliance with the binding prudence regulations, and thus we issue no opinion in this regard.

On the basis of the conducted audit of the financial statements, we hereby inform that we have not identified any cases of violation by the Group in the period from 1 January to 31 December 2019 of the binding prudence regulations, specified in separate legislation, in particular, with regard to correctness of determination by the Capital Group of capital ratios as at 31 December 2019, which could exert material influence on the consolidated financial statements.

### **Statement on services rendered other than audit of financial statements**

To the best of our knowledge and belief, we hereby state that services other than audit of financial statements, rendered by us on behalf of the Group, are consistent with the law and regulations of Poland and that we did not render services other than audit, which are prohibited on the basis of art. 5 section 1 of the EU Regulation and art. 136 of the Act on statutory auditors.

Services other than audit, which we performed on behalf of the Parent Entity and its subsidiaries in the examined period have been listed in the Activity report of the Company.

### **Selection of the audit company**

We have been selected for the first time to conduct the audit of the consolidated financial statements of the Group on the basis of resolution of the Supervisory Board of the Parent Entity of 11 July 2017 and again on the basis of resolution of 22 May 2019. We have audited the financial statements of the Group continuously from the fiscal year ended on 31 December 2017, that is, for three subsequent years.

The key statutory auditor responsible for the audit, which has resulted in this independent auditor's report, is Małgorzata Pek-Kocik.

Acting in the name of Mazars Audyt Sp. z o.o. with a registered office in Warsaw, ul. Piękna 18, entered on the list of audit firms under number 186, in the name of which the key statutory auditor has audited the consolidated financial statements.

Małgorzata PEK-KOCIK

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signed electronically by:  
Małgorzata Pek-  
Kocik  
Date: 2020.03.16  
6:30:15 PM CET

Key Statutory Auditor

No. 13 070



Warsaw, 16 March 2020