

Independent auditor's report
on audit of the annual financial statements
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 FINANCIAL STATEMENTS

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

Audit of the annual financial statements

Opinion

We have conducted an audit of the annual financial statements of Bank Ochrony Środowiska S.A. ('the Bank'), containing the statement of financial position as at 31 December 2019 and the profit and loss account, the statement of comprehensive income, the statement of changes in equity, the 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 financial statements').

In our opinion the attached financial statements:

- present a true and fair view of the assets and financial condition of the Bank as at 31 December 2019 and its financial result and 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 Bank and the articles of association of Bank;
- has been prepared on the basis of properly maintained accounting books in accordance with provisions of chapter 2 of the act of 29 September 1994 on accounting ("the Act on Accounting - Journal of Laws of 2019 item 351 as amended).

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 financial statements.”

We are independent of the Bank 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 Bank 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 53 to the 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 Bank 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 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 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
Impairment loss on financial assets and provisions for contingent liabilities	
As at 31 December 2019, the value of receivables from clients measured at amortized cost amounted to PLN 13.149.933 thousand, and the balance of write-offs for expected credit losses amounted to	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

<p>PLN 1.163.515 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, note 6.1 Credit risk and note 24 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>mechanisms in these processes.</p> <p>As a part of the procedures implemented, we analyzed the procedures and regulations of the Bank 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"> - 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, - we verified the calculation of write-offs for expected losses for selected exposures, - 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).
<p>Provisions for lawsuits and contingent liabilities:</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 notes 5.5 and 5.6. 39. Contingent assets and contingent liabilities, note 39 Contingent liabilities and contingent assets and note 35 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</p>	<p>In the framework of the audit, we conducted i.a. the following procedures:</p> <ul style="list-style-type: none"> - We got familiar with the list of litigations, in which the Bank is the party, and assessment of lawyers with regard to the related rulings, including obtaining of independent confirmations from external law firms. - - We analyzed the methodology used to establish individual provisions for lawsuits. - - 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

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.

rationality and grounds for the assumptions made, including:

- assumptions with regard to the population of borrowers to file lawsuits against the Bank, including the time spread of such lawsuits,

the probability of losing the case for each of the rulings being considered,

- distribution of rulings to be issued by courts,

- loss suffered by the Bank in case of losing a lawsuit for a given ruling.

- 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.

We assessed the adequacy and completeness of provisions for litigations and contingent liabilities, established by the Bank in the light of the existing legal documentation.

Responsibility of the Management Board and the Supervisory Board for the financial statements

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

In preparation of the financial statements, the Management Board of the Bank is responsible for assessment of capability of the Bank 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 Bank or discontinue operations or there is no realistic alternative to liquidation or discontinuation of operations.

The Management Board of the Bank and members of the Supervisory Board of the Bank are obliged to make sure that the financial statements meet the requirements specified in the Act on accounting. Members of the Supervisory Board are responsible for supervision of the financial reporting process of the Bank.

Liability of the statutory auditor for auditing of the financial statements

Our objective is to obtain rational certainty whether the 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 financial statements.

The scope of the audit does not include an assurance with regard to future profitability of the Bank or effectiveness of handling of its affairs by the Management Board of the Bank 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 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 Bank'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 Bank;
- we draw conclusions on adequacy of application by the Management Board of the Bank 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 Bank 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 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 Bank's operations;
- we assess the general presentation, structure and content of the consolidated financial statements, including disclosures and whether the financial statements present the transactions and events, serving as a basis for them, in a manner that ensures their reliable presentation;

We submit to the Supervisory Board of the Bank 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 Bank 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 Bank, we have identified those, which were of utmost importance during the audit of the 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 Bank 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. 49b section 1 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

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

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

Responsibility of the statutory auditor

Our opinion on the financial statements does not include Other Information. In association with the audit of the 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 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 auditors is also to issue an opinion on whether the activity report has been prepared

in accordance with the law and whether it is consistent with information contained in the financial statements. Moreover, we are obliged to inform whether the Bank has prepared a statement on non-financial information and to issue an opinion whether the Bank has contained the required information in the statement on implementation of the corporate governance principles.

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 Bank:

- has been prepared in accordance with requirements of art. 49 of the Act on accounting, § 70 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 financial statements.

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

Opinion on the statement on implementation of corporate governance principles

In our opinion, in the statement on implementation of corporate governance principles, the Bank 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 financial statements.

Information on non-financial information

In accordance with requirements of the Act on statutory auditors, we hereby confirm that the Bank has prepared a statement on non-financial information, referred to in art. 49b section 1 of the Act on Accounting as a separate part of the 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 Bank is responsible for ensuring compliance of activity of the Bank with prudence regulations, including correctness of determination of capital ratios.

It is our duty to inform in the audit report whether the Bank complies with the applicable prudence regulations specified in separate legislation, in particular, whether the Bank has properly determined the capital ratios provided in note 6.3.

The aim of the audit of the financial statements was not to issue an opinion on the Bank'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 Bank 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 Bank of capital ratios as at 31 December 2019, which could exert material influence on the 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 Bank and its subsidiaries, 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 Bank 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 financial statements of the Bank on the basis of resolution of the Supervisory Board of 11 July 2017 and again on the basis of resolution of 22 May 2019.

We have audited the financial statements of the Bank 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 financial statements.

Małgorzata PEK-KOCIK

Document signed by Małgorzata Pek-Kocik

Date: 2020.03.16

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Key Statutory Auditor

No. 13 070

Warsaw, 16 March 2020