Bank Polski

€3,000,000,000
Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

PKO Finance AB (publ)

(incorporated with limited liability under the laws of the Kingdom of Sweden)

for the sole purpose of financing senior and subordinated loans to

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

(incorporated as a joint stock company in the Republic of Poland)

Under the programme for the issuance of loan participation notes (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), PKO Finance AB (publ) (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue loan participation notes (the "**Notes**"). The aggregate principal amount of Notes outstanding will not at any time exceed €3,000,000,000 (or the equivalent in other currencies).

Notes will be issued in Series and the sole purpose of issuing each Series will be to finance either (i) a senior loan (each a "**Senior Loan**") to Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Borrower**", "**PKO Bank Polski**" or the "**Bank**") as borrower, on the terms of an amended and restated senior facility agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the "**Senior Facility Agreement**") between the Issuer and the Borrower, as amended and supplemented by a senior loan supplement (each a "**Senior Loan Supplement**") to be entered into by the Issuer and the Borrower in respect of each Senior Loan on each applicable issue date (each an "**Issue Date**") and the Senior Facility Agreement, as supplemented by a Senior Loan Supplement, will constitute a senior loan agreement (each a "**Senior Loan Agreement**"); or (ii) a subordinated loan (each a "**Subordinated Loan**" and, together with each Senior Loan, a "**Loan**") to the Borrower as borrower, on the terms of a subordinated facility agreement (as amended, modified, supplemented and/or restated from time to time, the "**Subordinated Facility Agreement**" and, together with the Senior Facility Agreement, the "**Facility Agreements**" and each a "**Facility Agreement**") between the Issuer and the Borrower to be dated on or before the Issue Date of the relevant Series, as amended and supplemented by a subordinated loan supplement (each a "**Subordinated Loan Supplement**" and, together with each Senior Loan Supplement, a "**Loan Supplement**") to be entered into by the Issuer and the Borrower in respect of each Subordinated Loan on each applicable Issue Date and the Subordinated Facility Agreement, as supplemented by a Subordinated Loan Supplement, will constitute a subordinated loan agreement (each a "**Subordinated Loan Agreement**" and, together with each Senior Loan Agreement, a "**Loan Agreement**"). The Issuer will charge, in favour of Citicorp Trustee Company Limited as trustee (the "**Trustee**") for itself and for the benefit of the noteholders of each Series of Notes (the "**Noteholders**"), by way of a first fixed charge as security for its payment obligations in respect of each Series of Notes and under the Trust Deed (as defined herein), certain of its rights and interests under the relevant Loan Agreement and the relevant Account (as defined in the relevant Loan Supplement). In addition, the Issuer will assign certain of its administrative rights under the relevant Loan Agreement to the Trustee.

This Base Prospectus has been approved by the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), which is the Luxembourg competent authority for the purpose of the Prospectus Directive (as defined herein) and relevant implementing measures in Luxembourg, as a base prospectus for the purposes of Article 5.4 of the Prospectus Directive and Article 8.4 of the Luxembourg Law on prospectuses for securities dated 10 July 2005, as amended (the "**Luxembourg Law on Prospectuses**"), for the purpose of giving information with regard to the issue of Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. In accordance with Article 7.7 of the Luxembourg Law on Prospectuses, by approving this Base Prospectus the CSSF gives no undertaking as to the economic or financial opportunities of the Programme or the quality and solvency of the Issuer. Applications have been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*). The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Directive on Markets and Financial Instruments 2004/39/EC (the "**Regulated Market**"). The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.

Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Borrower to fulfil their respective obligations are discussed under "Risk Factors" below.

Arranger and Dealer

PKO BANK POLSKI SA

The date of this Base Prospectus is 6 May 2015.

IMPORTANT NOTICES

THE DISTRIBUTION OF THIS BASE PROSPECTUS AND ANY FINAL TERMS AND THE OFFERING, SALE AND DELIVERY OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. PERSONS INTO WHOSE POSSESSION THIS BASE PROSPECTUS OR ANY FINAL TERMS COMES ARE REQUIRED BY THE ISSUER, THE BORROWER AND THE DEALERS TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON OFFERS, SALES AND DELIVERIES OF NOTES AND ON THE DISTRIBUTION OF THIS BASE PROSPECTUS OR ANY FINAL TERMS AND OTHER OFFERING MATERIAL RELATING TO THE NOTES, SEE "SUBSCRIPTION AND SALE". IN PARTICULAR, NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (AS AMENDED) (THE "SECURITIES ACT") AND BEARER NOTES ARE SUBJECT TO U.S. TAX LAW REQUIREMENTS. SUBJECT TO CERTAIN EXCEPTIONS, NOTES MAY NOT BE OFFERED, SOLD OR DELIVERED WITHIN THE UNITED STATES OR TO U.S. PERSONS.

Each Senior Loan will rank *pari passu* in right of payment with the Borrower's other outstanding unsecured and unsubordinated indebtedness. The claims of the Issuer under each Subordinated Loan, excluding the Reserved Rights (as defined herein), will constitute the direct, unconditional and unsecured subordinated obligations of the Borrower and will rank at least equally with all other unsecured and subordinated obligations of the Borrower (whether actual or contingent) having a fixed maturity from time to time outstanding save only for such obligations as may be preferred by mandatory provisions of applicable law and will be senior to the claims of holders of (a) the Borrower's share capital (including preference shares) and (b) all other obligations ranking junior to the claims of the Issuer pursuant to applicable law or otherwise (excluding the Reserved Rights). Other than as described in this Base Prospectus and the Trust Deed, Noteholders have no proprietary or other direct interest in the Issuer's rights under or in respect of the relevant Loan Agreement or the relevant Loan. Subject to the terms of the Trust Deed, no Noteholder will have any rights to enforce any of the provisions in the relevant Loan Agreement or have direct recourse to the Borrower except through action by the Trustee.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "Terms and Conditions of the Notes" (the "**Conditions**") as completed by a document specific to such Tranche called final terms (the "**Final Terms**") or in a separate prospectus specific to such Tranche (the "**Drawdown Prospectus**") as described under "Final Terms and Drawdown Prospectuses" below. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. This Base Prospectus must be read and construed together with any supplements hereto and with any information incorporated by reference herein (See "*Information incorporated by reference*") and, in relation to any Tranche of Notes which is the subject of Final Terms, must be read and construed together with the relevant Final Terms.

The Issuer and the Borrower may agree with any Dealer (as defined herein) the form of any future Subordinated Facility Agreement in which event a series prospectus will be published for use in connection with any subsequent issue of any Series in relation to a Subordinated Loan to be listed on the Regulated Market of the Luxembourg Stock Exchange. Investors should take note that any reference to a Subordinated Facility Agreement, Subordinated Loan Agreement or Subordinated Loan in this Base Prospectus is to be entirely qualified by any such series prospectus to be prepared, and any such discussion herein is merely indicative of the expectation of the Issuer and the Borrower as to the form that the Subordinated Facility Agreement is likely to take, pending the review of the Subordinated Loan Agreement by the Polish Financial Supervision Authority (the "**PFSA**") and taking into account any applicable change of laws or regulations at that date.

Each of the Issuer and the Borrower (together, the "**Responsible Persons**") accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

Each of the Responsible Persons, having made all reasonable enquiries, confirms and represents that this Base Prospectus contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes and the extension of the Loans) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Base Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of

the Programme, the issue, offering and sale of the Notes and the extension of the Loans) not misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other document entered into in relation to the Programme or any information supplied by the Issuer or the Borrower or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Borrower or any Dealer.

Neither the Arranger, any Dealer nor any of their respective affiliates or the Trustee have authorised the whole or any part of this Base Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Base Prospectus. Neither the delivery of this Base Prospectus or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Base Prospectus is true subsequent to the date hereof or the date upon which this Base Prospectus has been most recently supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer or the Borrower since the date thereof or, if later, the date upon which this Base Prospectus has been most recently supplemented, or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Base Prospectus nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Borrower, the Arranger or the Dealers, the Trustee or any of them that any recipient of this Base Prospectus or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Base Prospectus or any Final Terms shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer and the Borrower.

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €3,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

In this Base Prospectus, unless otherwise specified, references to the "**EU**" are references to the European Union, references to "**EEA**" are references to the European Economic Area, references to a "**Member State**" are references to a Member State of the European Economic Area, references to a "**Relevant Member State**" are to a Member State which has implemented the Prospectus Directive, references to the "**Prospectus Directive**" are references to Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and references to the "**2010 PD Amending Directive**" are to Directive 2010/73/EU.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus, as completed by Final Terms or a Drawdown Prospectus in relation to the offer of those Notes, may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager(s)) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation

action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains various forward-looking statements that relate to, *inter alia*, events and trends that are subject to risks and uncertainties that could cause the actual business activities, results and financial position of the Issuer or the Borrower to differ materially from the information presented herein. When used in this Base Prospectus, the words "**estimate**", "**project**", "**intend**", "**anticipate**", "**believe**", "**expect**", "**should**" and similar expressions, as they relate to the Issuer and the Borrower and their management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Neither the Issuer nor the Borrower undertakes any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General Information

The audited consolidated financial statements of the Borrower and its Subsidiaries taken as a whole at any given time (the "**Group**") for the year ended 31 December 2014 (the "**2014 Consolidated Financial Statements**") and the audited consolidated financial statements of the Group for the year ended 31 December 2013 (the "**2013 Consolidated Financial Statements**" and, together with the 2014 Consolidated Financial Statements, the "**Consolidated Financial Statements**") are incorporated into this Base Prospectus by reference.

The Consolidated Financial Statements have been prepared in accordance with the IFRS as adopted by the EU, which differ to some extent from the IFRS issued by the IASB. Presentation of financial information in accordance with IFRS requires the management to make various estimates and assumptions which may impact the values shown in the financial statements and notes thereto. The actual values may differ from such assumptions.

The Consolidated Financial Statements were audited by PricewaterhouseCoopers sp. z o.o., with its registered office in Warsaw (see "*General Information – Independent Certified Auditors*").

The Consolidated Financial Statements are presented in PLN, the functional currency of the Bank and the presentation currency of the Group. Furthermore, unless otherwise indicated, financial and statistical data included in this Base Prospectus is expressed in PLN thousand.

Unless otherwise indicated, all financial data pertaining to the Group presented herein is based on the 2014 Consolidated Financial Statements, or has been calculated based thereon.

Certain figures included in this Base Prospectus have been subject to rounding adjustments and presented in PLN million or PLN billion (not in PLN thousand as in the Consolidated Financial Statements). Accordingly, in certain instances the sum of numbers in a column or a row in tables contained in this Base Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in the tables in this Base Prospectus have also been rounded, and accordingly the totals in these tables may not exactly add up to 100%. Percentage changes during the compared periods were computed on the basis of the original (not rounded) amounts.

Unless otherwise indicated, all references in this Base Prospectus to "**PLN**", "**Polish Zloty**" and "**zloty**" are to the lawful currency of Poland. References to "**EUR**", "**Euro**", "**euro**" or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended. References to "**USD**" are to the lawful currency of the United States. References to "**GBP**" are to the lawful currency of the United Kingdom. References to "**CHF**" are to the lawful currency of Switzerland, and references to "**UAH**" are to the lawful currency of Ukraine.

All financial data included in the "*Description of the Group*" in this Base Prospectus has been prepared on a consolidated basis, unless indicated otherwise.

EXCHANGE RATES

This Base Prospectus contains conversions of certain amounts in relation to the financial results of the Bank and the Group set out elsewhere in this Base Prospectus. These conversions were effected at the relevant foreign currency to euro exchange in effect as set out below, unless otherwise stated. The conversion of statement of financial position items from PLN to Euro was made by reference to the exchange rate at the end of a given year set by the National Bank of Poland (the "**NBP**"). Figures provided in relation to income and expense were calculated by reference to the arithmetic mean of the average rates set by the NBP, on the final day of each month. The following table sets out, for the periods indicated, the exchange rates used in this Base Prospectus:

	As at 31 December 2014	As at 31 December 2013	Average exchange rate 2014	Average exchange rate 2013
PLN/EUR	4.2623	4.1472	4.1893	4.2110
PLN/UAH	0.2246	0.3706	0.2637	0.3887
PLN/CHF	3.5447	3.3816	3.4542	3.4260

Source: www.nbp.pl

Solely for the convenience of the reader, and except otherwise stated, set out in the table below are some additional foreign currency to PLN exchange rates:

Currency	FX rates as at 31 December 2014	FX rates as at 31 December 2013
HUF (100 HUF)	1.3538	1.3969
CZK	0.1537	0.1513
LTL	1.2344	1.2011
AUD	2.8735	2.6864
JPY (100 JPY)	2.9353	2.8689
USD	3.5072	3.0120
CAD	3.0255	2.8297
GBP	5.4648	4.9828
DKK	0.5725	0.5560
NOK	0.4735	0.4953

Source: www.nbp.pl

MARKET, ECONOMIC AND INDUSTRY DATA

Certain macroeconomic and statistical data included in this Base Prospectus has been derived from publicly available sources, the reliability of which may vary. Macroeconomic and statistical data concerning Poland is mostly based on information published by the Polish Central Statistical Office (*Główny Urząd Statystyczny*, "**GUS**") and the NBP. In any case, macroeconomic and statistical data, as well as the source data on which it is based, may not have been extracted or derived from a source in a manner analogous to that used in other countries. There is no guarantee that a third party using different methods of gathering, analysing and processing information would obtain the same results.

Market data and certain industry data and forecasts used, as well as statements made herein regarding the Bank's and the Group's position in the industry, were estimated or derived based upon assumptions the Bank deems reasonable and from the Group's own research, surveys or studies conducted at its request by third parties, or derived from publicly available sources (Eurostat, Bloomberg, Raiffeisen RESEARCH), industry or general publications such as reports issued by the PFSA or the NBP, and Polish newspapers. The source of any external information is provided each time such information is used in this Base Prospectus. When searching for, processing and preparing macroeconomic, market, industry and other data from sources other than the Group, such as governmental publications, third party publications, industry publications and general interest publications, the Bank has not verified such data. The Bank has accurately extracted information from this third-party data from published sources and, as far as the Bank is aware and to the extent the Bank can ascertain from the information published by these sources, there are no omissions that would render such information in this Base Prospectus materially misleading.

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. However, in the preparation of this Base Prospectus, this third-party information has not been independently verified nor has there been any investigation of the validity of the methodology or the basis used by the third parties in producing such data or making estimates and forecasts. The Bank can give no assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

The Bank does not intend, nor is it obligated, to update the data presented herein, save for obligations arising under provisions of law.

RATINGS

References in this Base Prospectus to ratings issued by "**Fitch**" are to credit ratings issued by Fitch Ratings Ltd. references to ratings issued by "**Moody's**" are to credit ratings issued by Moody's Investor Services, references to ratings issued by "**Standard & Poor's**" are to credit ratings issued by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., all of which are established in the European Union and which have been registered as credit rating agencies under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

The list of credit rating agencies registered under the CRA Regulation is published by European Securities and Markets Authority (the "**ESMA**") in accordance with Article 18(3) of the CRA Regulation and is updated within five working days of the adoption of a registration or certification decision. The European Commission republishes the list in the Official Journal of the European Union within 30 days of any update thereof. There may therefore be differences between the list published by ESMA and the list available in the Official Journal during that period. The up-to-date list of credit rating agencies registered under the CRA Regulation is available at the websites of the ESMA at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.

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RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Base Prospectus (including any documents deemed to be incorporated by reference herein) prior to making any investment decision with respect to the Notes. Certain of the risks highlighted below could have a material adverse effect on the Bank's business, operations and financial condition which, in turn, could have a material adverse effect on its ability to fulfil its obligations under the Facility Agreements and, as a result, the ability of the Issuer to make payments under the Notes. In addition, the value of the Notes could decline due to any of these risks, and prospective investors may lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Bank faces. The Bank has described only those risks relating to its operations that it considers material. In addition, the Bank has described certain general risks applicable to an investment in the Republic of Poland and to the Polish banking industry which are associated with an investment in the Notes. There may be additional risks that the Bank currently considers not to be material or of which the Bank is not currently aware, and any of these risks could have the effects set forth above.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Base Prospectus have the same meanings as given to them in this section.

Risks Relating to Macroeconomic Conditions

Global Economic Conditions Have Had, and Will Continue to Have, an Effect on the Group's Business, Financial Condition and Results of Operations

Macroeconomic conditions and the behaviour of global financial markets influence the Group and its performance. At the beginning of 2008, the global economy started to experience one of its most significant crises in more than 80 years. Many developed economies were affected by recession, and many economies which are considered emerging markets, including Poland, underwent a significant slowdown in the rate of economic development. Beginning in the second half of 2009, due to the extraordinary measures relating to the economic policy taken in developed economies, the situation in the financial sector started to show signs of improvement.

However, in the second half of 2010, as a result of the crisis related to the indebtedness of certain Eurozone countries, an increase of risk related to the stability of the European financial sector and a slowdown in economic growth were observed. Additionally, the restructuring programs adopted by some of the highly indebted EU countries, which consist of, inter alia, decreasing governmental expenses and increasing taxes, resulted in lower growth rates in certain of these countries and, as a consequence, in the Eurozone. In 2011, the anxieties about the Eurozone situation increased, which was mostly reflected in the lowering of ratings of Eurozone countries and banks at the end of 2011. In 2012, such anxieties continued due to the requirement to recapitalise the Spanish banking sector and growing concerns around the effectiveness and consequences of the restructuring programs adopted by certain EU countries, as well as due to the uncertainty as to the necessity for further financial aid for certain EU countries and the EU banking sector. In 2013, the economies of the EU were slowly coming out of recession. In the financial markets, risk premiums have decreased, notably for sovereigns and banks in vulnerable countries. The signs of regained confidence in the integrity of the euro area and the determination of the EU and its Members States to bring public debt back on a sustainable path and to move forward with the necessary post-crisis adjustments, be they macroeconomic, structural or institutional, were seen. In 2013, external demand was the main driver of the projected stabilisation and gradual acceleration of economic activity in the EU. GDP growth in the Eurozone reached 1.8% on a year-on-year basis in 2014 after a strong fourth quarter driven by an accelerating German economy and a revival in some of the peripheral countries, in particular Spain and Ireland.

A slow recovery of the world's economies or a downturn in the global economy could impact growth in Poland and, therefore, adversely affect the business, financial condition and results of operations of the Group.

Poland's Economic, Political and Social Conditions Have Affected and Will Continue to Have an Effect on the Group's Business, Financial Condition and Results of Operations

The Group conducts its operations almost entirely in Poland, where the overwhelming majority of its clients and assets are located. Therefore, macroeconomic factors relating to Poland, such as GDP, inflation, interest and currency exchange rates, as well as unemployment, personal income and the financial situation of companies, have a material impact on customer demand, loan impairment allowances and margins for the Group's products and services, which materially affects the Group's business, financial condition and results of operations.

The Polish economy remains vulnerable to market downturns and economic slowdowns in the global markets. GDP growth in Poland slowed during 2009 (however it remained positive) due to the global economic crisis, which led to a deterioration in the employment market and an increase in the harmonised unemployment rate in

Poland from 7.1% at the end of December 2008 to 10.3% at the end of December 2013 (according to Eurostat). The economic recovery which started in late 2013 led to a reduction of the unemployment rate. The harmonised unemployment rate fell to 9.0% at the end of December 2014 due to better economic conditions, stronger demand for labour and active labour market policies. Lower unemployment and faster economic growth contributed to an increase in the growth rate of both loans and deposits for the Polish banking sector.

The Polish banking sector began to experience a shortage of liquidity in 2008, which continued into 2009, increasing competition for retail deposits. The economic slowdown in Poland reduced the growth rate of the Group's portfolio of mortgage loans, corporate loans and consumer loans, in turn affecting the Group's net interest income, and net fee and commission income. Notwithstanding the above, after a marked slowdown in 2012-13, economic activity in Poland picked up at the end of 2013, as external demand and economic sentiment improved. The growth rate remained stable throughout 2014 and amounted to 3.3% on a year-on-year basis in spite of unfavourable developments in the external environment. The consumption growth rate accelerated from quarter to quarter, accompanied by an improvement in the situation on the labour market and deflation increasing the real purchasing power of households. Given the accelerated GDP growth rate in 2014, an increase in the employment rate in the corporate sector by 0.6% on a year-on-year basis, compared with a decrease of 1.0% in 2013, was recorded; moreover, the registered unemployment rate fell by 1.9 p.p. per annum to 11.5% at the end of 2014 (preliminary data of the Ministry of Labour). The increase in wages and salaries in the corporate sector accelerated to 3.7% in 2014 from 2.9% in 2013. Regardless of the strong results of the Polish economy, it was still adversely affected by the deteriorating geopolitical situation, i.e. the escalation of the Russian-Ukrainian conflict (the significant deterioration in the economic situation in Russia and Ukraine, as well as sanctions and trade restrictions between Russia and the EU), which reduced the GDP growth rate by approximately 0.6-0.8 p.p. in 2014 and resulted in a strong drop in oil prices, which, in turn, acted as a buffer alleviating the negative impact of the deterioration of conditions in the external environment.

Furthermore, market turmoil and economic deterioration could adversely affect the liquidity, businesses and/or financial conditions of the Group's borrowers, which could in turn, increase the Group's impaired loan ratios, impair its loan and other financial assets and result in decreased demand for the Group's products. In such an environment, consumer spending may decline and the value of assets used as collateral for the Group's secured loans, including real estate, could also decrease significantly. Any of these conditions could have an adverse effect on the Group's business, financial condition and results of operations.

Moreover, the Management Board believes that certain investors perceive the economic or financial conditions of Central and Eastern European countries (the "**CEE countries**") to influence the economic or financial conditions of Poland, and that financial assets of CEE countries may be treated as the same "asset class" by certain foreign investors. As a result, these investors may reduce their investments in Polish financial assets due to the worsening economic or financial conditions in other CEE countries. Specifically, the devaluation or depreciation of any of the currencies in CEE could impair the strength of the PLN. A depreciation of the PLN against foreign currencies may make it more difficult for the Group's customers to repay their loans denominated in foreign currencies, which would have a negative impact on the Group's business, financial condition and results of operations. In addition, depreciation of the PLN against foreign currencies would affect the value of the foreign exchange derivatives held by many of the Group's customers. As a result, these customers could become unable to repay amounts due under these foreign exchange derivatives, which could also have an adverse effect on the Group's business, financial condition and results of operations.

The Collapse of the Euro as a Common Currency May Adversely Impact the Business, Financial Condition, Results and/or Prospects of the Group

There is a risk that a deterioration of the overall economic conditions in the EU and the issues related to the high debt levels of certain EU countries will result in the collapse of the EUR as the common currency in some or all of the Eurozone countries. Since 4.8% of the Group's amounts due to customers were denominated in EUR and 7.3% of the gross loans and advances to customers of the Group were denominated in EUR, both as of 31 December 2014, the liquidation of the Euro and the possible destabilisation of the EUR exchange rate against other currencies could have an impact on the Group's business, specifically as follows: (i) the national currencies which would replace the EUR could be unstable, resulting in greater exchange rate risk than the Group is subject to; (ii) the receivables or payables under the agreements that the Group is party to or securities held or issued by the Group that are denominated in EUR could be exchanged into national currencies at unfavourable rates; (iii) the collapse of the EUR would result in an increase in transaction costs; (iv) the interest rates applicable to national currencies into which EUR is exchanged can be higher than those applicable to EUR, thus increasing the costs of funding in these currencies; and (v) the collapse of the EUR could result in further deterioration of the economic conditions in the EU, which would also impact the Group.

If the EUR collapses or destabilisation of the EUR exchange rates occurs, this could have a material adverse effect on the business, financial condition, results of the operations and/or prospects of the Group.

Risks Relating to the Group's Business

The Group Faces Competition in the Financial Institutions Sector

In recent years the Polish banking sector has become increasingly competitive, in large part due to investments in this sector by international financial institutions as regulatory restrictions on the ability of foreign financial institutions to operate in Poland have been significantly reduced. According to the PFSA, as of 31 December 2014 there were 38 commercial banks operating in Poland, and the market share of the five largest banks in the Polish banking sector by assets, value of client deposits and amounts due from non-financial sector entities were 48.50%, 54.90% and 48.90%, respectively, as of 31 December 2014.

The Group faces competition primarily in its universal banking activities, where its competitors include large international financial institutions operating in the Polish retail and corporate banking markets.

Increased competition from financial institutions already operating in Poland, as well as the entry of new international financial institutions to the Polish market, may have a negative impact on the Group's ability to sustain its margin and fee levels, particularly if the Group's competitors possess greater financial resources, access to lower-cost funding and a broader offering of products than the Group. In addition, increasing competition could lead to significant pressure on the Group's market shares. Increasing competition in the banking industry has already led to and may, in the future, continue to lead to increased pricing pressures on the Group's products and services, which could have an adverse effect on the business, financial condition and results of operations of the Group.

The Rate of Growth of the Polish Banking Sector May Be Significantly Reduced

In recent years, the Polish banking sector has experienced high levels of growth, supported by the increasing earning power and wealth of the Polish population and the overall growth of the Polish economy. However, starting in 2008 the growth rate of the Polish banking sector began to slow. In 2013-2014 the Group operated in an environment with prevailing low interest rates. In July 2013, the reference rate decreased to 2.5% and to 2.0% in October 2014; moreover, the Lombard rate, which is dependent on the maximum interest rate on consumer loans, was decreased by one percentage point to 3%. A further reduction of base interest rates took place in March 2015. The reference rate decreased to 1.5%, and the Lombard rate to 2.5%. In all probability, that reduction spells the end of the cycle of moderating the monetary policy in Poland. The Lombard rate multiplied by four is the statutory limit on the maximum interest rate which may be charged on loans by the Bank. Historically, low base interest rates have affected the operations and financial condition of the Group and the results of the Polish banking sector.

The Group is facing a challenge related to the reduction in the rate of the interchange fee. From 2013 to 2015, there were three reductions of the interchange fee: in January 2013 the maximum interchange fee rate was reduced from 1.6–1.8% to 1.1–1.3% (at the initiative of card processing organisations). Another reduction, to 0.5%, came into effect on 1 July 2014 (under an amendment of the Act on Payment Services, Journal of Laws of 2013, item 1271). On 29 January 2015, the maximum interchange rate was set at 0.2% for debit cards and 0.3% for credit cards (Journal of Laws of 2014, item 1916). These changes have lowered the costs of accepting payments by card. At the same time, they have reduced banks' income from fees and commissions. The Group has undertaken several initiatives to offset the results of these reductions.

Increased Regulation of the Financial Services and Banking Industry in Poland and Internationally Could Adversely Affect the Group's Business, Financial Condition and Results of Operations

Given market conditions in which public opinion and governments in a number of countries are appealing for tighter regulation of the financial services and banking industry, it is likely that international as well as Polish laws and regulations on financial services and banking activities will become more restrictive.

In 2013, the European Union adopted a legislative package to strengthen the regulation of the banking sector and to implement the Basel III agreement in the EU legal framework. The new package replaces the current Capital Requirements Directives (2006/48 and 2006/49) with a directive and a regulation and is considered to be a major step towards creating a sounder and safer financial system.

The Capital Requirements Regulation (the "**CRR**") published under reference number 575/2013 on 26 June 2013 in the Official Journal of the EU sets forth detailed prudential requirements for credit institutions and investment firms, while the new Capital Requirements Directive ("**CRD 4**") published under reference number 2013/36/EU on 26 June 2013 in the Official Journal of the European Union covers the areas of regulatory regime and need to be transposed by Member States in a way suitable to their respective environment.

The package entered into force on 1 January 2014. Some of the new provisions are expected be phased between 2014 and 2019.

CRD 4 and the CRR include, inter alia: (i) the strengthening of capital requirements for credit risk exposures arising from derivatives, repos and securities financing activities; (ii) the introduction of a minimum liquidity standard for banks that are active internationally; (iii) the promotion of more forward-looking provisioning based on expected losses; and (iv) reducing procyclicality and promoting countercyclical buffers.

Furthermore, as part of the reform of the European financial supervision system of the EU, the concept of an integrated banking union has been developed. The banking union is to comprise three pillars: (i) a single supervisory mechanism; (ii) a single resolution mechanism; and (iii) common deposit protection schemes.

In March 2014, the European Parliament and the Council reached an agreement on the second pillar of the banking union: the single resolution mechanism, which involves the management of potential failures of significant banks operating on a cross-border basis from the Eurozone and countries which decided to join the banking union.

In November 2014, a single supervisory mechanism was introduced for the largest Eurozone banks. Non-Eurozone member states zone can join the system based on a relevant co-operation agreement.

The single resolution mechanism is to operate in the states subject to the single supervisory mechanism. Other member states are to observe the provisions of Directive 2014/59/EU of 15 May 2014, which establishes a framework for the recovery and resolution of credit institutions and investment firms found to be in danger of failing (the BRRD Bank Recovery and Resolution Directive), which provides for actions based on a network of domestic organs and restructuring mechanisms. See: "*The implementation of the Bank Recovery and Resolution Directives into Polish law may adversely affect the Group's business, financial condition, results of operations or prospects*"

On 6 October 2014, the EBA and the European Central Bank ("**ECB**") published the results of stress testing of banks operating in the European Union and the outcomes of the asset quality review ("**AQR**") for banks operating in the Eurozone. The stress testing in the EU was conducted on a sample of 123 EU banks, covering at least 50% of every country's banking sector, and was carried out at the highest consolidation level. The assessment test of the banks was comprised of two parts: (i) the first part involved the AQR – a bank passed this assessment if its Common Equity Tier 1 capital ratio (CET1) reached 8% in the baseline scenario (in which the Bank has a surplus of 6.34 pp) and CET1 above 5.5% in the adverse scenario (in which the Bank has a surplus of 7.78 pp); and (ii) the second part testing the extent to which a bank's own funds would change over three consecutive years if the scenarios (the baseline and the adverse) specified in the stress-tests were to materialise. The results the Bank achieved both in the AQR and the stress testing confirm its strong capital position. In each scenario, even the most extreme, the Bank's results significantly exceed the required capital adequacy ratios – in the baseline scenario about 80%, and about 140% in the adverse scenario. These positive results were achieved in spite of the conservative financial forecast assumptions imposed by the EBA.

Although Member States outside the Eurozone cannot fully participate in the SSM, they may notify the ECB of their intention to join the SSM by establishing close co-operation between their competent authorities and the ECB. According to a statement made by the Prime Minister of Poland in December 2012, a decision on Poland joining the SSM will be made following internal consultations with the Minister of Finance, the NBP, the PFSA and the Polish Bank Guarantee Fund. As of the date of this Base Prospectus, final decisions regarding the implementation of the banking union have not been made; however, Poland may decide to join the SSM by establishing close co-operation with the ECB even without first joining the Eurozone. Moreover, if Poland joins the Eurozone and the regulation establishing the SSM will apply as a matter of law, Polish banks will participate in the SSM and the powers of the PFSA will be significantly limited.

The process of the creation of a European banking union is still in progress (the third pillar , i.e. related funding arrangements, including a Single Resolution Fund, deposit guarantee schemes and a common backstop (credit line) have yet to be created). Given this uncertainty, the precise impact of the banking union on the business of the Group cannot be assessed; however, such impact may have a material adverse effect on the business, financial condition, results and/or prospects of the Group.

The Group cannot rule out that as a result of the actions, amendments and proposals referred to above, as well as other possible regulatory changes (including changes with respect to the requirements arising from the regulations and recommendations imposed by the governments or financial regulatory authorities, including the European Commission and other competent authorities of the European Union and the Basel Committee on Banking Supervision), the Group may become subject to more stringent supervision of its activities, including ECB supervision under the SSM, increased capital adequacy requirements or be required to incur additional costs or comply with additional disclosure and reporting obligations, as well as be subject to restrictions on certain types of transactions. The occurrence of any of the above-mentioned factors may affect the Group's

strategy, its growth potential and profit margins and, consequently, could have a material adverse effect on its business, financial condition, results of operations and/or prospects.

Due to the situation with the PLN/CHF exchange rate, in March 2015, some banks (among others, the Bank, mBank S.A. and BZ WBK S.A.) with significant CHF-denominated loan portfolios received from the PFSA a recommendation to withhold their entire net profit earned for the period from 1 January 2014 to 31 December 2014 until the PFSA is able to determine whether and what additional capital requirements it may impose.

The lending activity of the Group in the consumer and housing loan segment has been affected by the recommendations of the PFSA, including Recommendation S of June 2013, which introduced recommendations for banks related to mortgage exposure, and Recommendation T of February 2013 related to retail credit exposures. Recommendation S limited the access of retail and corporate clients to housing and commercial loans by, inter alia, setting a requirement that the client needs to have a specific deposit upon taking out a loan. From 1 January 2014, the LTV ratio on the date on which a housing loan is granted should not exceed 95% (75% for commercial real estate). The PFSA recommended that by 2017 the maximum LTV for housing loans should fall by 5% each year until it reaches 80%. Recommendation T of the PFSA liberalised the requirements related to retail loans by, inter alia, introducing the possibility of applying simplified creditworthiness checks for certain clients, but at the same time increased requirements related to the granting and managing of foreign-currency credit exposures, which has affected the level of lending activity and the quality of the Group's credit portfolio.

On 24 June 2014, the PFSA published Recommendation U recommending that banks introduce, by 31 March 2015, new rules governing the sale of insurance policies. This caused a revision of the business model of the Group in respect of bancassurance.

Each of the above-mentioned changes could decrease the Group's return on investments, assets or capital. It is possible that the Group will incur increased costs as a result of tighter regulation and its growth potential could be significantly limited.

Any of these factors could materially adversely affect the Group's business, financial condition or results of operations.

An Additional Tax Levy May Be Imposed on Banks in Poland and the EU

The European Commission has been working on pan-European legislation imposing a financial transaction tax, a portion of the proceeds of which would be contributed directly to the EU budget. On 14 February 2013, the European Commission put forward a revised proposal outlining the details of the European Union financial transaction tax to be enacted under enhanced co-operation. The proposal was approved by the European Parliament on 3 July 2013 and now the participating states are to unanimously approve the proposal before it comes into force. As at the date of the Base Prospectus, there is no clear information as to when such tax would be imposed, if at all. At the beginning of 2015, a group of ten Eurozone countries renewed their joint effort to implement a tax on financial transactions. Austrian Finance Minister Hans Joerg Schelling stated that elements of the financial transaction tax could enter into force on 1 January 2016 and other elements on 1 January 2017.

A deterioration in the financial condition of Polish savings and credit unions (spółdzielcze kasy oszczędnościowo-kredytowe, SKOK) may have a material adverse impact on banks in Poland

Since October 2012, SKOKs have been under the supervision of the PFSA. Reports prepared by the PFSA, as well as inspections by the PFSA, have demonstrated that SKOKs have been experiencing a material deterioration in their financial condition and high liquidity risk and are obligated to recognise more broadly the impairment on their loan portfolios. Due to the possible need for financial support for a large group of SKOKs, a sector-wide solution is being sought. Starting in January 2014, SKOKs have been covered by the Bank Guarantee Fund system, which might lead to larger payments by commercial banks to the Bank Guarantee Fund in the future (see "The Bank May Be Required to Make Substantial Contributions to the Bank Guarantee Fund"). In 2014 alone, the Bank Guarantee Fund returned deposits placed by customers with the bankrupt SKOK Wspólnota and SKOK Wołomin in the amount of PLN 800 million and PLN 2.2 billion, respectively.

It cannot be entirely ruled out that the burden of restructuring SKOKs will be indirectly or directly imposed on other financial institutions, including banks. The PFSA may implement decisions or recommendations with the aim to place the financial burden of the costs of such support on Polish credit institutions. In addition, Polish banks may be asked to support or take over some of the SKOKs or their assets and liabilities. Any of these factors may have a material adverse effect on the Group's strategy, growth potential, fees and commissions and profit margins and, consequently, could have a material adverse effect on its business, financial condition, results of operations or prospects.

The implementation of the Bank Recovery and Resolution Directives into Polish law may adversely affect the Group's business, financial condition, results of operations or prospects

Based on the reform measures developed by the Financial Stability Board (Effective Resolution of Systemically Important Financial Institutions) and Basel III, the European Parliament and the Council of the European Union adopted the Bank Recovery and Resolution Directive (the "**BRRD**") in mid-2014. The aim of the BRRD is to minimise the burden of taxpayers in the case of failures on the part of banks to meet their obligations while ensuring that shareholders and creditors bear the costs thereof.

Pursuant to the BRRD, the so-called "resolution authorities" are vested with the necessary powers to apply resolution tools to institutions that meet the applicable conditions for resolution. The resolution tools include, inter alia, the instrument of "bail-in", which gives resolution authorities the power to write down the claims of the unsecured creditors of a failing institution and to convert debt claims to equity without the consent of the creditors. The resolution authorities are also vested with the power to write down "relevant capital instruments" in full and on a permanent basis or to convert them in full into common equity Tier 1 instruments before any resolution action is taken if and when one or more specific circumstances apply, such as the determination by the relevant resolution authority that the institution meets the conditions for resolution and that the institution concerned has reached the point of "non-viability". A write-down follows the allocation of losses and ranking in insolvency so that equity absorbs the losses in full before any debt claim is subject to write-down.

Pursuant to the BRRD, the costs of resolution are to be borne by the banking sector. The member states will have to set up their own financing arrangements funded with contributions from banks and investment firms made by those entities proportionally to their liabilities and risk profile. Banks ought to contribute annually in relation to their share of specific liabilities in the total size of the national financial sector in order to reach a target funding level of at least 1% of deposits (over a ten-year period). If the ex-ante funds are insufficient to cover the resolution of a financial institution, further contributions will be raised ex post.

The provisions of the BRRD will have to be implemented into Polish law, after which they will become directly applicable to the Bank. Accordingly, it is not yet possible to assess the full impact of the BRRD on the Bank's operations, and there can be no assurance that, once implemented, it will not have a material adverse effect on the business, financial condition and results of operations of the Group.

The Group May Fail in Implementing its Development and Business Expansion Strategy

The Group's strategic vision is to achieve long-term sustainable growth and profitability through a secure and modern universal banking model, as well as to maintain and enhance its leadership position in the Polish financial market. The Group aims to diversify its business through a universal business model.

The Group may fail to achieve its major strategic objectives in the upcoming years due to factors such as difficult economic or market conditions, increasingly strict regulatory requirements imposed on the banking and financial services sector in Poland and, globally, increased competition on the Polish banking market, changes in client behaviour or the failure of the newly-implemented IT systems (including the CRM system) to achieve the expected parameters and objectives. Moreover, the Group may fail to achieve assumed synergies with acquired companies forming Nordea Group following the transaction – the lack of assumed synergies may negatively impact the position of the Bank, its distribution channels and the quality of its services (which was the strategic rationale for the acquisition).These developments, compounded with multiple other factors remaining beyond the Group's control, could affect the business, financial condition and results of operations of the Group.

The Expansion of the Group's Product Portfolio and Customer Base May Involve Increased Risk

As part of the implementation of its development strategy, the Group has undertaken steps to diversify its business by providing a wider range of products to its retail customers as well as attracting corporate and local government clients. These newer products, which include consumer loans and several corporate banking products, generally, offer a higher margin to the Group but may also carry a higher level of risk. The Group cannot provide assurance that its historical performance with respect to these products will be indicative of their future performance. Furthermore, the Group's transactions with new customers present an increased business risk resulting from the lack of historical information about the customers' creditworthiness, reputation and risk profile. Any of the above factors may adversely impact the business, financial condition and results of operations of the Group.

The Group May Not Be Able to Maintain the Quality of Its Loan Portfolio

The quality of the assets in the Group's loan portfolio is affected by changes in the creditworthiness of its customers, their ability to repay their loans on time, the Group's ability to enforce its security interests on customers' collateral should such customers fail to repay their loans and whether the value of such collateral is sufficient to cover the full amounts of those loans.

In addition, the quality of the Group's loan portfolio may deteriorate due to various other reasons, including internal factors (such as failure of risk management procedures) and factors beyond the Group's control (such as any negative developments of Poland's economy resulting in the financial distress or bankruptcy of the Group's customers, or restriction of credit information concerning certain customers).

The Group's impaired loan ratio decreased to 8.2% as of 31 December 2013 and decreased to 6.9% as of 31 December 2014. The decrease of the impaired loan ratio was significantly affected by the acquisition of the Nordea Group.

The Group's loan portfolio has increased significantly in size in recent years, following a key strategic decision to increase the loan portfolio of the Group several years ago. As a result of this recent growth in the Group's mortgage loan portfolio, a significant portion of the loan portfolio has not yet reached the period when default is most likely and the Group's default rate may increase as these loans season. If the default rate significantly exceeds the default rate that was assumed in setting interest rates for these loans, the Group's business, financial condition and results of operations could be adversely affected. In addition, the Group cannot give any assurance that it will be able to maintain, in the future, the growth rate of its loan portfolio comparable to the recent past. Therefore, historical growth may not be indicative of foreseen future growth.

Any deterioration in the Group's loan portfolio quality could have a material adverse effect on the Group's lending activity, financial condition or results of operations.

The Group's Impairment Allowance May Not Be Adequate to Cover Actual Losses from the Group's Loan Portfolio

The Group's impairment allowances for loans and advances to customers are determined based on models approved by the Management Board which take into account an assessment of future cash flows for individually significant loans; prior loss experiences, and results of grading and scoring; the volume and type of lending being conducted; collateral type; the volume of past due loans; economic conditions; and other factors related to the collectability of the Group's loan portfolio.

As of 31 December 2014, the Group's coverage of impaired loans and advances ratio stood at 61.8% (compared to 51.7% as of 31 December 2013). The increase of the coverage of the impaired loans and advances ratio was i.a. the effect of the acquisition of the Nordea Group.

The determination of the impairment allowance for loans and advances to customers is subject to the evaluation of credit risk and may be affected by numerous factors, including uncertainties relating to the current macroeconomic environment. The Group could be required to increase or decrease its impairment allowance for loans and advances to customers in the future as a result of increases or decreases in impaired assets or changes in the value of parameters used to determine impairment allowances (the recovery rate and the probability of default).

The housing loan portfolio including mortgage loans and loans extended to corporate housing market customers represented 52.3% of the Group's gross lending portfolio as of 31 December 2014. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans. A decline in the value of collateral securing the Group's loans or the inability to obtain additional collateral may, in certain cases, require the Group to reclassify the relevant loans, impair loans or increase its impairment allowance.

Any increase in the impairment allowance for loans and advances to customers, any loan losses in excess of the previously determined impairment allowance for loans and advances to customers with respect thereto, or any changes in the estimate of the risk of loss inherent in the Group's loan portfolio could have an adverse effect on the Group's business, financial condition and results of operations.

The Group's Risk Management Methods May Prove Ineffective at Mitigating Credit Risk

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods used by the Group to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behaviour. These tools and metrics may fail to predict future risk exposures, especially in the current market environment of increased volatility and falling valuations. The risk management systems employed by the Group may prove insufficient in measuring and managing risks, especially in consumer finance and corporate banking. As a result, the Group's business, financial condition and results of operations may be adversely affected.

The Group Is Exposed to Risk Resulting from the Granting, Financing and Securing of Foreign Exchange Denominated Loans

The vast majority of retail customers who have mortgage loans denominated in foreign currencies earn their income in PLN. Those customers are usually not protected against the fluctuations of the exchange rates of the PLN against the currency of the loan. Consequently, any depreciation of the PLN against the currency in which a loan is denominated results in an increase in the monthly instalment after its conversion into PLN. Such increases may result in difficulties related to the repayment of the assumed loans, which in turn may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans and advances extended to the Group's customers, which may adversely affect the business, financial condition and results of operations of the Group.

Moreover, as of 31 December 2014, 21.2 % of the Group's liabilities were denominated in foreign currencies. The value of the Group's loan portfolio denominated in foreign currencies is substantially larger than the value of the Group's liabilities denominated in foreign currencies. Thus the Group partly reduces its foreign exchange risk exposure through derivative transactions. The typical maturities of these derivative contracts are shorter than the maturities of the underlying loans that are denominated in foreign currency and, furthermore, the customers have the option to change the currency of their loans to PLN. As a result, the Group is required to roll over such contracts when they mature, and it is exposed to market price fluctuations of these derivatives. Consequently, significant increases in the prices of such derivative contracts may adversely affect the funding costs of the Group's foreign-currency denominated loan portfolio which, in turn, could adversely affect the business, financial condition and results of operations of the Group.

The Recent Appreciation of the CHF Can Result in an Increase of Credit Risk, New Regulatory Requirements and Higher Vulnerability to Client Claims or Class Actions

As a result of the decision by the Swiss National Bank to unpeg the CHF rate from the EUR in January 2015, the CHF suddenly appreciated significantly against foreign currencies, including the PLN (the CHF/PLN exchange rate increased by 13.35 % in the period between 31 December 2014 and 31 January 2015, reaching the highest average value of PLN 4.3223 on 23 January 2015). As of 31 December 2014, 16.7% of the Bank's gross loan portfolio was denominated in CHF, 4,6% of which was classified as non-performing. The acquisition of Nordea Bank Poland resulted in an increase in the share of loans denominated in CHF by 4.77 p.p., but at the same time reduced the NPL ratio of these loans.

The Group has been continuously analysing the impact of this event and the resulting increased risk of the deterioration in the quality of its portfolio of housing loans denominated in CHF on its financial results and results of operations. As a result of the depreciation of the PLN against the CHF in January 2015, the average LTV ratio of the mortgage portfolio increased by 3.12 p.p. to the level of 75.4% (the LTV of the CHF-denominated mortgage portfolio rose by 8.83 p.p. to the level of 89.6%). The current CHF exchange rate is steadily declining and is much lower than it was at the end of January 2015, which has resulted in the average LTV decreasing. At the moment, the Bank is carefully analysing the risk of the worsening quality of the CHF mortgage portfolio. The risk is being diminished by a decrease in the reference interest rates for these loans. An analysis conducted in the banking sector showed that at the current exchange rate of the PLN/CHF there is no systematic risk of the deterioration of portfolio quality. However, the Group undertook a number of actions aimed at supporting customers and simultaneously reducing an increase in the credit risk related to an increase in the CHF exchange rate, including, among others: (i) decreasing transactional currency spreads to 1%; (ii) enabling the extension of tenors without any fee; (iii) enabling currency conversion without any additional charge; (iv) applying a negative LIBOR rate to calculate the applicable rate for all customers; (v) and refraining from seeking additional collateral from customers. Notwithstanding, despite the actions undertaken by the Group, the appreciation of the CHF against the Polish zloty may result in difficulties related to the repayment of loans denominated in CHF, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and an increase in the required impairment provisions for loans and advances extended to the Group's customers.

The appreciation of the CHF observed in January 2015 has also had an impact on the valuation of the Bank's portfolio of currency loans denominated in CHF, which contributed to an increase in the capital requirements in respect of credit risk and consequently caused a decrease of the total capital adequacy ratio (TCR) and the Tier 1 ratio – Common Equity Tier 1 (CET1). The Bank estimates that with the CHF/PLN exchange rate at the level of 4.20: (i) the standalone total capital adequacy ratio would fall by 0.29 p.p.; and (ii) the standalone Tier 1 ratio would fall by 0.33 p.p. Moreover, the PFSA may impose additional capital requirements on banks with significant CHF-denominated credit exposure.

The Group is also required to post additional collateral in the form of deposits (under ISDA and CSA contracts) in case of the negative valuation of future cash flows from derivative transactions that may occur especially in situations involving significant increases in the CHF/PLN rate. Consequently, significant rises in the CHF/PLN

rate may adversely affect the Group's ability to fund its needs, which, in turn, could adversely affect the business, financial condition and results of operations of the Group.

On 31 March 2015, the Bank received a recommendation from the PFSA to withhold the entire net profit earned by the Bank for the period from 1 January 2014 to 31 December 2014 until the PFSA is able to determine whether and what additional capital requirements it may impose (see "*The Bank May Pay Higher Dividends Than Those Provided for in its Dividend Policy", "Increased Regulation of the Financial Services and Banking Industry in Poland and Internationally Could Adversely Affect the Group's Business, Financial Condition and Results of Operations*"). Further additional requirements from the PFSA aimed at mitigating the consequences of the significant appreciation of the CHF against the PLN cannot be excluded and may adversely affect the business, financial condition and results of operations of the Group.

On 3 February 2015, the PFSA presented its proposals concerning the restructuring of CHF-denominated loans. The proposals made by the PFSA included the replacement of all the parameters of loans denominated in CHF with parameters typical for PLN-denominated loans at the moment of taking out the loans, which would mean that after the re-denomination of a CHF-denominated loan into a PLN-denominated loan, the borrower should have the same terms and conditions concerning the reference interest rate, margin, commission fee, etc., as it would have been given at the time of taking out a PLN-denominated loan. Re-denomination would be voluntary and subject to a borrower's discretion; moreover, it would be conducted at the average exchange rate published by the National Bank of Poland as at the re-denomination date. In addition, a loan would be divided into two parts: a mortgage and a non-mortgage part. The value of a CHF denominated mortgage loan would correspond to the value of a PLN-denominated mortgage loan granted on the same date. In turn, the non-mortgage loan would constitute the remaining part of the loan resulting from the re-denomination into PLN in accordance with the average exchange rate published by the National Bank of Poland. This part of the loan would be repaid at the same time as the part secured by the mortgage, with interest at a fixed rate for the entire term of the loan of 1%. Additionally, half of the non-mortgage part of the loan would be redeemed by the bank.

The PFSA estimates that the sector could potentially lose PLN 25 billion. Despite certain alternative proposals presented, inter alia, by the Polish Bank Association (ZBP), it cannot be excluded that the new regulations or guidelines will transfer the entire economic cost of the appreciation of the CHF to banks or will otherwise adversely affect the business, financial condition and results of operations of the Group.

Furthermore, the Group is a defendant in several court proceedings initiated by customers who have obtained CHF-denominated loans from the the Group and, given the recent appreciation of the CHF described above, faces an increased risk of claims in the future, including class action suits, by customers with outstanding CHF-denominated loans. This may result in both financial and non-financial (such as reputational) consequences for the Group.

Any of the above factors may adversely affect the business, financial condition and results of operations of the Group.

Changes in Interest Rates Caused by Many Factors beyond the Group's Control Can Have Significant Adverse Effects on the Group's Net Interest Income

The Group derives the majority of its net income from business activities (defined as operating profit before administrative expenses, net impairment allowance and write-downs) from net interest income - 62.8% for the year ended 31 December 2013 and 67.5% for the year ended 31 December 2014. As a result, the Group's operations are affected by fluctuations of interest rates in Poland, Europe and the United States. In particular, the Group's operations depend on the management of the Group's exposure to interest rates, and the change of the relationship between market interest rates and interest margins. A mismatch of interest-earning assets and interest-bearing liabilities in any given period could, in the event of changes in interest rates, reduce the Group's net interest margin and have a material adverse effect on the Group's net interest income and, thereby, on the business, financial condition and results of operations of the Group.

In addition, an increase in interest rates may result in an increase in the instalment amounts paid by the Group's customers. Such increase may result in difficulties related to the repayment of the assumed loans, which in turn may adversely affect the business, financial condition and results of operations of the Group.

The Value of the Group's Securities Portfolio May Be Negatively Affected by the Prices of Polish Treasury Securities

As of 31 December 2014, 42.1% of the Group's securities portfolio (which comprises financial instruments designated at fair value through profit and loss, trading assets, investment securities available for sale, and securities held to maturity) was composed of securities issued by the Polish government. An adverse effect on the price of the Polish Treasury securities may be caused by a number of factors, including: the increased supply of securities issued by the Polish government in the trading market, due to either increased issuance of such securities by the Polish government in order to finance the budget deficit; an increase in the volume of sales of

such securities by investors or in domestic interest rates, or a downgrade of Poland's sovereign ratings. Should the Group attempt to sell all or a portion of the Polish Treasury securities it holds in its investment portfolio to finance its operations, the occurrence of one or more of the factors mentioned above would adversely affect the price it could receive, which would have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank Faces Liquidity Risk

The Bank becomes exposed to liquidity risk when the maturities of its assets and liabilities are not matched. For example, the Bank may be exposed to increased liquidity risk as a result of its significant holdings of real estate mortgage loans, which are long-term assets that are financed by short-term and on-demand deposits. Maturity mismatches between the Bank's assets and liabilities may have an adverse effect on the Bank's business, financial condition and results of operations, especially if the Bank is unable to obtain new deposits or find alternative sources of funding to fund existing and/or future loan portfolios.

In terms of current and short-term liquidity, the Bank is exposed to the risk of unexpected, rapid withdrawal of deposits by its clients in large volumes. Non-financial and budget deposits are the Bank's primary source of funding. As of 31 December 2014, 86.7% of the Bank's amounts due to customers had maturities of one year or less and 44.3% were payable on demand or deposited on O/N deposits. If a substantial portion of the Bank's clients withdraw their demand deposits or do not roll over their term deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be adversely affected.

Current liquidity may also be affected by unfavourable financial market conditions. If assets held by the Bank in order to provide liquidity become illiquid due to unforeseen financial market events or their value drops substantially, the Bank might not be able to meet its obligations as they come due and therefore might be forced to resort to inter-bank funding, which, in the event of an unstable market situation, may become excessively expensive and uncertain. In addition, the Bank's ability to use such external funding sources is directly connected with the level of credit lines available to the Bank, and this in turn is dependent on the Bank's financial and credit condition, as well as general market liquidity.

Realisation of liquidity risks and the inability to raise sufficient funds to finance its operations, particularly its lending operations, may have an adverse effect on the business, financial condition and results of operations of the Group.

Any Reduction in the Bank's Credit Rating Could Increase Its Cost of Funding and Adversely Affect Its Interest Margins

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding.

On 18 June 2009, Moody's downgraded the Bank's long-term local currency deposit rating from "Aa2" to "A2" with a stable outlook and its financial strength rating from "C" to "C- " with a negative outlook. On 17 September 2012, Moody's changed its outlook on the Bank's long-term debt and deposit ratings from stable to negative. On 21 June 2013, after PKO Bank Polski published information on concluding an agreement for the purchase of shares in entities of the Nordea Group, Moody's confirmed the long and short-term bank deposit ratings of Powszechna Kasa Oszczędności Bank Polski S.A. (PKO BP) as A2 and Prime-1 respectively, and its standalone bank financial strength rating (BFSR) as C- (equivalent to a baa2 baseline credit assessment (BCA)). On 16 March 2015, Moody's published a press release in which it stated that it had started a rating review affecting banking entities due to the implementation of a new methodology. The new methodology was released by the agency on 16 March 2015. The above-mentioned rating review affected selected, rated banking entities, including the Bank. Moody's has been reviewing the Bank's current ratings. Moody's has stated that the rating review related to the above-mentioned methodology changes should be completed within six months of the release of the methodology.

On 25 August 2004, Standard & Poor's assigned to the Bank a long-term local currency liabilities rating of "BBBpi", and in September 2010 it upgraded such rating to "A-pi". This rating was maintained by Standard & Poor's on 10 May 2011 and 13 December 2011. On 8 May 2012, Standard & Poor's assigned its long-term "A-" solicited rating and a short-term "A-2" rating to the Bank, with a stable outlook. On 20 June 2012, Standard and Poor's granted a solicited rating to the Programme at the level of "A-". On 14 June 2013, Standard&Poor's awarded an "A-" rating for the Bank's long-term credit rating on the watch list with the possibility of its reduction. On 20 September 2013, the S&P rating agency sustained the Bank's "A-" long-term credit rating and removed it from Credit Watch list with a possibility of its decreasing. The outlook for this rating is negative. On 29 April 2014, the Standard and Poor's rating agency, after considering its assessment of the potential impact of the implementation of the Directive of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms on the potential State Treasury support for PKO Bank Polski SA, affirmed PKO Bank Polski SA's long-term credit rating of "A-" with a negative perspective of maintaining such assessment and PKO Bank Polski SA's short-term credit rating of "A-2".

Unlike Moody's and Standard & Poor's, the long-term and financial strength ratings assigned by Fitch is unsolicited.

Fitch assigned to the Bank a support rating of "2" on 18 December 1996, which denotes a bank for which there is a high probability of support from the State Treasury. The support rating of "2" was maintained by Fitch 4 August 2011, 2 August 2012, 6 August 2013, 26 March 2014 and 26 November 2014.

The Bank does not provide detailed information or schedule in-depth meetings with Fitch and, therefore, these ratings are only based on an analysis of the Bank's published financial information, as well as additional information in the public domain. As a result, the Bank cannot provide assurance that the long-term or financial strength ratings assigned by Fitch will reflect the most current information regarding the Bank's credit quality. A reduction in the Bank's long-term and financial strength ratings could increase the costs associated with its financing transactions on the inter-bank and debt market and impede the Bank's ability to diversify its sources of funding through the inter-bank and debt markets, which could adversely affect the Group's business, financial condition and results of operations.

Furthermore, there can be no assurance that following any further sale of shares in the Bank by the State Treasury in the future, the Bank's credit ratings, especially its support and financial strength ratings, will not be downgraded. Any downgrade of the Group's credit ratings could adversely affect the Group's business, financial condition and results of operations.

The Group May Not Be Able to Sustain Its Current Levels of Margins on Loans and Deposits

Net interest income is the most significant component of the Group's net income from business activities and represented 62.8% of the Group's net income from business activities during 2013 and 67.5% for the year ended 31 December 2014. The net interest income of the Group depends primarily on the level of its interest-earning assets and interest-bearing liabilities, as well as the average rate earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities.

Various factors could make the Group unable to maintain its current levels of margins on loans and deposits, including increasing market competition, changing demand for fixed rate and floating rate loans, changes in the monetary policy of the Monetary Policy Council, increased inflation and changes in both WIBOR and international inter-bank interest rates as well as changes in FX swaps transaction costs.

In March 2015, the Monetary Policy Council decided to further decrease all interest rates by 50 basis points. The Lombard rate, which multiplied by four, sets the statutory limit on the maximum interest rate which may be charged on loans by the Bank, was reduced to 2.5%.

The Group could suffer from the adverse effects of decreasing margins for a variety of reasons, including: (i) market interest rates on floating rate loans decrease and the Group is unable to offset such decrease by decreasing the rates payable on deposits; or (ii) interest rates payable on deposits increase and the Group is unable to offset such increase by increasing rates of loans to customers due to increased pricing competition among the banks. Decreasing margins may result in lower net interest income, and therefore adversely affect the business, financial condition and results of operations of the Group.

The Group May Be Unable to Satisfy Its Minimum Capital Adequacy and Other Regulatory Ratios

On 31 March 2015 the Bank's Management Board adopted the new "Principles for managing the capital adequacy and the internal capital of PKO Bank Polski SA and the PKO Bank Polski Capital Group" (the "**Principles**"), including, among others, the dividend policy. The Group is required to maintain a minimum capital adequacy ratio above 12.50% and a common equity Tier 1 ratio above 12% in order to make a dividend pay-out of up to 50% of the Bank's net profit. On 31 March 2015, the Bank also received from the PFSA a recommendation to withhold the entire net profit earned by the Bank for the period from 1 January 2014 to 31 December 2014 until the PFSA is able to determine whether and what additional capital requirements it may impose (the "**Reccomendation**"). Both the Managament Board and the Supervisory Board of the Bank adopted resolutions pursuant to which they resolved to adhere to the Recommendation of the PFSA within the scope of their competencies.

As of 31 December 2014, the Group's capital adequacy ratio stood at 12.96%. Certain developments could affect the Group's ability to continue to satisfy the current capital adequacy requirements, including:

- an increase of the Group's risk-weighted assets or additional capital requirements imposed by the regulator;
- ability to raise capital;
- the payment of dividends by the Bank to its shareholders;

- losses resulting from a deterioration in the Group's asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;
- a decline in the values of the Group's securities portfolio;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks; and
- changes in PLN exchange rates for the foreign currencies in which the Group's loan and advances to customers are denominated.

The Bank may also be required to raise additional capital in the future in order to maintain its capital adequacy ratios above the minimum-required levels including the required capital buffers. The Bank's ability to raise additional capital may be limited by numerous factors, including:

- the Bank's future financial condition, results of operations and cash flows;
- any necessary government regulatory approvals;
- the Bank's credit rating;
- general market conditions for capital-raising activities by commercial banks and other financial institutions; and
- domestic and international economic, political and other conditions.

Moreover, there can be no assurance that the Bank will be able to comply with potentially more stringent prudential regulations concerning capital adequacy under Basel III (i.e. further changes to the CRD 4) as its full implementation into Polish law is now delayed and expected by the end of 2015. In addition, due to the Bank's position on the Polish market and its place in the Polish financial system, there can also be no assurance that the Bank will not be considered by the regulators to be a systemically important financial institution and therefore subject to even more stringent capital adequacy requirements.

The Group cannot assure prospective investors that it will not need to raise additional capital in the future, nor can it assure prospective investors that it will be able to obtain such capital on favourable terms, in a timely manner or at all. Failure to maintain the minimum capital adequacy and other regulatory ratios or to otherwise maintain sufficient levels of capital to conduct the Bank's business may have an adverse effect on the business, financial condition and results of operations of the Group. Moreover, a breach of laws relating to the minimum capital adequacy and other regulatory ratios may result in entities in the Group being subject to administrative sanctions which may result in an increase in the operating costs of the Group, loss of reputation, and, consequently, an adverse effect on the business, financial condition and results of operations of the Group.

The Group May Not Comply with Certain Regulatory Requirements Applicable to Banking and Other Regulated Businesses, as well as with the Guidelines Set Forth by the Polish and the Ukrainian Banking Regulatory Authorities

In addition to its banking operations, the Group also renders other regulated financial services and offers financing products, including brokerage and trust activities or pension and investment funds operations, that are subject to supervision by the PFSA, the authority exercising supervision over the financial markets and banking sector in Poland. The level of supervision and regulation of these products and services is also affected by, among other things, directives and regulations issued by European regulatory authorities. Additionally, the business, financial condition and results of operations of the Group's activities in Ukraine are affected by many legal regulations, instructions and recommendations, including those issued by the NBU.

The Bank and other Group entities may not be able to meet all applicable regulatory requirements or recommendations of the regulatory authorities and thus may be subject to sanctions, fines and other penalties in the future for their failure to comply with the applicable requirements. Any such sanctions, fines or other penalties as well as changes in regulatory requirements may have an adverse effect on the business, financial condition and results of operations of the Group.

The Group's Operations in Ukraine Pose Certain Risks and Could Generate Further Losses

The Group has offered banking services in Ukraine since August 2004, when it acquired an interest in Kredobank. The Bank also acquired an interest in the licensed Ukrainian factoring company "Prywatne Inwestycje", a limited liability company used as a special purpose vehicle in a restructuring transaction regarding Kredobank's non-performing loans, at the end of 2011, and in the debt collection company "Inter-Risk Ukraina" in January 2012. Through Kredobank, the Bank owns Finansowa Kompania "Idea Kapitał" Sp. z o.o. as well. Given that Kredobank, Inter-Risk Ukraina and Prywatne Inwestycje are the subsidiaries of the Bank, the results of operations and the financial condition of Kredobank, Inter-Risk Ukraina and Prywatne Inwestycje have a

direct impact on the Group's net interest income, net fee and commission income, the quality of the loan portfolio and the net impairment allowance, and, as a result, on the operating profit of the Group.

The economic conditions in Ukraine, and particularly material changes in the business environment and the level of competition in the Ukrainian banking sector, impact the operations and financial results of Kredobank, Inter-Risk Ukraina and Prywatne Inwestycje. In addition, the Group is subject to certain risks resulting from the unpredictable nature of the Ukrainian governmental, regulatory and tax authorities' exercise of power.

The legal system in Ukraine is volatile, which creates uncertainties that do not exist in countries with more developed legal systems with respect to many of the legal and business decisions that Kredobank, Inter-Risk Ukraina and Prywatne Inwestycje make. These uncertainties result from, among other things, the possibility of adverse changes in laws, the existence of gaps and inconsistencies between laws and the regulatory structure, and difficulties in enforcement due to an underdeveloped judicial system. This could potentially have an adverse impact on the business, financial condition and/or results of operations of Kredobank, Inter-Risk Ukraina and Prywatne Inwestycje. Furthermore, the nature of much of the legislation in Ukraine, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of its legal system, place the enforceability of laws and regulations in doubt and result in ambiguities, inconsistencies and anomalies. The independence of the judicial system and its immunity from political and economic influences in Ukraine remains largely untested, and court orders are not always enforced or followed by law enforcement agencies.

The annexation of Crimea and the risk of bankruptcy pushed Ukraine to seek help from the IMF. It managed to reach an agreement with the IMF on 27 March 2014 and obtained loans totalling USD 17 billion in exchange for the implementation of a reform package. However, the war-related destruction of Ukraine's economic capacity in 2014 once again pushed the country to the brink of an economic and financial collapse: GDP in the fourth quarter of 2014 was down 15% from a year earlier; during 2014, GDP fell by 6.8%. In February 2015, as a result of the decision of the National Bank of Ukraine to free float the Ukrainian hryvnia (UAH), the hryvnia dramatically depreciated against foreign currencies, including the zloty. The dramatic fall of the UAH (down 70% against the USD since March 2013) brought inflation up to 45.8% (on a year-on-year basis) in March 2015. Since the beginning of March 2015, following the decision to substantially increase the reference interest rates in Ukraine, the scale of the depreciation of the hryvnia has been decreasing. However, the Ukrainian government was forced to ask the IMF to replace the old programme with a new one. The New Extended Fund Facility (EFF) raised the IMF's commitment to USD 17.5 billion over the next four years under the assumption that other creditors will commit a further USD 9.2 billion. The current situation is still dire as the NBU's foreign reserves fell to USD 5.6 billion in February 2015.

In April 2015, S&P lowered the long-term foreign currency sovereign credit rating of Ukraine to "CCC-" from "CCC" (negative outlook). Actual inflation for 2014 amounted to 24.9% (as of the end of the year). The IMFforecasts that Ukrainian GDP will fall by 5.5% in 2015.

The ultimate resolution of the political and economic situation in Ukraine and its end results are difficult to predict, but the Ukrainian economy and the Group's business may be further severely affected. The Group continuously analyses the impact of these events on its financial results, including the risk of the deterioration of the quality of the assets held by the Group in Ukraine.

As of 31 December 2014, the Group had investments in bonds issued by the Ukrainian government, in the amount of UAH 1,777,961 thousand (PLN 399,330 thousand – the values included in this information were converted into PLN using the average NBP exchange rate as at 31 December 2014 (0.2246 PLN/UAH)). The timing of the settlement of these balances is uncertain and is dependent upon the availability of state funds.

Given the developments in eastern Ukraine and Crimea, in 2014, the Kredobank Group closed its branches located in the Autonomous Republic of Crimea and discontinued its operations in territories not controlled by the Ukrainian Government (some parts of the Donetsk and Lugansk regions). As at 31 December 2014, the total net exposure of the Kredobank Group to loans granted in such regions was not significant and amounted to UAH 40,770 thousand (PLN 9,157 thousand).

On 12 September 2014, Kredobank executed an agreement with the National Bank of Ukraine on improving the profitability of Kredobank. The main aim of this agreement is to decrease its share of negatively classified assets and to increase the share capital of Kredobank by the end of 2015.

At the same time, given the change to the Bank's operating strategy which was introduced in 2014 with respect to: Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. and "Inter-Risk Ukraina" Sp. z d.o. and considering the difficult economic and political situation in Ukraine, the shares in these companies ceased to be disclosed as "Non-current assets held for sale" as at the end of 2014.

The Group Is Subject to Operational Risk Inherent to Its Business Activities

The Group is subject to the risk of incurring losses or undue costs due to inadequate or failed internal processes, failures of people or systems, or from external events such as errors made during the execution or performance of operations, clerical or record-keeping errors, business disruptions (caused by various factors such as software or hardware failures and communication breakdowns), failure to execute outsourced activities, criminal activities (including credit fraud and electronic crimes), unauthorised transactions, robbery and damage to assets.

The Group may also be subject to risks from incidents pertaining to product or contract flaws, legal disputes, as well as penalties and fines imposed on the Group by regulatory authorities for infringement or attempted infringement of the law, market standards and recommendations.

The Group also faces risk due to the outsourcing of some of its activities to external entities, including IT services and document consignment services. Outsourcing risks may arise as a result of insufficient quality of services provided by external parties and may result in some operational deficiencies and reputation risk for the Group.

Any failure of the Group's risk management system to detect or correct operational risk, to comply with the law, standards and recommendations or any failure of third parties to perform adequately the activities outsourced could have a material adverse effect on the Group's business, financial condition or results of operations.

Factors Beyond the Group's Control Could Adversely Affect the Group's Business, Financial Condition and Results of Operations

Factors beyond the Group's control, such as catastrophic events, terrorist attacks, acts of war or hostilities, pandemic diseases and other similar unpredictable events, and responses to those events or acts, may create economic and/or political uncertainties, which could have a negative impact on the Polish economy and, more specifically, could impede the Group's business and result in substantial losses. Such events or acts and losses resulting therefrom are difficult to predict and may relate to property, financial assets or key employees. If the Group's plans do not fully address these events, or if its plans cannot be implemented under the circumstances, such losses may increase. Unforeseen events can also lead to additional operating costs, such as higher insurance premiums and the implementation of back-up systems. Insurance coverage for certain risks may also be unavailable, thus increasing the risk to the Group. The Group's inability to effectively manage these risks could have an adverse effect on the Group's business, financial condition and results of operations.

The Group May Not Be Able to Hire, Train or Retain a Sufficient Number of Qualified Staff

The success of the Group's business depends on its ability to recruit and maintain qualified personnel. The Group is dependent upon the qualifications and skills of its upper and mid-level management to implement its strategy and manage day-to-day operations. In Poland, there is strong competition for qualified personnel specialised in banking and finance, especially at the middle and upper management levels. The level of competition substantially increased when new domestic and international banks entered the Polish market. Some players on the Polish market have taken an aggressive approach to the recruitment of qualified and talented staff by offering significant pay increases to attract staff from their competitors. Competition of this kind may increase the Group's personnel expenses and make it difficult to recruit and retain qualified personnel. In addition, the Group's senior management and key employees of the Group companies may resign at any time and may seek to divert client relationships they have developed while working with the Group to their new employers. The Group may not be able to prevent such employees from leaving, and if they do leave, it may not be able to replace them with staff that have comparable skills and experience. It may also not be able to prevent the resultant defection of clients from the Group. The occurrence of the risks described above could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's IT Systems May Fail or its Security May Be Compromised, Which Could Damage the Group's Business and Adversely Affect its Financial Condition and Results of Operations

The Group relies heavily on its IT systems for a variety of functions, including processing applications, providing information to customers and maintaining financial records. Despite the implementation of security and back-up measures, in light of the growing importance of the electronic access channels, the Integrated IT System and other IT systems used by the Group may be vulnerable to physical or electronic intrusions, computer viruses or other attacks. Moreover, programming errors and similar disruptive problems could impact the Group's ability to serve its clients' needs on a timely basis, interrupt the Group's operations, damage the Group's reputation and require it to incur significant technical, legal and other expenses. In addition, there is no guarantee that the Integrated IT System or upgraded information technology systems will perform to expected levels or will be sufficient to meet the needs of the Group's growing and changing business.

These risks may have an adverse effect on the business, financial condition and results of operations of the Group.

The State Treasury Holds Corporate Control Over the Bank

As of the date of the Base Prospectus, the State Treasury directly held Shares representing 31.39% of the Bank's share capital.

In addition, while the Bank's Statute limits the voting rights of shareholders holding over 10% of the votes at the General Meeting, such limitation does not apply to: (i) shareholders that as of the date of the adoption of the amendment to the Bank's Statute had rights from Shares representing more than 10% of the total number of votes at the General Meeting (the State Treasury and Bank Gospodarstwa Krajowego ("**BGK**")); (ii) the holders of series A registered shares (the State Treasury); and (iii) shareholders acting jointly with the shareholders mentioned in (ii) on the basis of agreements with regard to the joint exercise of the rights from their Shares. In addition, under the Bank's Statute, certain resolutions of the General Meeting (including resolutions concerning attaching preferences to shares, the merger of the Bank by way of a transfer of all of the Bank's assets to another company, the liquidation of the Bank, a decrease of the Bank's share capital through the redemption of a part of the Shares without a simultaneous increase in the share capital, and a change of the scope of the business of the Bank resulting in the discontinuation of banking activities) require a majority of 90% of the votes cast. Consequently, the State Treasury will be able to block the adoption of such resolutions by the General Meeting as long as it holds enough shares in the Bank's share capital to cast more than 10% of the total number of votes at the General Meeting and as long as the above limitations on voting rights have not expired. Voting-right limitations relating to companies partially owned by the state within the Member States have been addressed in rulings of the European Court of Justice (the "**ECJ**"). The rulings constitute case law and the position of the ECJ expressed therein has been evolving. The position of the ECJ in a given case may differ from the position previously expressed in a similar case. Consequently, no assurance can be given that the clause of the Bank's Statute stipulating the voting-rights restriction applicable to the holders of Shares representing more than 10% of the total number of the votes at the General Meeting will not be held to be in breach of EU law.

Furthermore, the Bank's Statute grants special rights to the shareholder of the Bank who is individually and in its own name authorised to exercise the voting rights from the largest number of Shares at the General Meeting at which members of the Supervisory Board are elected (the "**Eligible Shareholder**"). Pursuant to the Bank's Statute, the Eligible Shareholder determines the number of members of the Supervisory Board (including the voting by separate groups procedure, when five Supervisory Board members are to be elected). Moreover, the Eligible Shareholder is exclusively entitled to present its member candidates of the Supervisory Board in the number determined in accordance with the formula set out in the Bank's Statute.

Given that the State Treasury currently holds a significant portion of the votes at the General Meeting and retains its special rights as an Eligible Shareholder, the State Treasury may still effectively exercise the majority of votes at the General Meeting and may elect the majority of the members of the Supervisory Board, and be able to control the composition of the Management Board. See "*Management and Corporate Governance*". As a result of the influence of the State Treasury, the resolutions adopted by the Bank's corporate bodies might not be aligned with the interests of other shareholders. The State Treasury may have a decisive influence on the Bank's business, including on the determination of its strategy and the development of its operations, the selection of members of its Supervisory Board and Management Board and its dividend policy. In particular, the State Treasury could decide to reduce the amount of the dividend, decide not to pay a dividend or decide to pay a dividend that exceeds the amount recommended by the Management Board. The Bank is unable to predict how the State Treasury will exercise its rights or how its actions will influence the Bank's operations, revenue and financial results and its ability to implement its strategy, nor can the Bank foresee whether the policy and actions of the State Treasury will be aligned with the interests of the Noteholders.

Risk Arising From Change-of-Control Clauses Provided in the Financing Agreements Concluded by the Bank

Some of the Bank's material financing agreements contain change-of-control clauses (see "*Material Contracts – Financing Agreements").* As a result, a decrease in the State Treasury's shareholding in the Bank's share capital and the total number of votes at the General Meeting following any future sales of shares in the Bank by the State Treasury might, together with the satisfaction of certain conditions provided for in the financing agreements, require the Bank to renegotiate the terms of these financing agreements. No assurance can be given that the current counterparties will continue to be interested in further co-operation with the Bank following any future sales of shares in the Bank by the State Treasury and that they will not choose to exercise the right to terminate the financing agreements or that the terms that the counterparties propose will not be less favourable than the original terms of these agreements. In such situation, no assurance can be given that the Bank will be able to negotiate and conclude agreements with other counterparties on similar terms. The occurrence of any of the above events may have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

A Change-of-Control of the Bank Is Restricted by the Provisions of the Securities Law and the Bank's Statute

The acquisition of large blocks of shares in public companies in Poland may trigger the obligation to announce a tender offer in accordance with the Polish Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005 (the "**Polish Act on Public Offering**"). In addition, pursuant to the Act dated 29 August 1997 – the Banking Law (the "**Polish Banking Law**"), the intent to acquire shares in the Bank in a number that would result in reaching or exceeding 10%, 20%, one-third or 50% of the total votes or the share capital, or becoming the Bank's dominant entity in any other way, has to be notified to the PFSA, which may object thereto by way of a decision. The PFSA may raise an objection in cases where: (i) an entity submitting the notification has not completed the notification, information or documents attached to the notification within a specified date; (ii) an entity submitting the notification has not provided additional information or documents requested by the PFSA within a specified date; or (iii) such objection is justified by the need for prudent and stable management of a national bank, due to the possible impact of an entity submitting the notification on the national bank or due to the assessment of the financial position of an entity submitting the notification.

In addition, certain of the provisions of the Bank's Statute may limit any potential change-of-control over the Bank. In particular, as a result of the mechanism for the limitation on voting rights to 10%, the acquisition of Shares representing more than 10% of the votes will not allow the shareholder acquiring such number of Shares to exercise control over the Bank.

The restrictions on the ability to take over control of the Bank may adversely affect the liquidity and trading price of the Shares and may be a disincentive to potential investors in a situation where the taking over of control of the Bank by such investors was perceived as favourable for the Bank's shareholders.

The Bank May Pay Higher Dividends Than Those Provided for in its Dividend Policy

Under the Polish Act dated 15 September 2000 – Code of Commercial Companies and Partnerships (the "**Polish Commercial Companies Code**"), dividend payments are authorised only if at the annual General Meeting a resolution providing for the distribution of profit among the shareholders in the form of dividend is adopted.

The Management Board cannot ensure that the annual General Meeting will not adopt a resolution on payment of a lower or higher dividend than that provided for in the Bank's dividend policy or that which is recommended in the given year by the Management Board. The payment of dividends at a level higher than that provided for in the dividend policy of the Bank may limit the Group's potential of growth and, thus, may adversely affect the business, financial condition and results of operations of the Group.

In 2014, the Bank paid out dividends from the Bank's 2013 net profit in the total amount of PLN 937,500,000.00, or PLN 0.75 per one share.

On 31 March 2015, the Management Board adopted new principles for managing the capital adequacy and the internal capital in PKO Bank Polski SA and in the Group, which include, inter alia, the Bank's dividend policy. The aim of the dividend policy is the optimisation of the own funds of the Bank and the Group, taking into account the return on capital and its cost, as well as capital needs for development, while ensuring an appropriate level of capital adequacy ratios. The dividend policy assumes the possibility of the Bank's net profit distribution to shareholders in the long-term perspective in the amount of the surplus of capital above the minimum capital adequacy ratios, considering the additional capital buffer. The dividend policy takes into account factors related to the operations of the Bank and the Group companies, in particular, the requirements and supervisory recommendations concerning capital adequacy. The capital adequacy ratios required to make a dividend payment are: (i) a total capital ratio in excess of 12.5%; and (ii) a common equity Tier 1 ratio in excess of 12%. The enforcement of the above principles is conditional upon the Supervisory Board's approval.

On the same day, the Bank also received from the PFSA a recommendation to withhold the entire net profit earned by the Bank in the financial year ended 31 December 2014 until the PFSA determines the additional capital requirements for the Bank.

Risk of the Bank's State Treasury and/or Governmental Benefits Being Classified as Public Aid

The Bank is party to several agreements with the State Treasury and/or other governmental agencies through which it directly or indirectly benefits from access to public funds, and such benefits could be classified as "state aid" within the meaning of Article 107 of the Treaty on the Functioning of the European Union. In particular, this interpretation may apply to the State Treasury guarantee of the old portfolio of housing loans (i.e. certain housing loans extended to housing communities, as set out in the Polish Act on state support for the repayment of certain housing loans, reimbursement to banks for guarantee bonuses and amendments to certain laws dated 30 November 1995 (Journal of Laws of 2003, No. 119, item 1115, as amended) and the Polish Regulation of the Council of Ministers on the rules of settlement with banks for the temporary repurchase of interest on housing loans from the state budget funds dated 25 February 2003 (Journal of Laws of 2003, No. 51, item 440, as

amended)), as well as the other guarantees and/or additional payments by government agencies from which the Bank benefits. The European Commission has not received notice of certain of these benefits, including, *inter alia*, the old portfolio guarantee, and consequently, their admissibility under EC regulations has not been established. There is a risk that the benefits received by the Bank will be subject to an examination procedure by the European Commission. If such benefits are found to be non-compliant with EC regulations, the Bank will be required to return any state aid and will be deprived of such aid in the future. This may adversely affect the business, financial condition and results of operations of the Group.

The Bank May Be Required to Make Substantial Contributions to the Bank Guarantee Fund

Pursuant to the provisions of the Polish Act on Banking Guarantee Fund dated 14 December 1994 (the "**Polish Act on Bank Guarantee Fund**"), the Bank is a member of the mandatory deposit guarantee system and is required to create a fund to guarantee the claims of its depositors. Upon any member of the system meeting the conditions of benefiting from the guarantee, as set out in the Act on the Bank Guarantee Fund, other members of the system may be required to make payments to cover the liabilities of such entity. In 2013, amendments to the Bank Guarantee Fund entered into force and established a stabilisation fund the balance of which will be used to finance certain activities of the State Treasury aimed at supporting banks and undertaken under the Act on the Recapitalisation of Certain Financial Institutions dated 12 February 2010 and whose funding sources include receipts from mandatory prudence fees imposed on banks. The planned implementation of the BRRD as well as the coverage of SKOKs by the Bank Guarantee Fund beginning in November 2013 might lead to potential larger payments to the BGF going forward. The current rules of the Bank Guarantee Fund would allow for an annual levy of up to 0.3% of a bank's risk weighted assets ("**RWA**") (currently, the levy amounts to 0.189% of a bank's RWA per annum). In 2013, apart from the annual charge paid by banks to the BGF, an additional prudential levy for the banking stabilisation fund to be used for the restructuring of failing banks was introduced and set at 0.009% of RWA. In 2014, the prudential levy increased to 0.037% of RWA, and for 2015 the prudential levy amounts to 0.05% of RWA. In terms of accounting treatment, starting from 2015 IFRIC 21 applies to fees paid by banks to the Bank Guarantee Fund, that is the annual fee and the prudential fee. Since the financial year starting on 1 January 2015, pursuant to IFRIC 21, due to the fact that an obligating event to pay the levies to the BGF is to be covered by the BGF guarantee system in a given year, fees in this respect must be recognised as a liability in full amount as at 1 January 2015. Based on the opinion of the PFSA and the Ministry of Finance, the Bank recognises costs in this regard over the year time. Due to the scale of the Bank's operations, if a member of the mandatory guarantee system were to declare bankruptcy, the Bank may be obligated to make larger payments to the Bank Guarantee Fund than those members of the deposit guarantee system the scale of business of which is relative small in comparison to that of the Bank. This may have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank May Fail to Comply with the Provisions of the Payment Services Directive

On 25 October 2011, the Polish Act dated 19 August 2011 on payment services (the "**Polish Payment Services Act**") entered into force. The Polish Payment Services Act aims to implement in Poland Directive 2007/64/EC of the European Parliament and the Council of 13 November 2007 on payment services in the internal market, amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (the "**PSD**"). The PSD aims to establish, at the EC level, a modern and coherent legal framework for payment services, regardless of whether or not such services are compatible with the Eurozone single system, in order to maintain consumer choice and a level playing field for all payment systems. The deadline for the implementation by the Bank of most of the provisions of the Polish Payment Services Act was one year after its entry into force, i.e. 24 October 2012. The last amendment of the Polish Payment Services Act regarding interchange fees was adopted by the Polish legislature on 30 August 2013 and came into force on 1 January 2014 (with a six-month adjustment period). Since certain provisions of the Polish Payment Services Act are unclear, the Bank's interpretation or implementation thereof may be different to the interpretation adopted by the regulators or the courts. The adoption by the Bank of a conservative approach with regard to such unclear provisions may generate increased costs; however, the Bank's adoption of a liberal interpretation of such unclear provisions may result in regulatory sanctions being imposed on the Bank. Either of those situations may, in turn, have an adverse effect on the Bank's business, financial condition and results of operations.

Risk Involved in the Decisions of the Antimonopoly Authorities

The Group's business must comply with regulations regarding competition, consumer protection and public aid. Under the Polish Act on the Protection of Competition and Consumers dated 16 February 2007 (the "**Antimonopoly Act**"), the President of the Antimonopoly Office has the right to issue a decision stating that a business entity is participating in an arrangement which aims at or results in the limitation of competition. Moreover, the President of the Antimonopoly Office may accuse business entities having a dominant position in the Polish market of an abuse of such position. Having determined that such practice has taken place, the President of the Antimonopoly Office may order the discontinuance of such practices and may also impose a fine. The President of the Antimonopoly Office also has the authority to declare that the provisions of

agreements, as well as the tariffs and fees used by a particular business, violate the collective interest of consumers and, by consequence, it may order the discontinuance of such agreements and impose a fine on the business. The Bank is a party to several proceedings involving potential breaches of the Antimonopoly Act, including claims by customers that certain provisions of the loan agreements contain prohibited clauses (see "*Description of the Group – Legal, Administrative and Arbitration Proceedings – Proceedings before the President of the Antimonopoly Office or the Antimonopoly Court for the Infringement of the Collective Rights of Consumers*"), the results of which may adversely affect the business, financial condition and results of operations of the Group.

If there is any suspicion of a breach which could impact trade between Member States, the Treaty on the Functioning of the European Union and other community legislation apply directly, while the authority competent to enforce them is the European Commission or the President of the Antimonopoly Office. Within the scope of their competencies, the European Commission or the President of the Antimonopoly Office may come to the conclusion that a specific action of a business entity constitutes a prohibited action or constitutes abuse of market power, and it may prohibit any such practices or apply other sanctions provided for in the EU law regulations, which may adversely affect the business, financial condition and results of operations of the Group.

Moreover, acquisitions by the Bank of businesses operating in the financial services and banking sectors may require competition clearance issued by Polish, foreign competition authorities or financial sector regulatory authorities. The grant of any such consent depends, among other things, on the evaluation of the consequences that the relevant concentration may have on the competition in the market. No assurance can be given that any such consents would be granted. If consent for concentration is refused for a particular acquisition, it will prevent the completion of such acquisition and would restrict the Group's ability to grow, which could adversely affect the business, financial condition and results of operations of the Group.

Banks in Poland Face Formalistic and Prolonged Procedures for the Perfection of Mortgages

Mortgages in Poland are perfected by registering the mortgage with land and mortgage registries (*księgi wieczyste*) kept by local courts corresponding to the location of the real estate. The procedure of establishing a security interest by registering a mortgage in the land and mortgage registry book may be time-consuming depending on the location of the given court. In addition, the procedure is very formalistic, and the court may refuse registration if there are even minor errors in the application for registration. Traditionally, banks in Poland will disburse loans prior to the registration of the mortgages in the land and mortgage registry book. As a result, there will be a period prior to registration when the loans are not collateralised by the mortgage. In order to limit the risks related to granting unsecured loans, the Bank charges higher margins during the interim period. If the borrower defaults on the loan before the mortgage is registered, the Bank's claim under the loan will be unsecured and thus difficult to collect, which may have an adverse effect on the business, financial condition and results of operations of the Group.

The Process of Enforcing Security of Bank Loans in Poland Is Difficult and Time Consuming

Although loans granted by the Bank are secured by various types of collateral, mostly mortgages, the enforcement of such security interests may be time consuming and difficult. In particular, the procedures for the sale or other enforcement of mortgages on real property may be protracted and difficult to implement in practice. Such process may become even more time-consuming as a result of a judgement of the Constitutional Court dated 15 April 2015 in which it found bank enforcement titles (Polish: *bankowy tytuł egzekucyjny*) to be discordant with the Constitution and in violation of the constitutional principle of equality. Poland's legislature body has until 1 August 2016 to amend the regulation regarding bank enforcement titles.

A delay in enforcing or an inability to enforce a security interest as collateral may have an adverse effect on the business, financial condition and results of operations of the Group.

Litigation or Other Proceedings or Actions May Adversely Affect the Group's Business, Financial Condition or Results of Operations

Due to the nature of its business the Bank and the Group's companies may be subject to the risk of litigation by customers, employees, shareholders or others through private actions, administrative proceedings, regulatory actions or other litigation. As of the date of the Base Prospectus, the outcome of litigation or similar proceedings or actions is difficult to assess or quantify. Plaintiffs in these types of actions against the Bank or the Group's companies may, in particular, seek recovery in large or indeterminate amounts or other remedies, or challenge the resolutions adopted by the Bank's governing bodies, which may affect the Bank's or the Group companies' ability to conduct their business, and the magnitude of the potential losses relating to such actions may remain unknown for substantial periods of time. The cost to defend future actions may be significant. There may also be adverse publicity associated with litigation against the particular Group's companies that could negatively impact the reputation of the Group or the particular Group's companies, regardless of whether the allegations are valid or whether the Group is ultimately found liable.

Furthermore, since July 2010 changes have been introduced into Polish law making it possible to bring class action lawsuits. The ability of customers to group their lawsuits against a bank in a single class action significantly lowers the legal fees and other costs of such lawsuits, which may cause court actions against the Bank or other Group companies to become more frequent (see "*Banking Regulations in Poland – Class Action Lawsuits*"). Class action suits regarding the protection of consumers (relating to, for example, the interest rate and FX provisions in banking contracts, especially in respect of CHF mortgage loans, as well as loan to value insurance provisions) have already been brought against some Polish banks. Taking into account the specificities of the banking industry, increasing awareness among consumers of their rights and the outcomes of certain class action lawsuits regarding consumer protection in the Polish banking sector, no assurance can be given that the Group will not face any class actions in the future or that class action lawsuits will not become prevalent in the Polish banking sector. The occurrence of any these events may require the Group to incur substantial expenses or to pay damage, and this may additionally harm the Group's reputation or lead to the PFSA or other regulators taking action against the Group.

The above events may adversely affect the Group's business, financial condition and results of operations.

Investors May Not Be Able to Enforce Foreign Court Judgments against the Bank

The Bank is an entity established and operating in accordance with Polish law and the vast majority of the Group's assets are located in the territory of Poland. Investors from the EU may enforce in Poland any judgment given in a civil or commercial case by a court in a Member State because Poland, as a Member State, directly applies Council Regulation No 44/2001 of 22 December 2000 on the jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. The only Member State of the EU where Council Regulation No 44/2001 does not apply is Denmark. Investors outside of the EU may face difficulties when attempting to enforce in Polish courts judgments that are issued by foreign courts. In general, foreign court judgments issued in civil matters are recognised by operation of law and may be enforced in Poland pursuant to the general provisions of the Polish Civil Procedure Code. Judgments of foreign courts may be enforced in Poland provided that, *inter alia*, the judgments of foreign courts are final in their original jurisdiction and do not contradict the basic public policy principles of the Polish legal system. The Bank cannot provide assurance that all conditions precedent to the enforcement of foreign judgments in Poland will be met or that any particular judgment will be enforceable in Poland.

Reprivatisation Claims May Be Brought Relating to Certain Real Estate in the Group's Possession

As a result of the nationalisation of property in Poland after the Second World War, many real estate and business entities which were owned by legal and natural persons were taken over by the State Treasury. In many cases, these takeovers were in breach of prevailing laws. After Poland's transformation into a market economy in 1989, many former owners of real estate or their legal successors took steps to recover the real estate and business entities that were expropriated after the war, or sought equivalent compensation. However, no comprehensive law regulating reprivatisation claims in Poland has been enacted. Under the laws currently in force, former owners of real estate or their legal successors may file requests with the administrative authorities for the establishment of the invalidity of the administrative decisions by which they were deprived of the real estate. As of 31 December 2014, there are six administrative court proceedings, including one that has been suspended, for the invalidation of administrative decisions issued by public administration authorities with respect to real estate currently held by the Group.

Moreover, claims of former owners have been filed with respect to two real estate properties of the Group (court proceedings are in progress), and the Bank has undertaken certain court steps in order to regulate the legal status of one additional parcel. Aside from the claims described above, reprivatisation claims may be raised against the Group in the future and any such claims could adversely affect the business, financial condition and results of operations of the Group.

Interpretation of Polish Laws and Regulations May Be Unclear, and Polish Laws and Regulations May Change

The Bank has been established and operates under Polish law. The Polish legal system is based on statutory law enacted by the parliament. A significant number of applicable regulations and the regulations on the functioning of financial institutions, the issuance of and trading in securities, shareholders' rights, foreign investments, issues related to corporate operation and corporate governance, commerce, taxes and the conduct of business activity have been and may be changed. These regulations are also subject to diverse interpretations and may be applied in an inconsistent manner. Moreover, not all court decisions are published in official journals and, as a matter of general rule, they are not binding in other cases and are thus of limited importance as legal precedent. The Bank cannot provide assurance that its interpretation of Polish laws and regulations will not be challenged, which could result in liability on the part of the Bank or could require the Bank to modify its practices, all of which could have an adverse effect on the Group's business, financial condition and results of operations.

Interpretation of Polish Tax Laws and Regulations Applicable to the Group's Operations May Be Unclear, and Polish Tax Laws and Regulations May Change

The Polish tax system is subject to frequent changes. Furthermore, some provisions of the tax law are ambiguous and often there is no unanimous or uniform interpretation of the laws or uniform practice by the tax authorities. Because of frequent changes in the tax laws and varying interpretations thereof, the risk connected with Polish tax laws may be greater than that under other tax jurisdictions in developed markets. The Group cannot guarantee that no changes in tax laws unfavourable to the Group will be introduced and that the Polish tax authorities will not take a different and unfavourable interpretation of tax provisions adopted by the Group, which may have an adverse effect on the business, financial condition and results of operations of the Group.

Risks Related To The Issuer

Centre Of Main Interests

The Issuer has its registered office in the Kingdom of Sweden. As a result there is a rebuttable presumption that its centre of main interest ("**COMI**") is in the Kingdom of Sweden and consequently that any main insolvency proceedings applicable to it would be governed by Swedish law. In the recent decision by the European Court of Justice in relation to Eurofood IFSC Limited, the European Court of Justice restated the presumption in Council Regulation (EC) No. 1346/200 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if "factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect". As the Issuer has its registered office in the Kingdom of Sweden, has a Swedish director, is registered for tax in the Kingdom of Sweden and has a Swedish corporate services provider, the Issuer and the Borrower do not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision.

Risks Relating To The Notes

As Payments Under Any Series Of Notes Are Limited To Certain Payments Received Under The Relevant Loan Agreement, Noteholders' Recourse Is Limited

The Issuer will only be obliged to make payments under the Notes to Noteholders in an amount equivalent to sums of principal, interest and additional amounts, if any, that it actually receives and retains by or for its account under the relevant Loan Agreement, less any amounts in respect of the Reserved Rights. Consequently, if the Borrower were to fail to meet its obligations fully under any Loan Agreement, the relevant Noteholders could receive less than the full amount of principal, interest and/or additional amounts (if any) on the relevant due date.

The Noteholders Have No Direct Recourse To The Borrower

Except as otherwise disclosed in the Terms and Conditions of the Notes and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of any Loan Agreement exists for the benefit of the Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce any of the provisions of the Loan Agreement or have direct recourse to the Borrower, except through action by the Trustee under the Security Interests (as defined in "Terms and Conditions of the Notes"). Pursuant to the Security Interests (as defined in "Terms and Conditions of the Notes"), the Trustee shall not be required to enter into proceedings to enforce payment under the Loan Agreement, unless it has been indemnified and/or secured by the Noteholders to its satisfaction against all liabilities, proceedings, claims and demands to which it may thereby become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

Payment of principal and/or interest by the Borrower under any Loan Agreement to, or to the order of, the Trustee or the Principal Paying Agent will satisfy *pro tanto*, the Issuer's obligations in respect of the corresponding Notes. Consequently, Noteholders will have no further recourse against the Issuer or the Borrower after such payment is made.

The Risk Of Prepayment Of A Loan Is Assumed In Part By The Noteholders

Under the terms of each Loan Agreement the Borrower may, subject to certain conditions, prepay the relevant Loan if it is required to increase its payments for tax reasons regardless of whether the increased payment obligations result from any change in the applicable tax laws or treaties or from the change in application of existing tax laws or treaties or from enforcement of the security provided for in connection with the corresponding Notes. The Borrower may also prepay the relevant Loan if it is required to indemnify the Issuer in respect of certain increased costs to the Issuer (as set out in the relevant Loan Agreement). In the event that it becomes unlawful for the Issuer to allow the relevant Loan to remain outstanding under the relevant Loan

Agreement, to allow the corresponding Notes to remain outstanding, to maintain or give effect to any of its obligations under the relevant Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to the relevant Loan, the Issuer may require the Borrower to repay the relevant Loan in full. In case of any such prepayment, all outstanding corresponding Notes would be redeemable at par with accrued interest and/or additional amounts payable (if any).

In addition, if in the case of any particular Tranche of Notes the relevant Final Terms specifies that the Notes are redeemable at the Issuer's option in certain other circumstances, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances, an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the relevant Notes.

Payments On A Loan May Be Subject To Polish Withholding Tax

In general, payments of interest on borrowed funds by a Polish entity to a non-resident legal person are subject to Polish withholding income tax at the rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty or on the basis of regulations of the Polish corporate income tax act implementing the EU Directive on royalties and interest (the "**EU Directive on Royalties and Interest**"). If the regulations on Polish corporate income tax act cannot be applied, as the Issuer is a corporate entity resident in Sweden, the double tax treaty between Poland and Sweden will apply. The Borrower believes that payments of interest on the Loans made by the Borrower to the Issuer will not be subject to withholding taxes under the terms of the double tax treaty between Poland and Sweden, provided that the Polish tax documentation requirements (namely, confirmation of the Issuer's tax residency in the form of a certificate of tax residency) are satisfied. However, there can be no assurance that such double tax relief will continue to be available.

Risk Related to U.S. Foreign Account Tax Compliance Withholding Provisions

On 18 March 2010, the Hiring Incentives to Restore Employment Act was enacted, containing foreign account tax compliance provisions ("**FATCA**"). FATCA, starting from the specified dates, imposes a withholding tax of 30% on certain U.S. source payments and proceeds from the sale of certain assets that give rise to U.S. source payments, as well as a portion of certain payments by certain non-U.S. entities, to persons who fail to meet the requirements under FATCA. This withholding tax may be imposed on: (i) payments to the Borrower or the Issuer if either does not enter into and comply with an agreement with the IRS (an "**IRS Agreement**") to obtain and report information about, in the case of the Borrower, its account holders, and in the case of the Issuer, the holders of the Notes; or (ii) if the Issuer does enter into an IRS Agreement, a portion of the payments to (a) holders or beneficial owners of the Notes who fail to provide certain information requested by the Issuer (or any intermediary), (b) holders or beneficial owners of the Notes who do not consent, where necessary, to have information about U.S. ownership reported to the IRS, and (c) any recipient of a payment that is a non-participating foreign financial institution (as such term is used in FATCA). Bearing in mind the above wording and the risk resulting from the withholding obligation regarding U.S. sourced payments, the Borrower previously agreed to gross-up payments to the Issuer to account for any FATCA tax withheld by the Borrower.

However, due to the legal impediments regarding the direct application of FATCA by Swedish and Polish entities, Sweden and Poland signed intergovernmental agreements with the government of the United States of America (the "**IGA**"). Financial institutions in jurisdictions that have entered into inter-governmental agreements with the United States and which have enacted legislation to collect and share information regarding accountholders of financial institutions with the local tax administration can make and receive payments free of withholding under FATCA. Therefore, Polish and Swedish Financial Institutions are exempted from the withholding obligation on U.S. sourced payments as long as they fulfil the identification and reporting obligations stipulated in the IGA.

According to the IGA, if Polish or Swedish financial institutions make payments or act as an intermediary with respect to withholdable U.S. sourced payments to any financial institution which are inconsistent with FATCA, such financial institutions are required to provide to any immediate payer of such U.S. sourced payment the information required for withholding and reporting with respect to such payment.

In practice, Polish and Swedish financial entities receiving U.S. sourced payment will be asked by a U.S. withholding agent to provide a relevant W-8 form in order to identify the beneficial owner of the payment.

If the financial institution subject to the IGA is a beneficial owner, such status should be documented by a W-8BEN form. If it is only an intermediary, it should document such fact by filling in a W-8IMY form and indicating the beneficial owners of the payment.

Notes May Not Be A Suitable Investment For All Investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

There Is No Active Trading Market For The Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Borrower. Although application has been made for the Notes issued under the Programme to be admitted to listing on the Luxembourg Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. The Issuer and the Borrower cannot predict when these circumstances will change and, if and when they do, whether conditions of general market illiquidity for the Notes and instruments similar to the Notes will return in the future.

Because The Global Notes Are Held By Or On Behalf Of Euroclear And Clearstream, Luxembourg, Investors Will Have To Rely On Their Procedures For Transfer, Payment And Communication With The Issuer

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary or common safekeeper (as the case may be) for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Notes are represented by one or more Global Notes the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Notes Will Be Issued With A Minimum Denomination

Notes will be issued with a minimum denomination. The Final Terms of a Tranche of Notes may provide that, for so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg (or other relevant clearing system) so permit, the Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.

Definitive Notes will only be issued if (a) Euroclear or Clearstream, Luxembourg (or other relevant clearing system) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (Enforcement) occurs. The Final Terms may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination might be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Credit Ratings May Not Reflect All Risks

One or more independent credit rating agencies may assign credit ratings to the Notes issued under the Programme. The ratings may not reflect the potential impact of all the risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EU and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency operating in the EU before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration has not been refused, (2) the rating is provided by a credit rating agency not established in the EU but is endorsed by a credit rating agency established in the EU and registered under the CRA Regulation, or (3) the rating is provided by a credit rating agency not established in the EU, but which is certified under the CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Trustee may also agree, without the prior consent of any of the Noteholders, to modify any of the Notes, the Conditions, the Trust Deed or the Loan Agreements (subject to certain exceptions), which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the Noteholders (of a Series of Notes).

EU Savings Directive

If, pursuant to the European Union Savings Directive (Council Directive 2003/48/EC) (the "**EU Savings Directive**"), a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying

Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive. See also "*Taxation – EU Savings Directive*" below.

Change Of Law

The provisions of the Loan Agreements, the Trust Deed, the Agency Agreement, the Account Bank Agreement and the Terms and Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus, other than those provisions of the Subordinated Loan Agreements which relate to the subordination of the amounts received under the Subordinated Loans, which will be based on Polish law in effect as at the date of any series prospectus relating to the Subordinated Loan Agreement. No assurance can be given as to the impact of any possible judicial decision or change to law or administrative practice in either jurisdiction after the date of this Base Prospectus.

GENERAL DESCRIPTION OF THE PROGRAMME

Structural Overview

The following overview should be read in conjunction with, and is qualified in its entirety by, the information set out in "Terms and Conditions of the Notes" and the Senior Facility Agreement appearing elsewhere in this Base Prospectus.

Each transaction relating to a Series of Notes will be structured as either a senior loan or a subordinated loan to the Borrower by the Issuer under the relevant Loan Agreement, as applicable. The Issuer will issue a Series of Notes, which will be secured limited recourse loan participation notes issued for the sole purpose of funding the corresponding Loan to the Borrower. Each Loan will be made on the terms of the relevant Facility Agreement as amended and supplemented by the relevant Loan Supplement and will have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. Each Series of Notes will be constituted by, subject to, and have the benefit of the amended and restated principal trust deed dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, as supplemented and amended in respect of such Series of Notes by a Supplemental Trust Deed, together, the "**Trust Deed**"), each entered into between the Issuer and the Trustee. The obligations of the Issuer to make payments under the Notes shall constitute an obligation only to account to the Noteholders for an amount equal to the sums of principal, interest and/or additional amounts (if any) the Issuer actually receives and retains by or for its account from the Borrower pursuant to the relevant Loan Agreement or that are deposited in the Account (as defined below), less any amounts in respect of the Reserved Rights.

As provided in the Trust Deed, the Issuer will charge in favour of the Trustee for the benefit of itself and the Noteholders as security for its payment obligations in respect of a Series of Notes (i) its rights to all principal, interest and additional amounts (if any) payable by the Borrower under the corresponding Loan Agreement, (ii) its right to receive all sums which may be or become payable by the Borrower under any claim, award or judgment relating to the corresponding Loan Agreement and (iii) its rights, title and interest in and to all sums of money now or in the future deposited in an account with the Principal Paying Agent with respect to such Series of Notes in the name of the Issuer, together with the debt represented thereby (the "**Account**") (collectively, the "**Charged Property**"), in each case other than the Reserved Rights and amounts relating thereto. The Issuer will assign absolutely certain administrative rights under the relevant Loan Agreement to the Trustee for the benefit of itself and the Noteholders of the applicable Series. The Borrower will be obliged to make payments under the relevant Loan to the Issuer in accordance with the terms of the relevant Loan Agreement to the Account or as otherwise instructed by the Trustee following a Relevant Event.

The Issuer has covenanted not to agree to any amendments to or any modification or waiver of, or authorise any breach or potential breach of, the terms of the relevant Loan Agreement unless the Trustee has given its prior written consent (in each case except in relation to the Reserved Rights). The Issuer (save as expressly provided in the Trust Deed, the relevant Loan Agreement or with the written consent of the Trustee) shall not pledge, charge or otherwise deal with the relevant Loan or the relevant Charged Property or any right or benefit either present or future arising under or in respect of the relevant Loan Agreement or the Account or any part thereof or any interest therein or purport to do so (in each case except in relation to the Reserved Rights). Any amendments, modifications, waivers or authorisations made with the Trustee's prior written consent shall be notified by the Issuer to the Noteholders of the applicable Series in accordance with Condition 15 (*Notices*) and will be binding on the Noteholders of such Series.

The Issuer will have no other financial obligations under the relevant Series of Notes and no other assets of the Issuer (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) will be available to such Noteholders. Accordingly, all payments to be made by the Issuer under each Series of Notes will be made only from and to the extent of such sums received or recovered and retained by or on behalf of the Issuer or the Trustee from the assets securing such Series. Noteholders shall look solely to such sums for payments to be made by the Issuer under such Notes, the obligation of the Issuer to make payments in respect of such Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets in respect thereof. In the event that the amount due and payable by the Issuer under such Notes exceeds the sums so received and retained or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished and Noteholders may take no further action to recover such amounts. No Noteholder shall have any recourse against any director, shareholder, or officer of the Issuer in respect of any obligations, covenants or agreement entered into or made by the Issuer in respect of the Notes, except to the extent that such person acts in bad faith or is negligent in the context of its obligation.

The security under the Trust Deed will become enforceable upon the occurrence of an Event of Default, an Early Repayment Event or a Relevant Event, as further described in "*Terms and Conditions of the Notes*".

Payments in respect of the Notes will be made without any deduction or withholding for, or on account of, taxes of the Kingdom of Sweden or the Republic of Poland except as required by law. See Condition 8 (*Taxation*) in "*Terms and Conditions of the Notes*". In that event, the Issuer will only be required to pay an additional amount to the extent it receives corresponding amounts from the Borrower under the relevant Loan Agreement. Each Loan Agreement provides for the Borrower to pay such corresponding amounts in these circumstances. In addition, payments under the relevant Loan Agreement will be made without any deduction or withholding for, or on account of, any taxes imposed by any Taxing Authority (as defined in the relevant Loan Agreement), except as required by law, in which event the Borrower will be obliged to increase the amounts payable under the relevant Loan Agreement.

Under the terms of each Loan Agreement, in certain circumstances, the Borrower may at its option prepay the corresponding Loan at its principal amount, together with accrued interest and additional amounts (if any), in the event that the Borrower is required to increase the amount payable or to pay additional amounts on account of taxes of a relevant Taxing Authority or required to pay additional amounts on account of certain costs incurred by the Issuer save that, in the case of a Subordinated Loan, such right to prepay will be subject to the prior written consent of the PFSA and to the relevant prepayment clauses being specified in the relevant Subordinated Loan Supplement as being applicable, as to be further described in a series prospectus relating to the Subordinated Loan Agreement. The Issuer may require the Borrower to prepay such Loan if it becomes unlawful for such Loan or the Notes to remain outstanding, as set out in the relevant Facility Agreement save that, in the case of a Subordinated Loan, such prepayment is subject to the prior written consent of the PFSA and to the relevant prepayment clause being specified in the relevant Subordinated Loan Supplement as being applicable, as to be further described in a series prospectus relating to the Subordinated Loan Agreement. In each case (to the extent that the Issuer has actually received the relevant funds from the Borrower), the Issuer will prepay the Notes together with accrued interest and additional amounts (if any) thereon. See Clause 5 (*Repayment and Prepayment*) of the Senior Facility Agreement and Condition 5 (*Redemption and Purchase*) in "*Terms and Conditions of the Notes*".

Parties

Issuer:	PKO Finance AB (publ), incorporated with limited liability under the laws of the Kingdom of Sweden.
Borrower:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, incorporated as a joint stock company in the Republic of Poland.
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer and the Borrower to fulfil their respective obligations under the Notes and the Loan Agreements are discussed under "*Risk Factors*" below and include risks relating to the Issuer, risks relating to the Borrower, risks relating to the Republic of Poland and risks relating to the Loan Agreements and the Notes.
Arranger:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Dealers:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Trustee:	Citicorp Trustee Company Limited
Principal Paying Agent, Registrar, Transfer Agent, Calculation Agent and Account Bank:	Citibank, N.A., London Branch
Paying Agents:	Citibank, N.A., London Branch Banque Internationale à Luxembourg
Luxembourg Listing Agent:	Banque Internationale à Luxembourg

Features of the Notes, Loans and the Programme

Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of

	Notes will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Final Terms or, as the case may be, the relevant Drawdown Prospectus.
Listing and Trading:	Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the Regulated Market of the Luxembourg Stock Exchange. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms.
Initial Programme Amount:	Up to €3,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time.
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Forms of Notes:	Notes may be issued in bearer form or in registered form. Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Each Tranche of Registered Notes will be in the form of either Individual Note Certificates or a Global Note Certificate, in each case as specified in the relevant Final Terms. Each Global Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.
Currencies:	Notes may be denominated in euros, U.S. dollars or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies

	other than the currency in which such Notes are denominated.
Redenomination:	The applicable Final Terms may provide that a Series of Notes may be redenominated in euro.
Status of the Notes and Limited Recourse:	The Notes of each Series constitute secured and limited recourse obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves, as more fully described in "*Terms and Conditions of the Notes*". The Notes of each Series will constitute the obligation of the Issuer to apply the proceeds from that issue of the Notes solely for the purpose of financing the relevant Loan to the Borrower pursuant to the terms of the corresponding Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received and retained from the Borrower under such Loan Agreement or held on deposit in the Account less amounts in respect of the Reserved Rights (as defined in the Conditions), all as more fully described in "*Terms and Conditions of the Notes*".
Status of each Senior Loan:	The obligations of the Borrower under the Senior Loan Agreement will rank at least *pari passu* with all its other unsecured and unsubordinated indebtedness except as otherwise provided by mandatory provisions of applicable law, as more fully described in "*Senior Facility Agreement*".
Status of each Subordinated Loan:	The obligations of the Borrower under each Subordinated Loan Agreement, excluding the Reserved Rights, are intended to be subordinated upon an Early Repayment Event (as will be defined in the Subordinated Facility Agreement) in accordance with the Polish Act dated 29 August 1997 – Banking Law (as amended) (the "**Banking Law**") and will rank at least *pari passu* with all its other unsecured and subordinated indebtedness, all as more will be fully described in a series prospectus supplement relating to the Subordinated Facility Agreement.
Security:	Each Series of Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer's rights and interests as lender under the relevant Loan Agreement, and (ii) the Issuer's rights, title and interest in and to all sums held on deposit in the Account (as defined in the relevant Loan Agreement) (in each case, other than the Reserved Rights), all as more fully described in "*Terms and Conditions of the Notes"*. In addition, the Issuer with full title guarantee will assign absolutely its administrative rights under the relevant Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described in the Senior Facility Agreement or in a series prospectus supplement relating to the Subordinated Facility Agreement, as the case may be.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Borrower and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Borrower and the relevant Dealer(s). Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire,

	hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the Issuer.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. Notes may also have a step-up rate of interest. All such information will be set out in the relevant Final Terms.
Denominations:	No Notes may be issued under the Programme which (a) have a minimum denomination of less than EUR 100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Redemption:	Notes may be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms. The relevant Final Terms will specify whether there will be any Put or Call Options. The Redemption Amount shall always be equal to or higher than the par value of the redeemed Notes.
Early Redemption:	Each Series of Notes relating to a Senior Loan will be redeemed in whole, but not in part, at any time, upon notice having been given to the Noteholders, at their principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts (if any) then due (i) if the Borrower elects to prepay the corresponding Senior Loan for tax reasons or by reason of increased costs or (ii) at the option of the Issuer, in the event that it becomes unlawful for the Issuer to fund such Senior Loan or to allow it to remain outstanding under such Senior Loan Agreement, all as more fully described in the Senior Loan Agreement. The redemption of each Series of Notes relating to a Subordinated Loan will be more fully described in a series prospectus relating to the Subordinated Loan Agreement. See Condition 5 (*Redemption and Purchase*) in "*Terms and Conditions of the Notes*".
Relevant Event:	In the case of a Relevant Event (as defined in the Trust Deed) that is continuing the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.
Event of Default:	Under the terms of each Senior Loan Agreement, in the case of an Event of Default (as defined in the Senior Facility Agreement) that is continuing, the Trustee may, subject to the provisions of the Trust Deed, declare all amounts payable by the Borrower under such Senior Loan Agreement to be due and payable. Upon repayment of such Senior Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and any additional amounts then due (if any), and thereupon shall cease to be outstanding.
Early Repayment Event:	The Subordinated Loan Agreement will provide that if an Early Repayment Event (which will be defined in the Subordinated Facility Agreement) has occurred and is continuing, all amounts under the Subordinated Loan shall be capable of being declared immediately due and payable, as to be further described in a series prospectus relating to the Subordinated Loan Agreement. Upon repayment of such Subordinated Loan following an Early

	Repayment Event, the Notes will be redeemed or repaid as more fully described in a series prospectus relating to the Subordinated Loan Agreement.
Certain Covenants:	As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of a Loan Agreement, except as otherwise expressly provided in the Trust Deed or such Loan Agreement. Clause 9 (*Covenants*) of the Senior Facility Agreement contains a negative pledge in relation to the creation of Security Interests (as defined in the Senior Facility Agreement) (other than Permitted Security Interests (as defined in the Senior Facility Agreement)) by the Borrower. Any covenants to be provided in the Subordinated Facility Agreement shall be set out in an equivalent clause of the Subordinated Facility Agreement.
Taxation:	All payments in respect of Notes will be made free and clear of and without deduction or withholding for taxes of the Kingdom of Sweden or the Republic of Poland, as the case may be, unless the withholding or deduction is required by law. In that event, the Issuer will as provided in Condition 8 (*Taxation*) only be required to pay an additional amount to the extent that it receives a corresponding amount from the Borrower under the relevant Loan Agreement. Each Loan Agreement provides for the Borrower to pay additional amounts in these circumstances.
Governing Law:	The Notes, the Senior Loan Agreements, the Subordinated Loan Agreements and the Trust Deed and any non-contractual obligations arising out of in connection with the Notes, the Senior Loan Agreements, the Subordinated Loan Agreements and the Trust Deed will be governed by English law, except those provisions of the Subordinated Loan Agreements relating to the subordination of claims, which will be governed by Polish law.
Ratings:	Each Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as a rating that may be assigned to the Programme. Credit ratings assigned to the Notes or the Programme do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Programme or the Borrower could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan and the Republic of Poland, see "*Subscription and Sale*".

INFORMATION INCORPORATED BY REFERENCE

The information set out in the table below shall be deemed to be incorporated in, and to form part of, this Base Prospectus:

1. the audited consolidated financial statements of the Group for the year ended 31 December 2014:

a)	consolidated income statement	page 4
b)	consolidated statement of comprehensive income	page 4
c)	consolidated statement of financial position	page 5
d)	consolidated statement of changes in equity	page 6
e)	consolidated cash flow statement	page 7
f)	notes to the consolidated financial statements	pages10 to 156

2. the auditors' opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2014 (pages 1 to 2);

3. the audited consolidated financial statements of the Group for the year ended 31 December 2013:

a)	consolidated income statement	page 4
b)	consolidated statement of comprehensive income	page 4
c)	consolidated statement of financial position	page 5
d)	consolidated statement of changes in equity	page 6
e)	consolidated cash flow statement	page 7
f)	notes to the consolidated financial statements	pages 10 to 145

4. the auditors' opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2013 (pages 1 to 2);

5. the audited stand-alone financial statements of the Issuer for the year ended 31 December 2014:

a)	administration report	page 1
b)	income statement	page 3
c)	balance sheet	page 4
d)	cash flow statement	page 5
e)	notes to the financial statements	pages 6 to 10

6. the auditor's report on the audited stand-alone financial statements of the Issuer for the year ended 31 December 2014;

7. the audited stand-alone financial statements of the Issuer for the year ended 31 December 2013:

a)	administration report	page 2
b)	income statement	page 4
c)	balance sheet	page 5
d)	cash flow statement	page 7
e)	notes to the financial statements	pages 8 to 9

8. the auditor's report on the audited stand-alone financial statements of the Issuer for the year ended 31 December 2013;

Any information not listed above but included in the documents incorporated by reference is given for information purposes only. Each of the Borrower and the Issuer accepts responsibility as to the accuracy and completeness of any translations into English set out in any documents incorporated by reference in this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained, free of charge, at the specified offices of the Paying Agent and the Listing Agent in Luxembourg, unless such documents have been modified or superseded. Such documents will also be available to view on the website of the Luxembourg Stock Exchange (www.bourse.lu)

FINAL TERMS AND DRAWDOWN PROSPECTUSES

In this section the expression "necessary information" means, in relation to any Tranche of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Borrower and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme the Issuer and the Borrower have endeavoured to include in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

Any information relating to the Notes which is not included in this Base Prospectus and which is required in order to complete the necessary information in relation to a Tranche of Notes will be contained either in the relevant Final Terms or in a Drawdown Prospectus. Such information will be contained in the relevant Final Terms unless any of such information constitutes a significant new factor relating to the information contained in this Base Prospectus in which case such information, together with all of the other necessary information in relation to the relevant series of Notes, may be contained in a Drawdown Prospectus.

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, complete this Base Prospectus and must be read in conjunction with this Base Prospectus. The terms and conditions applicable to any particular Tranche of Notes which is the subject of Final Terms are the Conditions as completed by the relevant Final Terms.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Base Prospectus to information being specified or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise.

Each Drawdown Prospectus will be constituted either (1) by a single document containing the necessary information relating to the Issuer and the Borrower and the relevant Notes or (2) by a registration document (the "**Registration Document**") containing the necessary information relating to the Issuer and the Borrower, a securities note (the "**Securities Note**") containing the necessary information relating to the relevant Notes and, if necessary, a summary note. In addition, if the Drawdown Prospectus is constituted by a Registration Document and a Securities Note, any significant new factor, material mistake or inaccuracy relating to the information included in the Registration Document which arises or is noted between the date of the Registration Document and the date of the Securities Note which is capable of affecting the assessment of the relevant Notes will be included in the Securities Note.

USE OF PROCEEDS

The Issuer will use the proceeds from the offering of each Series of Notes solely to finance the corresponding Loan to the Borrower. The Borrower will use the proceeds from such Loan to fund its lending activities or for general banking purposes (unless otherwise specified in the relevant Final Terms). In connection with the receipt of such Loan, the Borrower will pay an arrangement fee, as reflected in the relevant Loan Supplement.

HISTORICAL FINANCIAL INFORMATION

Capitalisation

The following table sets forth the Bank's total equity as at 31 December 2014 and 31 December 2013. The information was extracted without material adjustments from the financial statements of the Bank for the year ended 31 December 2014 which have not been incorporated in the Base Prospectus by reference (the "**2014 Stand-Alone Financial Statements**") and should be read in conjunction with these financial statements and with the other financial data included or incorporated by reference elsewhere in this Base Prospectus (the table includes stand-alone data).

	As at 31 December 2014	As at 31 December 2013
	(in PLN thousand) (audited)	
Share capital	1,250,000	1,250,000
Other capital, of which	23,139,892	20,898,722
Reserve capital	18,618,111	16,598,111
Other reserves	3,421,913	3,416,893
General banking risk fund	1,070,000	1,070,000
Total other reserves	**23,110,024**	**21,085,004**
Financial assets available for sale	33,640	(53,013)
Cash flow hedges	5,204	(125,593)
Actuarial gains and losses	(8,976)	(7,676)
Total other comprehensive income	**29,868**	**(186,282)**
Undistributed profits	132,793	(271,242)
Net profit for the year	3,079,471	3,233,762
Total equity	**27,602,156**	**25,111,242**

Source: 2014 Stand-Alone Financial Statements

Selected Consolidated Financial Data

The following table sets forth selected consolidated financial data of the Group as at 31 December 2014 and 31 December 2013 and for the years then ended. The information was extracted without material adjustments from the 2014 Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

SELECTED CONSOLIDATED FINANCIAL DATA	As at and for the year ended 31 December 2014	As at and for the year ended 31 December 2013	As at and for the year ended 31 December 2014	As at and for the year ended 31 December 2013
	(in PLN thousand) (audited)		*(in EUR thousand)*	
Net interest income	7,522,931	6,721,962	1,795,749	1,596,286
Net fee and commission income	2,933,506	3,005,752	700,238	713,786
Operating profit	4,002,753	4,046,442	955,471	960,922
Profit before income tax	**4,034,563**	**4,044,464**	**963,064**	**960,452**
Net profit (including non-controlling shareholders)	**3,242,816**	**3,228,193**	**774,071**	**766,610**
Net profit attributable to equity holders of the parent company	**3,254,122**	**3,229,793**	**776,770**	**766,990**
Earnings per share for the period – basic (in PLN/EUR)	**2.60**	**2.58**	**0.62**	**0.61**
Earnings per share for the period – diluted (in PLN/EUR)	**2.60**	**2.58**	**0.62**	**0.61**
Net comprehensive income	**3,398,726**	**2,967,917**	**811,287**	**704,801**
Net cash flow from / used in operating activities	2,024,410	(1,136,695)	483,233	(269,935)
Net cash flow from / used in investing activities	(7,703,122)	(1,031,818)	(1,838,761)	(245,029)
Net cash flow from / used in financing activities	11,048,828	(1,442,380)	2,637,392	(342,527)
Total net cash flows	5,370,116	(3,610,893)	1,281,865	(857,491)
Total assets	248,700,589	199,231,110	58,348,917	48,039,909
Total equity	27,615,551	25,154,325	6,479,026	6,065,375
Capital and reserves attributable to equity holders of the parent company	27,625,566	25,152,816	6,481,375	6,065,012
Share capital	1,250,000	1,250,000	293,269	301,408
Number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000
Book value per share (in PLN/EUR)	22.09	20.12	5.18	4.85
Diluted number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000

SELECTED CONSOLIDATED FINANCIAL DATA	As at and for the year ended 31 December 2014	As at and for the year ended 31 December 2013	As at and for the year ended 31 December 2014	As at and for the year ended 31 December 2013
	(in PLN thousand) (audited)		*(in EUR thousand)*	
Diluted book value per share (in PLN/EUR)	22.09	20.12	5.18	4.85
Capital adequacy ratio	12.96%	13.58%	12.96%	13.58%
Tier 1 capital	22,348,472	19,611,274	5,243,289	4,728,799
Tier 2 capital	2,394,713	1,539,670	561,836	371,255
Tier 3 capital	-	154,112	-	37,160

Source: 2014 Consolidated Financial Statements

Consolidated Income Statements

The following tables set forth the consolidated income statements and the consolidated statements of comprehensive income of the Group for the year ended 31 December 2014 and for the year ended 31 December 2013. The information was extracted without material adjustments from the 2014 Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

Continuing operations:	For the year ended 31 December 2014 *(in PLN thousand) (audited)*	For the year ended 31 December 2013 *(in PLN thousand) (audited)*
Interest and similar income	10,737,431	10,763,494
Interest expense and similar charges	(3,214,500)	(4,041,532)
Net interest income	**7,522,931**	**6,721,962**
Fee and commission income	4,002,155	3,926,602
Fee and commission expense	(1,068,649)	(920,850)
Net fee and commission income	**2,933,506**	**3,005,752**
Dividend income	6,511	5,766
Net income from financial instruments designated at fair value	75,188	54,309
Gains less losses from investment securities	150,050	67,484
Net foreign exchange gains	235,797	241,848
Other operating income	570,779	1,080,945
Other operating expense	(348,198)	(471,200)
Net other operating income and expense	**222,581**	**609,745**
Net impairment allowance and write-downs	(1,898,670)	(2,037,881)
Administrative expenses	(5,245,141)	(4,622,543)
Operating profit	**4,002,753**	**4,046,442**
Share of profit (loss) of associates and joint ventures	31,810	(1,978)
Profit before income tax	**4,034,563**	**4,044,464**
Income tax expense	(791,747)	(816,271)
Net profit (including non-controlling shareholders)	**3,242,816**	**3,228,193**
Profit (loss) attributable to non-controlling shareholders	(11,306)	(1,600)
Net profit attributable to equity holders of the parent company	**3,254,122**	**3,229,793**
Basic earnings per share for the period (in PLN)	2.60	2.58
Diluted earnings per share for the period (in PLN)	2.60	2.58
Weighted average number of ordinary shares during the period (in thousand)	1,250,000	1,250,000
Weighted average diluted number of ordinary shares during the period (in thousand)	1,250,000	1,250,000

Source: 2014 Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

	For the year ended 31 December 2014 *(in PLN thousand) (audited)*	For the year ended 31 December 2013 *(in PLN thousand) (audited)*
Net profit (including non-controlling shareholders)	**3,242,816**	**3,228,193**
Other comprehensive income	**155,910**	**(260,276)**
Items that may be reclassified to the income statement	**157,210**	**(252,600)**
Cash flow hedges (gross)	161,478	(219,126)
Deferred tax on cash flow hedges	(30,681)	41,634

	For the year ended 31 December 2014	For the year ended 31 December 2013
	(in PLN thousand) (audited)	*(in PLN thousand) (audited)*
Cash flow hedges (net)	130,797	(177,492)
Unrealised net gains on financial assets available for sale (gross)	110,437	(79,539)
Deferred tax on unrealised net gains on financial assets available for sale	(21,594)	14,644
Unrealised net gains on financial assets available for sale (net)	88,843	(64,895)
Currency translation differences from foreign operations	(63,490)	(8,829)
Share in other comprehensive income of an associate	1,060	(1,384)
Items that may not be reclassified to the income statement	**(1,300)**	**(7,676)**
Actuarial gains and losses (net)	(1,300)	(7,676)
Actuarial gains and losses (gross)	(1,537)	(9,477)
Deferred tax on actuarial gains and losses	237	1,801
Total net comprehensive income	**3,398,726**	**2,967,917**
Total net comprehensive income, of which attributable to:	**3,398,726**	**2,967,917**
equity holders of PKO Bank Polski SA	3,410,250	2,969,231
non-controlling shareholders	(11,524)	(1,314)

Source: 2014 Consolidated Financial Statements

Consolidated Statements of Financial Position

The following table sets forth the consolidated statements of financial position of the Group as at 31 December 2014 and as at 31 December 2013. The information was extracted without material adjustments from the 2014 Consolidated Financial Statements and should be read in conjunction with the financial data included elsewhere in this Base Prospectus.

	As at 31 December	
	2014	2013
	(in PLN thousand) (audited)	*(in PLN thousand) (audited)*
ASSETS		
Cash and balances with the central bank	11,738,371	7,246,120
Amounts due from banks	2,486,686	1,893,441
Trading assets	1,924,426	479,881
Derivative financial instruments	5,494,822	3,000,860
Financial assets designated upon initial recognition at fair value through profit and loss	15,723,148	15,204,756
Loans and advances to customers	179,497,384	149,623,262
Investment securities available for sale	22,279,225	14,073,078
Investment securities held to maturity	233,358	38,005
Investments in associates and joint ventures	322,486	309,692
Non-current assets held for sale	624,992	172,219
Inventories	237,883	649,641
Intangible assets	3,379,501	2,230,222
Tangible fixed assets	2,653,555	2,611,233
- of which investment properties	129,693	114,589
Current income tax receivables	118,810	206,401
Deferred income tax asset	863,677	562,421
Other assets	1,122,265	929,878
TOTAL ASSETS	**248,700,589**	**199,231,110**
LIABILITIES AND EQUITY		
Liabilities		
Amounts due to the central bank	4,427	4,065
Amounts due to banks	19,394,482	3,747,337
Derivative financial instruments	5,545,141	3,328,211
Amounts due to customers	174,386,766	151,904,181
Liabilities due to insurance operations	2,679,722	-
Liabilities associated with assets classified as held for sale	34,964	2,880
Debt securities in issue	13,300,610	10,546,446

	As at 31 December	
	2014	2013
	(in PLN thousand) (audited)	*(in PLN thousand) (audited)*
Subordinated liabilities	2,413,985	1,620,857
Other liabilities	2,954,603	2,547,237
Current income tax liabilities	17,453	22,595
Deferred income tax liability	29,047	32,106
Provisions	323,838	320,870
TOTAL LIABILITIES	**221,085,038**	**174,076,785**
Equity		
Share capital	1,250,000	1,250,000
Other capital	23,374,794	21,108,673
Currency translation differences from foreign operations	(192,692)	(129,420)
Undistributed profits	(60,658)	(306,230)
Net profit for the year	3,254,122	3,229,793
Capital and reserves attributable to equity holders of the parent company	**27,625,566**	**25,152,816**
Non-controlling interest	(10,015)	1,509
TOTAL EQUITY	**27,615,551**	**25,154,325**
TOTAL LIABILITIES AND EQUITY	**248,700,589**	**199,231,110**
Capital adequacy ratio	12.96%	13.58%
Book value (in PLN thousand)	27,615,551	25,154,325
Number of shares (in thousand)	1,250,000	1,250,000
Book value per share (in PLN)	22.09	20.12
Diluted number of shares (in thousand)	1,250,000	1,250,000
Diluted book value per share (in PLN)	22.09	20.12

Source: 2014 Consolidated Financial Statements

Selected Key Ratios

The table below presents selected ratios for the Group as of the dates and for the periods indicated below.

	As at and for the year ended 31 December	
	2014	2013
	(%) (unaudited)	*(%) (unaudited)*
Profitability ratios		
NIM for the Group[1]	3.7	3.7
Cost to income ratio for the Group (C/I)[2]	47.1	43.2
ROA net for the Group [3]	1.4	1.6
ROE net for the Group [4]	12.4	13.2
Capital Ratios		
Tier 1 ratio for the Group [5]	11.71	12.50
Capital adequacy ratio for the Group (CAR)	12.96	13.58
Loan portfolio quality		
Impaired loans ratio for the Group [6]	6.9	8.2
Coverage of impaired loans and advances for the Group [7]	61.8	51.7

Source: The Bank

Notes:

[1] *Calculated by dividing net interest income of the Group for the year ended 31 December 2014 and 2013, respectively, by the average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of reporting period and interim quarterly periods).*

[2] *Calculated by dividing administrative expenses by total net income on business activity (defined as operating profit before administrative expenses and net impairment allowance and write-downs).*

[3] *Calculated by dividing net profit attributable to equity holders of the parent company for the year ended 31 December 2014 and 2013, respectively, by average total assets (calculated as the arithmetical average of total assets at the beginning and the end of the reporting period and interim quarterly periods).*

[4] *Calculated by dividing net profit attributable to equity holders of the parent company for the year ended 31 December 2014 and 2013, respectively, by average total equity attributable to equity holders of the parent company (calculated as the arithmetical average of total equity at the beginning and the end of the reporting period and interim quarterly periods).*

[5] *The Tier 1 ratio constitutes a percentage ratio the numerator of which is the value of Tier 1 capital and the denominator of which is the entire capital requirement multiplied by 12.5.*

[6] *Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers.*

[7] *Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying amount of impaired loans and advances to customers.*

DESCRIPTION OF THE GROUP

Overview

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of total assets, net income, total equity, loan and deposit portfolios, number of customers and size of the distribution network, as well as the largest commercial bank in CEE and one of the 25 leading banks in Europe in terms of market capitalisation as of the date of the Base Prospectus (based on PFSA data). Historically, the Group was focused mainly on providing banking products and services to individuals, but since 2004 the Group has also actively offered products and provided services to corporate clients. As of the date of the Base Prospectus, the Group is the Polish market leader in terms of the value of loans granted to business entities. The Bank's share in the net profit, assets and equity of the Polish banking sector as of and for the year ended 31 December 2014 amounted to 19.0%, 15.9% and 16.6%, respectively (based on PFSA data).

As of 31 December 2014, the Bank serviced approximately 8.894 million customers (including 8.431 million individual customers, 449 thousand small and medium enterprise ("**SME**") clients and 14 thousand corporate clients).

In addition to the products and services offered with regard to retail and corporate banking, the Group provides specialist financial services with regard to leasing, factoring, investment funds, pension funds, investment banking, electronic payment services, life insurance, debt collection services and support in the conduct of business, as well as real estate development and the management of real estate, and offers Internet banking products and services. The Bank also generates income from its investment operations by investing the Bank's excess liquidity in the inter-bank and Polish treasury securities markets.

The Group has also been offering banking products and services in Ukraine since 2004 through its subsidiary, Kredobank. As of the date of the Base Prospectus, the operations of Kredobank do not constitute a significant portion of the Group's operations.

With 1,319 branches, 1,001 agencies and 3,065 ATMs as of 31 December 2014, the Bank has the largest and most extensive distribution network for banking products and services in Poland which enables it to attract and service clients throughout Poland. The Bank employed 25,927 full-time equivalent staff and employees as of 31 December 2014.

As of 31 December 2014, the Group had total assets of PLN 248,701 million, amounts due to customers of PLN 174,387 million and loans and advances to customers of PLN 179,497 million. The Bank had market shares in the Polish banking sector of 15.9%, 17.3% and 17.9% in respect of the assets, amounts due to customers and loans and advances to customers, respectively (based on PFSA data).

For the year ended 31 December 2013, the Group generated a net profit attributable to equity holders of the parent company of PLN 3,229.8 million, and PLN 3,254.1 million for the year ended 31 December 2014. For the year ended 31 December 2013, the Bank generated a net profit of PLN 3,233.8 million, and PLN 3,079.5 million for the year ended 31 December 2014, which, according to data from the PFSA, accounted for 21.3% and 19.0%, respectively, of the net profit of the Polish banking sector over the same periods.

The Group has a strong capital base, with a capital adequacy ratio of 12.96% and a Tier 1 ratio of 11.71% with Tier 1 capital of PLN 22,348.5 million as of 31 December 2014 and no hybrid capital on the Group's balance sheet.

History

PKO Bank Polski, which first operated under the name Pocztowa Kasa Oszczędnościowa, was established in 1919 and relied on a nationwide network of post offices, which it used as outlets for operating its business. As early as before World War II, Pocztowa Kasa Oszczędnościowa was the largest entity collecting the savings of Polish households. Following World War II, Pocztowa Kasa Oszczędności re-commenced operations in 1948 and operated independently until 1975 when it was acquired by the NBP and together with its existing branch network was incorporated into the NBP. PKO Bank Polski was re-established as an independent legal entity in 1987 and designated by the Polish government as one of four national specialised banks to service a special sector of the centrally planned economy. PKO Bank Polski's focus was on retail deposits and mortgage and real estate, including financing housing associations. The systemic political transition and fundamental economic reforms initiated in Poland at the end of 1989 created new opportunities for the Bank and spurred the Bank's development.

In 1991, the Bank established its brokerage division, Bankowy Dom Maklerski (now DM PKO BP), a specialist organisational entity of the Bank. In the early 1990s the formation of the Group commenced; the Group consists of the Bank and its subsidiaries that supplement and support the fundamental business segments by rendering

specialist financial and non-financial services. In 1997, the Bank sought to broaden its product offering beyond its traditional banking business and, jointly with Credit Suisse Group, established PKO Bank Polski/Credit Suisse Towarzystwo Funduszy Inwestycyjnych S.A. (presently, PKO Towarzystwo Funduszy Inwestycyjnych S.A.), an asset management company. In the second half of 1998, the Bank, together with Bank Handlowy w Warszawie S.A. jointly established PKO Bank Polski/Handlowy Powszechne Towarzystwo Emerytalne S.A. (now PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.), a universal pension fund company that manages an open pension fund. In 1999, the Bank established a leasing company under the name Bankowy Fundusz Leasingowy S.A. (currently PKO Leasing S.A.) and established an electronic payment services centre – CEUP eService. In 2002, the Bank acquired an existing online banking company, Inteligo, a leader on the Polish market. Since 2004, the Bank has been offering banking products and services in Ukraine through its subsidiary Kredobank. In the second half of 2009, the Group, through its indirect subsidiary PKO BP Faktoring S.A., started operational activity by offering factoring services in Poland.

In 2000, PKO Bank Polski was transformed from a state-owned bank into a joint stock company named "Powszechna Kasa Oszczędności Bank Polski S.A." while it remained a wholly-owned subsidiary of the State Treasury.

The initial public offering of shares in the Bank was conducted within the scope of the privatisation program and completed in November 2004, with the shares subsequently being listed on the WSE. In October 2009, the Bank completed a rights offering and increased its share capital by 250,000,000 shares. As of the date of the Base Prospectus, 740,000,000 shares of the Bank are listed on the main market of the WSE under the symbol "PKOBP".

Between 2011 and 2012, the Group grew with the acquisition of the following Ukrainian companies: Finansowa Kompania "Prywatne Inwestycje" sp. z o.o., "Inter-Risk Ukraina" Additional Liability Company and Finansowa Kompania "Idea Kapitał" sp. z o.o. These companies were acquired for the purposes of debt collection and other financial services in Ukraine.

In 2013, the Bank sold a 66% stake in CEUP eService sp. z o.o. (formerly CEUP eService SA) and the company became a joint venture of the Bank. In 2013, Bank also signed an agreement to acquire Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA and Nordea Finance Polska SA; this acquisition was completed in April 2014.

The Group's activities in 2014 focused on finalising the transaction involving the acquisition of the assets of the companies from the Nordea Group, a legal merger with Nordea Bank Polska SA and preparing for the operational merger of both banks. As a result of the transaction finalised in April 2014, the Group grew due to the addition of Nordea Bank Polska SA, Nordea Polska Towarzystwo Ubezpieczeń na Życie SA (currently PKO Życie Towarzystwo Ubezpieczeń SA) and a lease and factoring company, Nordea Finance Polska SA, which was merged with PKO Leasing SA. On 31 October 2014, Nordea Bank Polska SA merged with PKO Bank Polski SA and ceased to operate as a separate entity. See "– *Acquisition of Nordea Group entities*".

In 2014, the Bank, together with several partner banks, established Polski Standard Płatności sp. z o.o. with a view to create a new mobile payment standard in Poland based on the innovative "IKO" mobile payment solution introduced by the Bank in 2013. Initially, Polski Standard Płatności sp. z o.o. was a subsidiary of the Bank, but then other partner banks took up shares in Polski Standard Płatności Sp. z o.o. The company is recognised under financial assets.

The merger of Inteligo Financial Services SA with PKO BP Finat sp. z o.o. was finalised on 28 November 2014. In connection with the above-mentioned merger, PKO Bank Polski SA acquired employees and resources of Inteligo Financial Services SA related mainly to IT services provided to the Bank, while the employees and the resources regarding business areas and business support, together with the management of implementation projects in respect of provided services, were transferred to PKO BP Finat sp. z o.o.

In 2014, CENTRUM HAFFNERA sp. z o.o. became part of the Group.

In February 2015, PKO Bank Polski SA established PKO Towarzystwo Ubezpieczeń SA, a non-life insurance company, and on 1 April 2015, the Bank's newly established subsidiary, PKO Bank Hipoteczny SA (a mortgage bank) commenced its operations.

Competitive Strengths

In the opinion of the Management Board, the Group has the following competitive strengths:

The Leader in a Large and Attractive Market

PKO Bank Polski is the market leader in Poland – the largest bank in the country, as measured by total equity, total assets, net income, loans and deposits, size of the customer base and breadth of geographic coverage (based on PFSA data). As of the date of the Base Prospectus, the Group's business is focused on the Polish market and

as of 31 December 2014, 99.4% of the Group's total assets were located in Poland. Poland is the largest economy in Central and Eastern Europe (nominal GDP amounted to PLN 1,729 billion in the year ended 31 December 2014, according to GUS) and has the largest population of all the countries in the region (38.484 million as of 31 December 2014, according to GUS). The Polish economy has been highly resilient in recent years, despite the difficult macroeconomic environment in Western Europe and globally. Poland was the only country in the EU that showed positive real GDP growth in each of the years 2009-2012 (real GDP growth of 1.6%, 3.9%, 4.3% and 2.0% in 2009, 2010, 2011 and 2012, respectively, according to GUS). In 2013 and 2014, real GDP growth was also positive and amounted to 1.7% and 3.3%, respectively. Polish macroeconomic fundamentals are sound and the economy, based on the latest EU budget for 2014-2020, is expected to continue to benefit from EU funds in this period. According to NBP, GUS and European Central Bank, as of 31 December 2013, the Polish banking sector was relatively underpenetrated with loans and deposits as a percentage of GDP at 58% and 54%, respectively, compared to the eurozone average of 147% and 138%, providing substantial room for future growth. The Management Board believes that the Group has withstood the recent economic and financial turmoil with greater financial strength than many of its local and foreign competitors. The Group also believes that its market leadership position in an attractive market, together with a comprehensive range of products and services, will provide the Group with a strong platform for sustained and profitable growth.

Strong Capital Base, Liquidity and Balance Sheet

The Group maintains a strong capital position with a Tier 1 ratio of 11.71% with Tier 1 capital at the level of PLN 22,348.5 million as of 31 December 2014 and no hybrid capital on the Group's balance sheet. The Group's capital adequacy ratio stood at 12.96% as of 31 December 2014. The Group's total equity of PLN 27,615.6 million as of 31 December 2014 was the largest among Polish banks (based on the reports of the banks for 2014), and the Group maintains an effective balance sheet structure reflected by a loan-to-deposit ratio (calculated by dividing net loans and advances to customers by amounts due to customers) of 102.9% as of 31 December 2014. In July 2011 the Bank successfully passed the stress-test, coordinated by the European Banking Authority ("**EBA**"), conducted on a bank-by-bank basis for a sample of 91 EU banks from 20 EU Member States. In June 2012, the Bank was also included in the results of a study conducted by EBA of 61 banks (certain Greek banks and other European banks monitored on an individual basis were removed from the original sample of 71 banks in the course of the study) regarding the fulfilment of certain capital adequacy recommendations as a bank fully in compliance with such recommendations, and not negatively directly influenced by the decrease of creditworthiness of some of the EU member states. In the EU-wide Transparency Exercise 2013 Summary Report, which was carried out in December 2013 on a sample of 64 banks with a significant position in EU member states (PKO Bank Polski has been the only Polish bank taking part in the test), PKO Bank Polski confirmed its strong capital position by maintaining (in both reviewed periods, i.e. June 2012 and December 2013) its Tier 1 capital adequacy ratio at the level exceeding 12%, significantly higher than the 9% recommended by the EBA. On 6 October 2014, the EBA and the European Central Bank ("**ECB**") published the results of stress testing of banks operating in the European Union and the outcomes of the asset quality review ("**AQR**") for banks operating in the Eurozone. The stress testing in the EU was conducted on a sample of 123 EU banks, covering at least 50% of every country's banking sector, and was carried out at the highest consolidation level. The assessment test of the banks comprised two parts: (i) the first part involved the AQR – a bank passed this assessment if its Common Equity Tier 1 capital ratio (CET1) reached 8 in the baseline scenario (in which the Bank has a surplus of 6.34 pp) and CET1 above 5.5% in the adverse scenario (in which the Bank has a surplus of 7.78 pp); and (ii) the second part testing the extent to which a bank's own funds would change over three consecutive years if the scenarios (the baseline and the adverse) specified in the stress-tests were to materialise. The results the Bank achieved both in the AQR and the stress testing confirm its strong capital position. In each scenario, even the most extreme, the Bank's results significantly exceed the required capital adequacy ratios – in the baseline scenario about 80%, and about 140% in the adverse scenario. These positive results were achieved in spite of the conservative financial forecast assumptions imposed by the EBA.

Moreover, the Group is almost entirely funded by deposits, with amounts due to customers representing 78.9 % of the Group's total liabilities as of 31 December 2014, with 73.8 % of the amounts due to customers being retail deposits that have traditionally proven to provide a more stable funding base than corporate deposits. In addition, the Group's conservative business focus has enabled it to maintain a comparatively high quality loan portfolio, with an impaired loans ratio of 6.9% as of 31 December 2014.

The Group's investment portfolio consists primarily of domestic treasury securities, and the Group has no exposure to high-risk assets, such as collateralised debt obligations, and has no direct exposure to sovereign debts of Greece, Ireland, Spain, Portugal, Italy or Cyprus. The Group believes that its strong capital base, liquidity and financial position create a solid foundation for the Group to retain existing customers and attract new ones and to grow its business.

Largest Customer Base and Distribution Network in Poland

As of 31 December 2014, the Bank serviced approximately 8.89 million customers (including 8.43 million private individual customers, 449 thousand SME clients and 14 thousand corporate clients). The Bank has an extensive distribution network that offers significant opportunities to attract additional customers and expand its range of products and services to existing customers. As of 31 December 2014, the Bank had 1,319 branches, 1,001 agencies and 3,065 ATMs, the most of any bank in Poland. Consequently, it can provide clients with convenient access to services throughout the country, and itself obtain access to a large number of prospective customers throughout Poland, representing a significant potential source of growth for deposits and loan portfolios. The Bank's distribution network is supported by iPKO, which provides customers with web-based access to their accounts, and Inteligo, an exclusively electronic banking platform. The Group believes it has significant potential to increase the size of its retail customer base by pursuing opportunities among affluent customers, students and young people at the beginning of their careers.

Integrated and Comprehensive Product and Service Offering

While historically the Group primarily focused on providing retail banking products and services, the Group has been actively providing dedicated corporate banking services since 2004 and, as of the date of the Base Prospectus, is the market leader in the banking corporate segment in terms of value of loans and advances to corporate customers. Moreover, the Group provides a wide range of complementary financial products and services, including specialised financial services such as leasing, factoring, investment funds, pension funds, investment banking, electronic payment services and online banking. The Group is able to capitalise on its diverse range of products and services to strengthen relationships by cross-selling such products and services to meet increasing customer needs. Moreover, the significant scale and range of the Group's distribution network ensures that current and potential clients have easy access to the Group's products and services and provides it with a competitive advantage in the development, distribution and cross-selling of new products and services.

Established Brand and Decisions Made Locally in Poland

Founded in 1919, the Bank is one of the oldest banks and among the most recognised brands in Poland. According to a study by Millward Brown SMG/KRC, an independent market research firm, PKO Bank Polski is the most recognised financial institution in Poland and for the past four years, PKO Bank Polski has been ranked as the strongest brand in the financial sector by the Polish daily, "Rzeczpospolita". In addition, the Management Board believes that the strength of the PKO Bank Polski brand provides a strong foundation for growth in electronic banking. The Bank believes that its strong brand provides a sense of security for current and prospective clients and employees, who view the Bank as a stable, reliable financial institution. Moreover, given the lack of a foreign majority shareholder, all of the key decisions regarding the Group's operations and development are made locally in Poland. As a result, the Group can quickly react to the needs of its customers and the local decision-making processes result in greater flexibility and efficiency, which the Group believes give it a competitive advantage over many of its competitors with parent headquarters in jurisdictions outside of Poland.

Stable Financial Performance and Effective Cost Management

The Group's core banking activities have continued to generate consistent profits. For the years ended 31 December 2014 and 2013, the Group's ROE net and ROA net were 12.4% and 13.2% and 1.4% and 1.6%, respectively. The Management Board believes that the Group's size, financial stability and liquidity position have enabled the Group to generate operating margins exceeding the operating margins of most of its competitors. Moreover, the Group's NIM stood at 3.7% for the year ended 31 December 2014 and 3.7% for the year ended 31 December 2013, which was above the average market levels of 2.7% and 2.7%, respectively, for the same periods (based on PFSA data) and created a sufficient buffer for loan losses. The Group has focused on enhancing its operating efficiencies and cost management, with a C/I ratio of 47.1% for the year ended 31 December 2014 compared to 43.2% for the year ended 31 December 2013. The Group believes that it has the potential to improve its current efficiency level.

Prudent Risk Management

An integral part of the Bank's organisation and culture is its prudent approach to risk management. The Bank's consistent focus on risk management has resulted in lower loan losses and sound asset quality relative to the average levels on the Polish banking market, even in the recent global economic crisis. The Bank has maintained its orientation towards core retail and corporate banking products, thereby enabling it to avoid material losses resulting from investments in structured credit instruments. The Bank's long-standing experience in risk management has enabled it to create the largest databases of risk profiles in Poland which was recently expanded to also cover SMEs. The Bank uses such databases to prepare detailed risk management models. In addition, the Bank recently completed the development and implementation of a centralised, integrated IT system, one of the largest information technology projects ever carried out in Poland. Among other benefits, the new system has

enabled the Bank to improve its lending practices and actively manage its client exposures. The Bank continues to refine its risk management techniques, including the implementation of a behavioural scoring system that is based on a customer's risk profile, rather than risks associated with individual products.

Strategy

Overview

PKO Bank Polski's strategic vision is to achieve long-term sustainable growth and profitability through a secure, modern and universal banking model, as well as to maintain and enhance its leadership position in the Polish financial market.

The Bank's vision for development and value creation is to be a leader of the financial sector in Poland and the leading universal bank in CEE and is captured in the Bank's motto - "*PKO Bank Polski. The Best Every Day.*"

This vision is based around the following core groups of stakeholders of the Bank:

- Shareholders - creating permanent value and offering a stable dividend policy;
- Customers - ensuring customer satisfaction through reliability, a tailored product offering and professional service;
- Employees - striving to be the best employer in the Polish banking sector, supporting development and shared values;
- Local communities and trading partners - acting as a responsible partner engaged in long-term relationships.

The Bank's vision embraces the following values: reliability, customer satisfaction, continuous improvement and entrepreneurship.

The Bank's organisational culture is shaped by common values, which support the implementation of its strategic vision for development.

The basis of PKO Bank Polski's development is embedded in the core aspects of its organisation: high quality human resources and a strong focus on increased efficiency, reliability, customer satisfaction and continuous development.

The Group is primarily focused on the local market and its strategy of accelerated organic growth, taking full advantage of its strong national brand and the attractive long-term growth prospects of the Polish economy and the under-penetrated financial services sector. However, the Group continuously monitors financial sector acquisition opportunities, both in Poland and CEE, and does not rule out the possibility of long-term expansion through such acquisitions, consistent with its overall strategy.

The key strategic levers of the Group's development comprise:

- Client satisfaction – leveraging the full potential of the Bank's customer base by building product offers tailored to the needs of specific customer segments;
- Distribution excellence – striving to improve the effectiveness and quantity of customer service points across the country's largest branch network and developing remote delivery channels;
- Innovation and technology – enhancing the competitiveness of products and services, strengthening relations with customers and diversifying revenue sources through innovation and technological improvements;
- Organisational effectiveness – maintaining competitiveness by implementing intelligent information management solutions, optimising risk and asset-liabilities management and adhering to a cost discipline;
- Development of competencies – strengthening of the organisational culture based on shared values and human resources, focusing on cooperation, engagement and development of skills;
- Acquisitions and alliances – actively exploring strategic acquisition and alliance-driven growth opportunities in Poland and Central Europe to be financed with significant capital surplus.

The Group aims to diversify its business through the development of a universal banking model. In this context, the long-term strategic leverages are represented by 11 initiatives for business areas in a strategic plan to be implemented by 2015.

Strategic Leverages for Business Areas in the Strategic Plan until 2015

Retail Banking

In the retail banking area, the Bank intends to focus on the following three key initiatives:

- Client-centric approach - using information about customers to improve customer service and value by implementing activities focused on developing and maintaining the present customer base. Associated business activities include increasing the value of active customers, improving retention, up-selling and cross-selling, implementation of a priority segment service model and selective acquisitions.
- Distribution excellence - improvement of the effectiveness of distribution through:
  - modernisation and optimisation of the physical network (branches and agencies);
  - development of direct channels; and
  - improvement of sales competencies and effectiveness.

  Associated business activities include the improvement of distribution effectiveness across the network of branches and agencies as well as increased use of direct channels.
- Innovation and diversification of income – implementation of an innovation portfolio management model and development of non-interest income. Business activities within this initiative include the development of insurance, investment and savings products innovation and development of a self-directed segment.

Corporate and Investment Banking

In the corporate banking area, the Bank intends to focus on the following:

- Relationship banking and segment service model:
  - development of relation values by implementing improved segment strategy, distribution structure and pricing policy, development of competencies, leveraging the full potential of the customer and product base;
  - quality discipline in the credit portfolio and effectiveness of capital allocation.

  Associated business activities include the improvement of the effectiveness of customer relationships, improvement of competencies and the implementation of an advanced pricing policy.
- Transactional banking:
  - development of transactional banking by developing mass payments solutions, expanding the product offer and improving customer service and processes.

In the investment banking area, the Bank intends to focus on the following:

- Integrated sales model – equity capital markets and structured financing:
  - development of investment banking services through cross-selling and product development.

  Associated business activities include integrated selling of investment banking products, development of transaction platforms and development of DCM services.
- Optimisation of assets and liabilities management (ALM):
  - safe and effective management of the Bank's liquidity, improved interest rate risk management and development of long-term financing.

  Associated business activities include enhancing the effectiveness of ALM, long-term financing and the implementation of an integrated group model.

Strategic Initiatives in Risk and Debt Collection

The Group intends to focus on the reduction of credit risk costs by adjusting the incentive system and introducing risk elements to MbO and using RAROC, improving the credit risk process, introducing risk-based pricing to improve margins net of credit risk, implementing IRB mechanisms and improving the recovery rate.

PKO Bank Polski believes that it has the capacity to improve the cost of risk. The current cost of risk of the Group for 2014 (1.0% vs. 0.7% in the peer group, understood as Bank Pekao S.A., Bank Zachodni WBK S.A., ING Bank Śląski S.A. and mBank S.A. – the most comparable banks by assets and market shares in Poland) shows that there is a potential to reduce it over the next three years.

As regards auxiliary services, the Group intends to focus on the optimisation of risk management, advanced, efficient and safe technologies, effective operating processes, and development through increased engagement.

Strategic Initiatives in Organisation, IT and Finances

- IT – implementation of advanced, efficient and safe technologies, and effective operating processes;
- Organisation – development through increased engagement and shared values;
- Finance – implementation of effective financial management.

Maintaining Operating and Cost Efficiency

It is the Group's strategic objective to continue to improve service levels, to maintain operating and cost efficiency and to optimise risk management through continued enhancement of operational processes, as set out below:

- developing an operational model which envisages the centralisation, automation and standardisation of a number of business processes related to sales functions and support activities, and various functions within the capital group;
- developing advanced IT technologies, including primarily applications supporting the automation of business and sales processes, and the development of internal IT competencies to ensure improved flexibility and timely implementation of new technological solutions;
- simplifying internal processes and procedures and implementing the principle of end-to-end responsibility (responsibility for the entire business process across all levels) with a view to achieve better supervision over the efficiency and safety of operational processes; and
- developing internal scoring models and using CRM in the credit risk management process.

Focusing on Core Activities and Streamlining the Group Structure

The Group's strategy is to focus on core banking activities supplemented by a range of complementary products and financial services. The Bank's subsidiaries, acting as product centres, have supplemented the basic offer of the Bank's financial services in respect of leasing, factoring, investment and pension funds and life insurance since April 2014.

The Group intends to optimise and streamline its structure and to increase efficiency within the Group and consistency of its operational model. The key strategic initiatives in this respect include:

- integrating the Group companies and optimising the Group's structure;
- centralising back-office functions or shifting the operations of the subsidiaries to the Bank;
- disposing of non-core assets;
- covering new business areas: establishing a mortgage bank and implementing a new bancassurance model; and
- strengthening the Group's market position in selected market segments, including through the acquisition of companies.

Maintaining a Strong Capital Base and Liquidity Profile

The Group intends to maintain a strong capital base and liquidity profile through the optimisation of sources and uses of capital based on a detailed strategic planning and budgeting process with a focus on capital allocation to units that improve the risk-return profile of the Group. Moreover, the Group aims to diversify its funding base by continuing its commercial focus on retail customer deposits and the placement of the Bank's bonds to Polish and foreign investors.

Acquisitions

As regards domestic acquisitions, the Group will use specific criteria for an analysis of acquisition opportunities, such as the ability to secure synergies, strengthening of the Bank's position on the domestic market and market timing. The Groups is also monitoring the domestic market for potential acquisition targets, with opportunities mainly comprising small and medium-sized banks.

In terms of foreign acquisitions, the Group's general direction with respect to international acquisitions in Central Europe and possible acquisition targets will depend on the situation of owners and an assessment of the attractiveness of investments.

Attracting and Retaining Experienced Management and Staff, and Fostering a Dynamic Organisational Culture

Continued skills development, human resources management and fostering an organisational culture based on the Group's values are the significant elements underpinning shareholder value creation and the implementation of the Group's strategy. The Group's objective is to employ the best qualified, driven and motivated staff and, to this end, the Group is implementing a number of specific strategic initiatives, including:

- a comprehensive review of the Group's organisational structure, remuneration, training and recruitment systems;
- new firm-wide and incentive-based remuneration systems, a well-defined career path and succession system;
- initiatives aimed at attracting and retaining highly qualified senior management;
- a new training process, including the establishment of a competencies academy for top and mid-level managers of the Group, and the introduction of e-learning tools; and
- improved internal communication and cooperation, including a comprehensive employee involvement and satisfaction survey aimed at improving staff identification with the Group, and imparting the Group's values and strengthening its organisational culture.

The current strategic plan for the Group for the years 2013–2015, as set out above, was adopted by the Management Board and approved by the Supervisory Board in March 2013.

Operations

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of assets, net profit, total equity, loans and deposits portfolio, the number of customers and size of the distribution network (based on PFSA data). The Group offers a broad range of retail and commercial banking products and services to private individuals, SMEs, corporate and public sector entities as well as certain non-banking financial services products. Furthermore, PKO Bank Polski Group is the largest bank in CEE by assets (as of 31 December 2014) and market capitalisation (as of the date of this Base Prospectus). The Bank is the market leader in retail banking (based on NBP data and the reports of the banks for 2014) and enjoys a strong market position in corporate banking.

In addition to products and services offered in its retail banking and corporate banking, the Group offers a range of products and services relating to leasing, factoring, investment funds, pension funds, internet banking and servicing, as well as card payment settlement through the Bank's subsidiaries. For the years ended 31 December 2014 and 2013 the net profit of the Bank's fully consolidated subsidiaries (before consolidation adjustments) accounted for 0.4% and (4.7%), respectively, of the Group's consolidated net profit attributable to equity holders of the parent company.

The activities of all of the Bank's subsidiaries are presented in the corporate and investment segment. In 2014, changes were made to the functioning of existing segments: the corporate segment and the investment segment were combined into one corporate and investment segment. These changes were aimed at further improving the quality of the services provided to corporate customers and financial institutions, including extending the range of services and products offered and, consequently, ensuring the provision of comprehensive services. Consequently, as a result of the change, as of the date of this Base Prospectus, the Group conducts its operations through the following business segments:

- *Retail Segment*. The retail segment comprises transactions of the parent company with retail clients, clients of small and medium enterprises and housing market clients. This segment comprises, among others, the following products and services: current and saving accounts, deposits, private banking services, investment products, credit and debit cards, consumer and mortgage loans, corporate loans for small and medium enterprises and housing market customers.
- *Corporate and Investment Segment.* The corporate and investment segment includes transactions with large corporate clients and financial institutions. This segment comprises, inter alia, the following products and services: current accounts, deposits, depositary services, currency and derivative products, sell-buy-back and buy-sell-back transactions, corporate loans, leases and factoring. Within the segment, PKO Bank Polski SA also enters, individually or in a consortium with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. Moreover, the segment includes the Bank's portfolio activity on its own account, i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities transactions. The results of the corporate and investment segment include results from activities of PKO Bank Polski SA's subsidiaries.

- *Transfer Centre*. The result on the transfer centre comprises the result of internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependant on interest rates. Transactions between business segments are conducted on an arm's length basis. Long-term external financing includes the issuance of securities, subordinated liabilities and amounts due to financial institutions.

Detailed information on the Bank's material subsidiaries can be found in the section "*Investment Banking – Key Subsidiaries*" below.

The following table shows the Group's gross profit divided into the Group's business segments:

	For the year ended 31 December			
	2014		2013	
	(in PLN thousand) (audited)	*%*	*(in PLN thousand) (audited)*	*%*
Retail segment	3,293,875	81.64	2,979,726	73.67
Corporate and Investment segment	609,046	15.10	695,796	17.20
Transfer Centre	99,832	2.47	370,920	9.17
Share of profit (loss) of associates and joint ventures	31,810	0.79	(1,978)	(0.04)
Gross profit	**4,034,563**	**100.00**	**4,044,464**	**100.00**

Source: 2014 Consolidated Financial Statements

For the purposes of the discussion and presentation of the operations of the various business segments below, the segment reporting has been based on the stand-alone management accounts of the Bank only and thus differs from the segment reporting based on the 2014 Consolidated Financial Statements, as presented in the table above.

The following table shows the Bank's loans and advances to customers divided into business segments and business lines:

	As at 31 December	
	2014	2013
	(in PLN thousand)	
Loans and advances to customers gross, of which:	**185,084,771**	**153,753,558**
Retail segment	**133,581,759**	**110,826,511**
Mortgage banking	90,622,919	68,794,958
Retail and private banking	21,455,129	20,399,493
Small and medium enterprises*	21,503,711	21,632,060
Corporate segment	**51,188,599**	**40,763,620**
Corporate	51,188,599	40,763,620
Other receivables	**314,413**	**2,163,427**
Receivables due from repurchase agreements	302,973	2,144,088
Deposits of the Brokerage House of PKO Bank Polski SA due to Stock Exchange Guarantee Fund	11,440	19,339
Impairment allowances on loans and advances to customers	**(7,527,200)**	**(6,381,232)**
Loans and advances to customers net	**177,557,571**	**147,372,326**

Source: 2014 Stand-Alone Financial Statements
** Since 2014 the presentation of loans and advances granted to housing market clients has been amended and they have been included in the small and medium enterprises segment. Data for 2013 has been brought to comparability respectively.*

The following table shows the Bank's amounts due to customers divided into business segments and business lines:

	As at 31 December	
	2014	2013
	(in PLN thousand)	
Retail segment	**139,105,866**	**125,364,800**
Retail and private banking	121,893,357	110,607,650
Small and medium enterprises*	17,212,509	14,757,150
Corporate segment	**30,907,441**	**21,335,738**
Corporate	30,907,441	21,335,738
Other liabilities	**15,907,255**	**13,257,133**

	As at 31 December	
	2014	2013
	(in PLN thousand)	
Loans and advances received**	15,051,131	11,609,183
Amounts due from repurchase agreements	856,124	1,647,950
Total	**185,920,562**	**159,957,671**

Source: 2014 Stand-Alone Financial Statements
** Since 2014 the presentation of amounts due to housing market clients has been amended and they have been included in the small and medium enterprises segment. Data for 2013 has been brought to comparability respectively.*
*** Including loans and advances from financial institutions and loans received from PKO Finance AB in relation to the issue of notes under the Programme.*

Retail Banking

Overview

PKO Bank Polski is the leading retail banking institution in Poland. As of 31 December 2014, the Bank had the leading position in terms of total assets, loans, deposits, number of personal accounts maintained and bank cards serviced. As of 31 December 2014, the Bank also had 1,261 retail branches (excluding 11 regional retail branches and 8 private banking bureaus), which constitute the main distribution channel of the Bank's products and services, and 1,001 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. In addition, the Bank offers online banking services to its clients using the iPKO and Inteligo platforms.

The Bank divides its retail banking customers ("retail banking customers") into the following categories:

- private individual customers, subdivided into: (i) the mass segment (individuals who do not qualify as personal or private banking customers), and (ii) personal and private banking customers ("PI customers");
- SMEs, i.e. small and medium enterprises meeting the following criteria:
  - annual revenue not exceeding PLN 30 million and the Bank's exposure to the client not exceeding PLN 10 million (criterion applicable to customers acquired from the beginning of 2015) – customers acquired before 2015 which meet this criteria will have the service model changed by the end of 2015,
  - newly established entities that have not achieved their normal production capacity and that apply for loans with a total value not exceeding PLN 10 million,
  - entities involved in the housing sector, including housing associations, real estate developers involved in the realisation of co-sponsored projects with an individual value below PLN 50 million and the Bank's exposure to the client not exceeding PLN 100 million, real estate agents, housing communities and real estate managers ("housing sector entities").

As of 31 December 2014, the Bank serviced approximately 8.89 million customers including customers of the Bank using the Inteligo electronic banking platform (including approximately 8.43 million individual customers and 449 thousand SMEs clients).

The Bank's main retail banking products and services include current and saving accounts, term deposits, lending products (consumer loans, mortgage loans, and investment and working capital loans for SMEs and housing sector entities), payment cards, insurance and investment products.

Distribution Channels

PKO Bank Polski offers its products and services to retail banking customers through the largest network of branches and agencies in Poland. The Bank's branch network represented 17.2% of the total number of commercial bank branches in Poland as of 31 December 2014 (based on PFSA data). The Bank is also continuing to refurbish its existing branches to standardise its image throughout its branch network, refresh its branding, upgrade its branches to respond to changing client expectations and develop other distribution channels based on new technologies. The Bank's branch and agency network is complemented by non-exclusive financial intermediaries. As of 31 December 2014, the Bank was distributing products on the basis of 474 agreements with nonexclusive financial intermediaries. The Bank reviews the locations of its distribution channels on an ongoing basis to provide better access to its targeted customer base. As part of its strategy, the Bank will continue to optimise its network of branches and agencies to ensure a strong presence in all large cities.

As of 31 December 2014, the Bank operated 3,065 ATMs. As of 31 December 2014, the Bank had 14.9% of the total number of ATMs on the Polish market (according to NBP data). In addition, the Bank's customers can

access their accounts and effect banking transactions through all non-Bank ATM networks in Poland as well as ATMs outside Poland that accept VISA, MasterCard and Diners Club. Customers use the Bank's ATMs for a variety of transactions, including cash withdrawals and ATM deposits and other services.

With the goal of expanding the reach of its distribution network and satisfying evolving client expectations in an increasingly competitive market, the Bank continues to develop and implement new technology-based distribution channels, including a call centre, online banking, and SMS and mobile banking. The Bank offers online banking services to its clients using the iPKO platform and to customers that have an Inteligo account. The iPKO platform offers the Bank's clients the same products and services that are offered at the Bank's branches. Inteligo offers PI and SME customers online access to bank accounts, term deposits and various other products. The Bank is in the process of adding further functionalities to its online distribution platforms, including lending and long-term savings products. As of 31 December 2014, approximately 6,868 thousand retail banking customers were using iPKO online banking services.

In March 2013, the Bank introduced a new product, the IKO application: a mobile application that is a new solution in the Polish banking sector that combines banking and payment functions, allowing customers to pay with their mobile phones in retail and online stores, as well as to make withdrawals from the Bank's ATM network. A user can also send money to other users with the IKO application. As of 31 December 2014, the IKO application was used by more than 228 thousand users, and the acceptance network covers over 70 thousand eService payment terminals and 10 thousand online stores. At present, IKO users have access to more than 6 thousand ATMs. In the analysed period, a new version of the IKO application was made available to PKO Bank Polski SA customers. Upgrading the software made the application operate more quickly and brought a number of improvements in the area of security, inter alia, due to modifications to the application registration process.

In 2013, the Bank introduced one of the first online banking products for children in the world, which at the same time is a comprehensive financial education programme, called "PKO Junior". The 'PKO Junior oferta dla segmentu wiekowego 0–12' project (PKO Junior offer for the segment aged 0–12) offers two new types of accounts: PKO Konto Dziecko (a child account) and PKO Konto Rodzica (a parent account), which enable the purchasing of long-term deposits and investment products for children under one consistent offer. When the holder of a PKO Konto Dziecka reaches the age of 13, the account is automatically converted into a PKO Konto Pierwsze account; when the account holder reaches the age of 18, the account is automatically converted into a PKO Konto dla Młodych account. In 2014, more than 76.6 thousand PKO Konto Dziecka accounts were opened.

Products and Services

The Bank's main retail banking products and services include current and saving accounts, term deposits, loan products and investment and bancassurance products, which are cross-sold to customers primarily in connection with mortgage loans. The Bank offers a wide variety of loan products to its retail banking customers, including consumer loans (overdraft facilities, including credit lines, personal cash loans, and credit cards), housing mortgage loans, student loans, investment and working capital loans to SME customers and loans to housing sector entities. On the deposit side, the Bank focuses on term deposits, savings and current accounts.

Products and Services for PI Customers

Current Accounts

The current account product is the most important product offered by the Bank to its PI customers. The Bank's current account provides access to several other products and services such as various credit lines, overdraft facilities, life and non-life insurance products, wire transfers, direct debits, standing orders and debit cards. As of 31 December 2014, the Bank's customers held approximately 6.66 million current accounts maintained as part of the Superkonto offer and the new "PKO Konto" current account offer, and the Bank issued approximately 6.538 million debit cards in connection with such accounts.

The Bank also offers its PI customers a bank savings account and an Inteligo internet savings account.

Personal and Private Banking

The Bank divides personal and private banking clients into the following subgroups:

- "**Personal banking clients**" – individuals with an average monthly inflow into their accounts of at least PLN 5,000 or whose deposits in the accounts maintained with the Bank or the Group exceed PLN 150,000; and
- "**Private banking customers**" – individuals whose deposits in the accounts maintained with the Bank or the Group exceed PLN 1,000,000 and who have signed an agreement on the usage of dedicated services.

The Bank offers specialised products and services to such customer segment as part of its personal and private banking program, which provides customers with the services of a personal adviser, separate VIP teller areas at

selected branch locations, the ability to negotiate terms of certain services as well as negotiated rate term deposit products, loan products with flexible approval procedures and payment schedules, foreign exchange products and services, bank cards for affluent customers, and various insurance products. As of 31 December 2014, the Bank had approximately 468 thousand personal banking clients and signed approximately 3.3 thousand agreements with private banking customers.

Deposit Products

The Bank offers its PI customers PLN denominated deposit products (including current accounts such as the current account and individual retirement accounts, Inteligo internet online banking accounts, a broad range of term deposits, saving accounts for housing purposes, and savings books in the form of current and term deposits), foreign currency denominated deposit products, and regular savings accounts in PLN, USD, EUR, CHF and GBP.

Loan Products

Consumer Loans

The Bank offers consumer loans to its PI customers in the form of overdraft facilities, including credit lines, cash loans and credit cards. Consumer loans amounted to 16.1% and 18.4% of the total loans to retail banking customers as of 31 December 2014 and 2013, respectively. As of 31 December 2014, the average tenor of a consumer loan equalled 69 months (excluding early repayments).

The cash loan is the Bank's basic consumer finance product addressed to PI customers. The consumer finance offer for personal and private banking customers is complemented by "*Kredyt AURUM*" and "*Kredyt PLATINUM*". Such offers are addressed to the Bank's existing customers and to clients who have not dealt with the Bank before.

Payment Cards

The Bank offers its retail customers a comprehensive range of payment card products, issued by the Bank in conjunction with Visa, MasterCard and Diners Club programs. The Bank also offers VISA Infinite and Master Card Platinum credit cards to its private banking customers. As of 31 December 2014, the Bank had issued approximately 7.5 million payment cards, including 871 thousand credit cards for retail customers (including prepaid cards).

Mortgage Loans

The Bank holds a leading position in the Polish housing mortgage loan market and such loans amounted to 67.8% and 62.1% of total loans to retail banking customers as of 31 December 2014 and 2013, respectively. The Bank offers mortgage loans in PLN. The Bank also has a legacy portfolio of CHF denominated mortgage loans, the active selling of which has been materially restricted since the fourth quarter of 2008. The sale of mortgage loans denominated in convertible currencies ceased in December 2011 in PKO BP SA, while in Nordea Bank Polska SA it ceased in June 2012. Due to the acquisition, the share of foreign currency mortgage loans has increased. For the years ended 31 December 2014 and 2013, the share of foreign currency mortgage loans (excluding accrued interest and EIR adjustment) stood at 38.2% and 30.8%, respectively. As of 31 December 2014, the average tenor of a mortgage loan equalled 26 years (excluding early repayments).

The Bank's primary home loan products consist of products offered under the brand "*Własny Kąt hipoteczny*" (consisting primarily of standard repayment mortgages for financing home or apartment purchases, renovations or refurbishments). These loans are secured by mortgages on the property being acquired or other property. Until such mortgages are registered in the mortgage register, the Bank either insures the receivables under such loans or charges higher margins during the interim period.

Products and Services for SME Customers

The Bank was one of the first Polish banks to introduce a line of products and services specially designed for SME clients of every type. The package for SME customers includes, among others, current accounts, auxiliary current accounts in a range of currencies, standard and negotiated term deposits, loans and credit facilities, a full range of bank cards: debit, credit and charge, and other services. The Bank also introduced a few new products to the offer, mainly: a new debit card which allows contactless payments, a new internet debit card and a new package including POS terminals. The Bank also introduced the first stage of an on-boarding process for SME customers as well as a retention program. As of 31 December 2014, the Bank maintained approximately 327 thousand SME deposit accounts. In addition, SME customers had approximately 34 thousand Inteligo accounts.

The Bank offers investment and working capital loans to its SME customers. Investment loans amounted to PLN 13.3 billion and PLN 13.7 billion as of 31 December 2014 and 2013 respectively, whereas working capital loans amounted to PLN 8.2 billion and PLN 7.9 billion as of 31 December 2014 and 2013, respectively.

The Bank also offers its SME customers products for the co-financing of investment projects which have qualified for EU structural assistance programs. The Bank has created the product line "*Program Europejski*" for those SMEs that are beneficiaries of the EU structural pre- and post-accession loan programs. This SME product offering includes services such as project finance and bridge financing that are used to pre-finance redeemable investment expenses as well as guarantees and foreign exchange hedging instruments.

The Bank offers credit cards dedicated to its SME customers under the brands "PKO Euro Biznes". As of 31 December 2014, the Bank had issued approximately 16.6 thousand of such cards. In addition SME customers had approximately 26 thousand Inteligo debit cards.

Products and Services for Housing Sector Entities

The Bank offers a comprehensive line of products and services tailored to housing sector entities. These products are directed at housing associations, their management bodies and real estate agents.

The Bank's deposit products offered to this customer segment include current accounts, savings accounts, negotiated rate and overnight deposits, and e-banking. The Bank's main products dedicated especially to housing co-operatives include services under the brands "*Pakiet Nasza Wspólnota*", "*Nasza Mała Wspólnota*", "*Pakiet Wspólnota Premium*" and "*Pakiet Nasza Wspólnota Plus*", which was introduced in April 2011. The Bank's primary loan products for such clients are offered under the brand names "*Nowy Dom*" (new house) and "*Nasz Remont*" (our refurbishment). These products are intended for all types of residential property investments, including refurbishment.

Other Products and Services Offered to Retail Banking Customers

In addition to the above described loan and deposit banking products and services, the Group offers a wide array of additional products and services to its retail banking customers including brokerage services (offered by DM PKO BP – the brokerage house of PKO Bank Polski), internet banking account together with related online transaction services (offered by Inteligo), investment products such as funds and investment programs as well as individual retirement accounts (offered by PKO TFI), units of an open pension fund (managed by PTE BANKOWY), and leasing services for SME customers as well as for selected PI customers (offered by PKO Leasing S.A. group). For a more detailed description, please see "*Investment Banking – Brokerage House*" below.

In addition, in cooperation with various leading Polish and international insurance companies such as PZU S.A., PZU Życie S.A., and STU Ergo Hestia S.A., the Bank offers its retail banking customers various insurance products connected to its banking products, including property insurance, third-party liability insurance, loss of employment protection insurance and travel, health and life insurance. In addition, the Bank in cooperation with insurance companies uses insurance as collateral in connection with mortgage loans, investments and working capital loans granted to SME customers. For the years ended 31 December 2014 and 2013, the Bank generated net income from its loan insurance of PLN 153.9 million and PLN 171.7 million, respectively.

Corporate and Investment Banking

Overview

The corporate and investment segment covers transactions conducted with large corporate customers and financial institutions. This segment comprises, inter alia, the following products and services: maintaining current accounts and term deposits; holding securities; foreign exchange and derivative products; sell-buy-back and buy-sell-back transactions with customers; corporate loans; and leases and factoring. As part of this segment's activities, PKO Bank Polski SA also concludes (on its own or in consortiums with other banks) agreements for financing large projects in the form of loans and issues of non-Treasury securities. This segment also includes own activities, i.e. investing activities, brokerage activities, interbank transactions, as well as transactions in derivative instruments and debt securities.

While historically the Bank primarily focused on providing retail banking products and services, the Group has been actively providing dedicated corporate banking products and services since 2004 and, as of the date of the Base Prospectus, ranking as one of leaders in the corporate banking segment in terms of value of loans outstanding.

Since 2012, the Bank has divided its corporate and investment banking customers into the following categories:

- corporate companies meeting the following criteria:
  - annual revenue in excess of PLN 10 million,
  - newly established entities that have not achieved their normal production capacity and that apply for loans with a total value in excess of PLN 10 million;

- strategic clients – selected group of the most important clients (most of them with an annual turnover of more than PLN 500 million); and
- public sector entities – local government units ("**LGUs**"), central and local public administration and public institutions.

In the last quarter of 2014, after the legal merger with Nordea Bank Polska SA, which ended the formal integration stage of the two banks, a new category of corporate banking customers was established:

- foreign clients – foreign entities operating on the territory of Poland or entities with foreign shareholders.

The Bank offers all of its corporate banking customers a comprehensive range of deposit products, including current and term deposit products, as well as loan products and transaction products.

In the year ended 31 December 2014, the Bank serviced a total of approximately 14.1 thousand corporate banking customers (of which mid-sized companies, large companies, strategic clients and public sector customers held a 65%, 5%, 26% and 4% share, respectively).

The Bank's main corporate banking products and services include lending products, transaction banking (including trade finance), asset management, treasury products as well as structured lending, project finance and custody services. The corporate banking customers also have access to all products offered by the Bank's subsidiaries, including specialised lending products (such as leasing and factoring) and card services.

As part of the corporate and investment segment, the treasury department is responsible for managing the Bank's surplus liquidity, currency risk, interest rate risk and the sale of products (primarily hedging products) mostly to the Bank's corporate banking customers.

The Bank manages its investment portfolio conservatively. A significant portion of the Bank's investment portfolio consists of Treasury securities denominated in PLN, but in order to hedge against foreign exchange and interest rate risks, specifically with respect to mortgage loans denominated in foreign currency, the Bank enters into CIRS transactions.

The Bank offers a wide range of financial products to its customers while adhering to a conservative trading strategy as far as investing in derivatives. The Bank primarily focuses on providing its customers with relatively simple foreign exchange derivatives and adheres to a strict risk policy. Throughout its other businesses, the Group provides brokerage services, insurance services and specialised financial services, including factoring, leasing, investment funds, pension funds and electronic payment services, and focuses on new product development to meet its customers' requirements. For a description please see "*Key Subsidiaries*". Nevertheless, the Group expects that it will maintain its orientation towards core retail and corporate banking services for the foreseeable future.

Distribution Channels

In 2013, a new organisational structure of the sales network was implemented in the corporate segment. Seven corporate macroregions were established, comprising 32 regional corporate centres (37 regional corporate centres at the end of 2014). By adjusting the organisation of its sales network and the model of its functioning to suit existing market needs, the Bank improved its co-operation with all groups of corporate customers.

Loan and Deposit Products

The Bank offers its corporate banking customers a comprehensive range of loan products. The Bank's offer includes: (i) PLN loans, including overdraft loans, working capital loans and investment loans; and (ii) foreign currency loans, including working capital loans and investment loans.

Entities financed from the State budget and local government entities constitute an important customer group for the Bank's loan products. The Bank offers several tailor-made products for these customers, such as loans to finance budgetary deficits, investment credit and bond issuance facilitation.

The Bank also offers its corporate banking customers products related to projects co-financed by the EU (under a separate program, "*Program Europejski*"), such as bridge financing, co-financing, guarantees and consulting services, which are individually tailored to meet the particular needs of the Bank's corporate banking customers.

The Bank also offers syndicated loan products both as an arranger and as a syndicate member.

The Bank offers its corporate banking customers a comprehensive range of deposit products, including current and term deposit products. The Bank's principal corporate banking customer deposit products offer includes PLN and foreign currency denominated deposits (standard and negotiable), overnight automated deposits as well as investment products (including transactions involving treasury bills and bonds).

Transactional Products

In addition to various deposit and loan products, the Bank offers its corporate banking customers modern transaction products, which can facilitate the effective management of cash flows and liquidity of companies, capital groups and state-budget entities and may result in operational efficiencies and cost-savings. These products assist corporate banking customers with payables management, monitoring collection of receivables, cash collection, mass payments, trade finance and permit the Bank to optimise the costs of the customer transactions.

The transactional products of the Bank are divided into the following product categories:

- liquidity management (current account, cash pooling, consolidated account, escrow account, micro-accounts);
- payables and liquidity management products (domestic and foreign payments, mass collection products, direct debit);
- cash products (cash collection and withdrawals);
- card products (debit cards, charge cards, credit cards, pre-paid cards);
- electronic banking (internet banking, off-line banking systems); and
- trade finance products (bank guarantees, import and export letters of credit, documentary collection, discount products such as promissory notes and bills of exchange).

While for financial reporting purposes treasury products are part of the retail and corporate banking segments, such products are operationally a part of investment banking.

Operations

As of 31 December 2014, the Bank's treasury asset portfolio amounted to PLN 39.0 billion, composed primarily of PLN-denominated treasury bonds and NBP bills.

The Bank enters into deposits on the inter-bank market and transactions in debt securities issued by the State Treasury or the NBP as part of its liquidity management. The Bank plays an important role on the PLN money market. Interest income derived from treasury assets significantly contributes to the Bank's revenues.

The Bank manages its foreign exchange and interest rate risks by entering into derivative transactions, such as forward rate agreements, interest rate swaps and basis (CIRS) swaps.

As of the date of the Base Prospectus, the Bank engages in limited trading activities on its own behalf. Within its trading activities the Bank also cooperates with non-banking financial institutions.

The Bank is certified as a primary money market dealer and as a primary government debt dealer. The Bank's certification as a primary government debt dealer allows it to participate directly in treasury bond auctions. The Bank is the sole sales agent of retail government bonds in Poland. In the past year, the Bank issued two series of bonds on the domestic market. As of 31 December 2014, the nominal value of such issuances amounted to PLN 0.75 billion.

Treasury Products

In addition, the Bank's standard offer for non-financial customers includes mostly foreign exchange spot or forward transactions, negotiated deposits, municipal and corporate bonds, and derivative transactions such as swaps and various kinds of foreign exchange options, as well as simple commodity hedging transactions. Treasury products are sold through the Bank's network of regional corporate branches or directly by a team of corporate dealers from the Bank's treasury department. In the past year, the Bank introduced a new online platform, iPKO dealer, which offers the possibility of concluding new transactions and new functionalities.

The following table shows details of the Bank's treasury asset portfolio as of the dates indicated below.

	As of 31 December	
	2014	**2013**
	(in PLN thousand) (audited)	
Securities	37,438,462	29,400,371
Trading book[1]	1,928,659	484,485
Banking book[2]	35,509,803	28,915,886
Deposits with banks	1,602,613	1,425,588

	As of 31 December	
	2014	2013
	(in PLN thousand) (audited)	
Receivables due from repurchase agreements	-	14,033

Source: 2014 Stand-Alone Financial Statements

Notes:

[1] Trading assets.

[2] Financial assets designated upon initial recognition at fair value through profit and loss and investment securities available for sale.

The following table shows values of the Bank's total open positions in derivative instruments as of the dates indicated below.

	As of 31 December	
	2014	2013
	(in PLN thousand) (audited)	
FRA (forward rate agreement)	103,223,000	52,214,000
IRS (interest rate swap)	424,991,412	361,014,348
FX swaps	44,903,332	12,098,838
Cross Currency (CIRS)	50,763,366	40,468,688
FX forwards	14,142,255	8,100,676
FX options	18,167,734	7,807,325
Other	6,105,324	7,481,609

Source: 2014 Stand-Alone Financial Statements

Investment in Corporate and Municipal Debt Securities

The Bank makes investments as part of its corporate banking operations. These investments are made as a result of underwriting issues of debt securities for the Bank's corporate clients. During 2014, the Bank arranged 23 corporate bond issues (of which 7 were underwritten) with an aggregate value of PLN 13.3 billion and 132 municipal bond issues with an aggregate value of PLN 539 million. As of 31 December 2014, the total amount of corporate and municipal debt securities held by the Bank in connection with its underwriting activities was PLN 13.223 billion (including PLN 4.837 billion of debt securities classified to loans and advances to customers).

Brokerage House

DM PKO BP is a securities brokerage house that operates as an internal division within the Bank. DM PKO BP is one of the largest brokers in Poland and has operated as a broker in the Polish capital market since 1991. DM PKO BP offers its clients a wide range of brokerage services, including accepting and executing clients' orders, acting as a market-maker, conducting tender offers, offering financial instruments, investment advisory, asset management, financial analysis, equity research and corporate finance advisory services. As of 31 December 2014, DM PKO BP's services were offered through 33 brokerage outlets and approximately 1,087 of the Bank's branches that comprise the Bank's distribution network.

DM PKO BP's customer base consists of both retail and institutional investors (including foreign institutional investors). As of 31 December 2014, customers of DM PKO BP held 182.6 thousand investment accounts and 173.5 thousand active registry accounts, to evidence securities that were bought on the primary market, with PLN 36.4 billion in equities, PLN 17.5 billion in debt securities and other instruments.

During 2014, DM PKO BP ranked second in the Polish market in equities trading with a 10.5% market share in equities trading (based on WSE data). DM PKO BP is one of the largest bond trading houses in Poland, with a 50.5% market share in bond trading on WSE for the year ended 31 December 2014. DM PKO BP also holds the leading market position in sale of retail treasury bonds and sold 27,209,264 bonds (total nominal value – PLN 2.7 billion) to customers during the year ended 31 December 2014 and 29,218,949 bonds (with a total nominal value of PLN 2.9 billion) during the year ended 31 December 2013. It also offers investment units of 281 investment funds managed by 18 investment management companies, including PKO TFI. In addition to equities and bonds, DM PKO BP also trades derivatives and held a 4.1% futures and 20% index options local market share by volume for the year ended 31 December 2014. DM PKO BP aims to increase its institutional client base and product offer for such clients.

Key Subsidiaries

The Group also provides other specialised financial services through its wholly or partly owned subsidiaries. The contribution from the subsidiaries (before consolidation adjustments) to the Group's consolidated net profit

attributable to the equity holders of the parent company was 0.4% for the year ended 31 December 2014 and (4.7%) for the year ended 31 December 2013. The Group is in the process of reorganisation to increase efficiencies and may dispose of certain non-strategic Group companies. The key subsidiaries are described below.

PKO Bank Hipoteczny S.A.

On 26 August 2014 the Polish Financial Supervision Authority granted its permit to the establishment by the Bank of a mortgage bank under the name of PKO Bank Hipoteczny SA. On 6 October 2014, PKO Bank Polski SA established PKO Bank Hipoteczny SA and on 24 October 2014 the mortgage bank was registered with the National Court Register. The share capital amounted to PLN 300,000 thousand and consisted of 300 milion shares, each of PLN 1 nominal value. On 6 March 2015 the Polish Financial Supervision Authority issued a decision in which granted its permit to the commencement of operations by PKO Bank Hipoteczny S.A., following which the bank commenced its operations on 1 April 2015. The bank will offer long-term mortgage loans to retail customers and issues long-term mortgage bonds.

PKO Towarzystwo Funduszy Inwestycyjnych S.A. – asset management

PKO TFI is an asset management company established in 1997. As of 31 December 2014, PKO TFI was the fourth largest asset management company in Poland by funds under management, managing 40 investment funds and sub-funds with total assets of PLN 16.95 billion and had a share of the Polish asset management market of approximately 8.1% based on publicly available financial reports of asset management companies. Since 1 January 2010, PKO TFI has managed the investment funds portfolios independently. The Bank provides PKO TFI with certain administrative services. These include the use of the Bank's extensive branch and distribution network to sell participation units in PKO TFI funds, the execution by the Bank's treasury department of PKO TFI's fixed-income transactions and the execution by DM PKO BP of PKO TFI's transactions on the WSE.

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A. – open pension fund management company

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A. ("**PTE BANKOWY**") manages the open pension fund PKO BP Bankowy and since 13 February 2012 also PKO Dobrowolny Fundusz Emerytalny. PTE BANKOWY was jointly founded in 1998. As of 31 December 2014, PTE BANKOWY held assets under management of PLN 6.6 billion and was ranked ninth on the Polish market in terms of total assets under management (based on data provided by the PFSA). Its management intends to focus on increasing PTE BANKOWY's current market position, its profitability and the Bank's return on investment.

In August 2012, PTE BANKOWY executed an agreement with Powszechne Towarzystwo Emerytalne POLSAT S.A. regarding the takeover of the management of Otwarty Fundusz Emerytalny POLSAT ("**OFE POLSAT**"), an open pension fund. In October 2012 and in February 2013, PTE BANKOWY received clearances for the transaction from the President of the Antimonopoly Office and from the PFSA, respectively. As a result of the takeover of the management of OFE POLSAT by PTE BANKOWY and the subsequent liquidation of OFE POLSAT, the participants of OFE POLSAT became participants of PKO BP Bankowy OFE while maintaining their account balances and their participation duration up to the date of the takeover. On 16 April 2013, PTE BANKOWY took over the management of OFE POLSAT.

PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.) – leasing services

PKO Leasing S.A. was established in 1999. PKO Leasing S.A. and its subsidiaries (PKO Bankowy Leasing sp. z o.o. and PKO Leasing Sverige AB – new company in Sweden) provide operational and financial leasing of tangible and real estate assets. In 2014 Nordea Finance Polska SA, a company acquired by the Bank, was merged with PKO Leasing SA. For the year ended 31 December 2014, PKO Leasing S.A. (including its subsidiaries) held a market share of approximately 6.4% by value of assets leased over the period and was the -fifth largest leasing company in Poland (based on data provided by the Polish Leasing Association).

Qualia Development sp. z o.o. – real estate development and Group Entities of the Qualia Development

Qualia Development sp. z o.o. has 14 years' market experience in the real estate development business. Qualia is known for its housing construction projects and is the first and only developer in Poland to have built a network of condo-hotels, operated under a franchise agreement with Golden Tulip, a global brand. Qualia's development activity focuses on prime residential and hotel facilities in major cities and tourist destinations in Poland: Warsaw, the Pomerania region (e.g. Gdańsk, Sopot, Jurata), Międzyzdroje and Zakopane.

As of 31 December 2014, Qualia Development sp. z o.o. and its subsidiaries were fully consolidated in the financial statements of the PKO Bank Polski Group. In December 2014, in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), the Bank reclassified the shares it holds in Qualia Development sp. z o.o. as 'Noncurrent assets held for sale', which means that the Bank intends to recover the value of the above-mentioned shares through a sale transaction. See "*Material Contracts – Material Share Purchase Agreements – Letter of intent regarding potential disposal of Qualia Development sp. z o.o.*"

Kredobank S.A. – banking services in Ukraine

In August 2004, attracted by the high growth potential and the low saturation of banking products and services on the Ukrainian banking market, the Bank acquired an interest in Kredobank, a bank registered and operating in Ukraine. Following purchases of shares from non-controlling shareholders in 2005 and EBRD in 2007, and as a result of share capital increases, the Bank, as of the date of the Base Prospectus, owns 99.57% of the share capital of Kredobank.

Kredobank is a commercial bank providing basic banking services to both individual and corporate clients. As of 31 December 2014, Kredobank's distribution network consisted of 110 subordinated branches in 22 of the 24 regions of Ukraine. Kredobank's scope of operations in Ukraine includes deposit taking, lending activity, servicing bank accounts, foreign exchange transactions and offering securities brokerage services. According to data published by the NBU, Kredobank's market share (calculated as a percentage of the total assets of the banking sector of Ukraine) was 0.46% as of 31 December 2014.

The recession experienced by the Ukrainian economy following the outbreak of the global financial crisis was a result of domestic financial instability, a sharp drop in external demand and prices for steel, Ukraine's major export. From the beginning of the downturn, domestic banks have been adversely affected by the shortage of liquidity, reduced inflows of foreign capital, declines in household earnings and the depreciation of the Ukrainian currency against key currencies. Moreover, the annexation of Crimea and the risk of bankruptcy pushed Ukraine to seek help from the IMF. It managed to reach an agreement with the IMF on 27 March 2014 and obtained loans totalling USD 17 billion in exchange for the implementation of a reform package. However, the war-related destruction of Ukraine's economic capacity in 2014 once again pushed the country to the brink of an economic and financial collapse: GDP in the fourth quarter of 2014 was down 15% from a year earlier. The dramatic fall of the UAH (70% down against the USD since March 2013) brought inflation up to 45.8% in March 2015. The Ukrainian government was forced to ask the IMF to replace the old programme with a new one. The New Extended Fund Facility (EFF) raised the Fund's commitment to USD 17.5 billion over the next four years under the assumption that other creditors will commit a further USD 9.2 billion. The current situation is still dire as the NBU's foreign reserves fell to USD 5.6 billion in February 2015.

In 2014, the GDP of Ukraine declined by 6.8% on a year-on-year basis and industrial output decreased by 10.7% on a year-on-year basis. Given the developments in eastern Ukraine and Crimea, Kredobank has closed its branches in Crimea and suspended the activity of its branches in the Donetsk Region. The Bank has also had to create substantial loan loss provisions for loans that had been granted in those regions. As at 31 December 2014, the total net exposure of the Kredobank Group to loans granted in such regions was not significant and amounted to UAH 40,770 thousand (PLN 9,157 thousand).

In 2014, the National Bank of Ukraine abandoned its support for the stable exchange rate of the UAH. Deep devaluation of the UAH against the USD followed – from 8 UAH/1 USD at the beginning of 2014 to 23 UAH/1 USD in March 2015. The devaluation contributed to a high rate of inflation that in 2014 reached 24.9% on a year-on-year basis. Such devaluation and loan quality deterioration led to considerable losses in the banking sector which amounted to UAH 53 billion in 2014. More than 40 banks have been declared insolvent, and a consolidation process in the banking sector has started.

The Group continuosly analyses the impact of these events on its financial results, including the risk of the deterioration of the quality of the assets held by the Group in Ukraine.

As of 31 December 2014, the equity of the Kredobank group amounted to UAH 259 million (PLN 58 million) – ranking 46th in the Ukrainian banking sector, based on the NBU's data.

As at the end of December 2014, the Kredobank group incurred a net loss in the amount of UAH 285 million (PLN 75 million). In 2013, the net loss of Kredobank group amounted to UAH 325 million (PLN 126 million). In 2014, the Company's loan portfolio (gross) increased by UAH 994 million, i.e. by 36.8%, and amounted to UAH 3,692 million as at 31 December 2014; the gross loan portfolio as denominated in PLN decreased by PLN 171 million, i.e. by 17.1%, and amounted to PLN 829 million as at the end of 2014. In 2014, clients' term deposits of Kredobank increased by UAH 27 million, i.e. by 1.5%, and amounted to UAH 1,889 million as at the end of 2014; term deposits as denominated in PLN decreased by PLN 266 million, i.e. by 38.5%, and amounted to PLN 424 million as at the end of the year. As of 31 December 2014, the total amounts due to customers of the Kredobank group amounted to UAH 3,612 million (PLN 811 million). The decline of PLN denominated amounts resulted from the devaluation of the UAH in relation to the PLN throughout 2014.

On 29 November 2013, PKO Bank Polski made a capital contribution to Kredobank by way of a financial donation in the amount of USD 20,681 thousand (i.e. PLN 63,793 thousand calculated at the mid NBP exchange rate on the date of the transfer of the funds).

On 5 February 2014, PKO Bank Polski capitalised Kredobank through a second financial donation in the amount of USD 6,020 thousand (i.e. PLN 18,656 thousand calculated at the mid NBP exchange rate on the date of the

transfer of the funds). These donations increased the purchase price in the statement of financial position of PKO Bank Polski.

Following a comprehensive inspection undertaken by the NBU in 2013, on 12 September 2014, the NBU approved an agreement regarding the commitments concerning the improvement of the activities of Kredobank. One of the key points of such agreement was the commitment to increase the capitalisation of Kredobank by the end of 2014 which was not implemented in the originally envisaged timeframe. Consequently, pursuant to a decision adopted by the NBU on 31 December 2014, the agreement was amended and the deadline for the recapitalisation was postponed until the end of 2015; at the same time, the remaining key points of the agreement, as well as the respective deadlines, remained unchanged.

In the environment of challenging market conditions, Kredobank intends to continue implementing various restructuring and efficiency improvement initiatives with the aim to establish a solid platform for future growth. In 2011, the Bank developed and adopted a new strategy for Kredobank consisting of two stages: (i) restructuring and business reorganisation; and (ii) the implementation of best practices with respect to its products, internal procedures and distribution chain, while focusing on selected geographical areas of the Ukrainian market. The implementation of the strategy of Kredobank has been aimed at improving capital adequacy, the profitability of assets, better risk management and maintaining the strategic direction of Kredobank as a regional bank in Western Ukraine which also operates in certain selected larger cities in other regions in the country and remains a niche player focused predominantly on retail and SME clients. At the end of 2014, the Bank updated its strategy for Kredobank for the years 2015 & 2016, which provides for further development of promising business initiatives, but also takes into account new market opportunities and new market challenges, including the deterioration of external operating conditions. As part of the implementation of the updated strategy, Kredobank has launched a number of strategic projects in various areas of activity. The above-mentioned initiatives are focused mainly on revenue growth or cost optimisation.

Kredobank was ranked first by Forbes Ukraina among banks in Ukraine with the highest solvency scores. The ranking was prepared based on the performance results of banks in 2014. The review included the liquidity, profitability and capitalisation ratios, qualitative liquidity factors, shareholder support and risks associated with the shareholders' countries of origin. The objective of the ranking was to select banks which demonstrate the best ability to survive in a period of instability.

Prywatne Inwestycje and Inter Risk

On 29 November 2011, PKO Bank Polski granted to Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. a loan in the amount of USD 63,070 thousand for the purchase from Kredobank of a loan portfolio with a nominal value of UAH 1,645,470 thousand (PLN 369,572 thousand – the values included in this information were converted into PLN using the average NBP exchange rate as at 31 December 2014 (0.2246 PLN/UAH)). Two increases in the share capital of "Prywatne Inwestycje" of UAH 484,000 thousand and UAH 420,000 thousand (PLN 108,706 thousand and PLN 94,332 thousand – the values included in this information were converted into PLN using the average NBP exchange rate as at 31 December 2014 (0.2246 PLN/UAH)), were registered with the Ukrainian Register of Businesses in September 2013 and in November 2014, respectively. As at 31 December 2014, the Company's share capital amounts to UAH 950,101 thousand and consists of one (1) share, with the above-mentioned nominal value.

The outstanding debt of "Prywatne Inwestycje" towards PKO Bank Polski was being gradually repaid in the fourth quarter of 2014 and January-February 2015. As of 31 December 2014, the unpaid outstanding amount of the loan (excluding interest) was USD 8.25 million.

As of the date of the Base Prospectus, the Bank directly holds 95.47 % of the share capital of "Prywatne Inwestycje". The remaining 4.53 % of the shares in the factoring company are held by Inter-Risk Ukraina additional liability company, which is wholly owned by the Bank.

On 3 December 2014, an entry was made in the Ukrainian Register of Businesses of an increase of the share capital of "Inter-Risk Ukraina" Sp. z d.o. of UAH 35,000 thousand (PLN 7,861 thousand, calculated at the exchange rate announced by the NBP on 31 December 2014), which involved an increase of the nominal value of the share in the Company and was subscribed for by PKO Bank Polski SA. Following the above-mentioned transaction, the Company's increased share capital is UAH 78,275 thousand and consists of one (1) share with the nominal value stated above.

As at 31 December 2014, PKO Bank Polski SA was the sole shareholder of the Company.

At the same time, given the change to the Bank's operating strategy which was introduced in 2014 with respect to: Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. and "Inter-Risk Ukraina" Sp. z d.o. and considering the difficult economic and political situation in Ukraine, the shares in these companies ceased to be disclosed as "Noncurrent assets held for sale" as at the end of 2014.

Acquisition of Nordea Group entities

On 12 June 2013, the Bank concluded an agreement with Nordea Bank AB (publ), a company registered in Sweden, which set out the terms and conditions of the acquisition from Nordea Bank AB (publ) and other Nordea Group entities: Nordea Bank Polska S.A. with a portfolio of corporate loans to customers of Nordea Bank AB (publ), Nordea Finance Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A.

In September 2013, PKO Bank Polski SA obtained clearance for the acquisition of Nordea Bank Polska S.A, Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A and Nordea Finance Polska S.A. from the Ukrainian Antimonopoly Committee (Antymonopolnyj Komitet Ukrainy).

On 15 October 2013, the Bank obtained an unconditional clearance for taking control of Nordea Bank Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. and Nordea Finance Polska S.A. from the President of the Competition and Consumer Protection Office.

On 25 February 2014, the PFSA issued a decision stating that there were no grounds for objection against the acquisition by the Bank of shares in Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. in a number resulting in the exceeding of a 50% stake in the share capital and the total number of votes at the general meeting of the company.

On 3 March 2014, The PFSA issued a decision stating that there were no grounds for objection against the acquisition by the Bank of shares of Nordea Bank Polska S.A. in a number resulting in the exceeding of a 50% stake in the share capital and the total number of votes at the general meeting of Nordea Bank Polska S.A.

In April and May 2014, the Bank acquired in total 55,498,700 ordinary shares in Nordea Bank Polska S.A. with a nominal value of PLN 5 each, representing 100% of the share capital of Nordea Bank Polska S.A. and entitling the Bank to 100% of the votes at the general shareholders' meeting of Nordea Bank Polska S.A. The total purchase price for the shares in Nordea Bank Polska SA, including the discount for this Transaction, was PLN 2,598,388 thousand. Currently, in April 2014, following the exercise of rights from subscription warrants, the Bank acquired 8,335,100 shares in Nordea Bank Polska SA for a purchase price of PLN 400,001 thousand.

On 14 May 2014, the management board of the Bank and the management board of Nordea Bank Polska S.A. signed a merger plan pursuant to which all of the property (all assets, equity and liabilities) of Nordea Bank Polska S.A. was transferred to the Bank as the acquirer. On 26 September 2014, the PFSA granted its consent to the above-mentioned merger.

On 31 October 2014, the merger was registered in the National Court Register. The merger was carried out in the manner provided for in Article 515 § 1 of the Commercial Companies Code, i.e. without an increase of the share capital of the Bank.

From the acquisition date (i.e. from 1 April 2014) to the legal merger date (i.e. to 31 October 2014), Nordea Bank Polska S.A. was a separate company in the Bank's Group. The Bank and Nordea Bank Polska S.A. remained separate as regards the provision of their services.

Nordea Bank Polska S.A. ceased to operate as a separate entity as of the legal merger date. As of such date, the Bank automatically became a party to all agreements concluded with the customers of Nordea Bank Polska S.A. and, consequently, assumed all of the rights and obligations of Nordea Bank Polska S.A.

The process of the banks' integration will be finalised with an operating merger scheduled for H1 2015.

PKO Życie Towarzystwo Ubezpieczeń SA (previously: Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A.)

Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. was established in 1994. Since 2001, it has been a member of the Scandinavian banking and insurance group of Nordea. Since April 2014, the company has been a part of the PKO Bank Polski Group.

On 1 April 2014, PKO Bank Polski SA concluded a purchase agreement with Nordea Life Holding AB (a Sweden-based company) based on which the Bank purchased 1,725,329 shares in Nordea Polska Towarzystwo Ubezpieczeń na Życie SA with a nominal value of PLN 111.59 each, constituting 100% of the share capital and carrying 100% of the votes at the general meeting of the company, for the total price of PLN 184,636 thousand.

On 14 May 2014, the change of the company's name to PKO Życie Towarzystwo Ubezpieczeń SA was registered in the National Court Register.

At the same time, in connection with the acquisition of Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A., its subsidiary, Nordea Usługi Finansowe sp. z o.o. (currently: Ubezpieczeniowe Usługi Finansowe sp. z o.o. – the change in the name was registered with the National Court Register on 14 May 2014), became part of the PKO Bank Polski SA Group. As at the end of 2014, the share capital of Ubezpieczeniowe Usługi Finansowe sp. z o.o. amounts to PLN 1.950 thousand and consists of 3.900 shares with a nominal value of PLN 500 each. PKO

Życie Towarzystwo Ubezpieczeń S.A. is the sole shareholder of the above-mentioned entity. The core business of Ubezpieczeniowe Usługi Finansowe sp. z o.o. is the provision of services supporting insurance operations.

PKO Życie Towarzystwo Ubezpieczeń S.A. offers a wide range of insurance and investment products.

Nordea Finance Polska S.A. (On 30 September 2014, Nordea Finance Polska S.A. was merged with PKO Leasing S.A.)

Nordea Finance Polska S.A. was established in 2001.

The company offers a wide range of financial services, predominantly leasing and factoring products.

On 1 April 2014, the Bank concluded an agreement with Nordea Rahoitus Suomi OY (a company registered in Finland) for the purchase of 4,100,000 shares in Nordea Finance Polska S.A., with a nominal value of PLN 1 each, representing 100% of the company's share capital and entitling it to 100% of the votes at the General shareholders' meeting for a total price of PLN 8,000 thousand.

On 26 June 2014, the change of the Company's name to PKO Leasing Pro S.A. was registered with the National Court Register.

On 30 September 2014, the merger of PKO Leasing Pro S.A. with PKO Leasing S.A. was registered with the National Court Register, pursuant to which all of the property of PKO Leasing Pro SA (all of the assets, equity and liabilities, excluding statement of financial position items related to factoring activities acquired by PKO BP Faktoring S.A.) were transferred to PKO Leasing SA.

Other subsidiaries and significant joint ventures

Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych

In October 2013, PKO Bank Polski acquired 12,000,000 units of investment certificates (100%) in the Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, a private assets closed-end investment fund, with a total value of PLN 120,000 thousand (the "**Fund**"). The Fund is managed by PKO TFI S.A.

The Fund conducts investment activity (mainly real estate and land investments) through its 8 subsidiaries (as of 31 December 2014). As of 31 December 2014, the Fund (including its subsidiaries) was fully consolidated in the financial statements of the PKO Bank Polski Group.

CENTRUM HAFFNERA sp. z o.o.

In January 2014, a reduction of the share capital of "CENTRUM HAFFNERA" sp. z o.o. was registered in the National Court Register, which involved the redemption and cancellation of shares held by Gmina Miasta Sopot, a shareholder of "CENTRUM HAFFNERA" sp. z o.o.

Following the transaction referred to above, the Bank holds shares in "CENTRUM HAFFNERA" sp. z o.o. representing 72.98% of its share capital and carrying 72.98% of the votes at the meeting of the shareholders of the company. "CENTRUM HAFFNERA" sp. z o.o. became a subsidiary of the Bank, and the subsidiaries of "CENTRUM HAFFNERA" sp. z o.o. became indirect subsidiaries of the Bank.

The principal activity of the company is real estate management.

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o. – card payment settlement services

CEUP eService was founded in 1999 and became a wholly owned subsidiary of the Bank in 2001. CEUP eService provides card payment settlement services and is expanding the network (one of the largest in Poland) of merchants that accept debit, credit and charge cards issued by various banks and manages the Bank's point of sale ("**POS**") terminal network, the data flow in connection with the settlement of payment card businesses and certain cash flow operations in connection with POS terminal network stations.

On 7 November 2013, the Bank entered into an agreement with EVO Payments International Acquisition, GmbH with its seat in Germany (the "**Investor**"), a subsidiary of EVO Payments International, LLC with its seat in the United States ("**EVO**"), relating to the acquisition by the Investor of shares in the limited liability company, which will be incorporated as a result of the transformation of the joint stock Centrum Elektronicznych Usług Płatniczych eService Spółka Akcyjna into a limited liability company ("**CEUP eService Sp. z o.o.**"). The sale transaction was completed on 31 December 2013 and it resulted in PLN 314,802 thousand gain in the consolidated financial statements. Additionally, PLN 162,171 thousand gain was recognized as a result of fair valuation of the remaining shares (presented in Other operating income).

As at 31 December 2014, the Bank held shares in CEUP eService Sp. z o.o. constituting 34% of CEUP eService Sp. z o.o.'s share capital, which entitled the Bank to 34% of the votes at the meeting of the shareholders of CEUP eService Sp. z o.o. Due to provisions of the investment agreement with EVO, and the company's articles of association, CEUP eService Sp. z o.o. was classified as a joint venture as of 31 December 2014.

Ratings

*The following section contains information regarding ratings assigned by Moody's, Fitch and Standard and Poor's., all of which are established in the European Union and have been registered as credit rating agencies under Regulation (EU) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**"). The ratings of Moody's, Fitch and Standard and Poor's exclusively reflect the opinions and evaluations of such credit rating agencies. Such ratings do not constitute any recommendations to invest and should not be regarded as grounds for any investment decisions regarding the purchase or sale of any financial instruments. The ratings may be subject to review, adjustment, suspension or downgrading by the relevant agencies.*

*The list of credit rating agencies registered under the CRA Regulation is published by the European Securities and Markets Authority (the "**ESMA**") in accordance with Article 18(3) of the CRA Regulation and is updated within five working days of the adoption of a registration or certification decision. The European Commission republishes the list in the Official Journal of the European Union within 30 days of any update thereof. There may, therefore, be differences between the list published by the ESMA and the list available in the Official Journal during that period. The up-to-date list of credit rating agencies registered under the CRA Regulation is available at the websites of the ESMA at http://www.esma.europa.eu/page/List-registered-and-certified-CRAs.*

The Bank has been assigned ratings by Fitch (on 18 December 1996 — maintained on 9 August 2010, 4 August 2011, 2 August 2012, 6 August 2013, 26 March 2014 and 26 November 2014), Moody's (on 14 January 2003, 24 February 2007, 18 June 2009 and 17 September 2012, 21 June 2013), Standard & Poor's (on 25 August 2004, in September 2010 — maintained on 10 May 2011 and 13 December, unsolicited; on 8 May 2012, solicited and maintained on 14 June 2013, 20 September 2013 and 29 April 2014) as set forth in the table below.

Category	Fitch	Moody's	Standard & Poor's
Long-term assessment of liabilities and deposits (foreign currencies/domestic currency)		A2 [(1)]	A [(2)]
Short-term assessment of liabilities and deposits (foreign currencies/domestic currency)		Prime- 1[(3)]	A-2 with a stable outlook[(4)]
Support	2[(5)]		
Financial strength		C [(6)]	
Outlook		Under review as of 17 March 2015	Negative

Notes:

[1] *Liabilities rated A are considered upper-medium grade and are subject to low credit risk. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 2 indicates a mid-range ranking of that generic rating category. A Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term.*

[2] *"A" rated liabilities are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. Ratings from 'AA' to 'CCC' may be modified by the addition of a "+" or "-" sign to show the relative standing within the major rating categories.*

[3] *Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.*

[4] *A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.*

[5] *Bank Support Rating of "2" denotes a bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of "BBB-".*

[6] *Banks rated "C" possess adequate intrinsic financial strength. Typically, these will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals with a predictable and stable operating environment or good financial fundamentals within a less predictable and stable operating environment. A "-" modifier is appended to distinguish those banks that fall in intermediate categories.*

Moreover, on 20 June 2012 Standard and Poor's granted a solicited rating of "A-" to the Programme and the rating was sustained on 20 January 2014, while on 3 September 2012 it granted a solicited rating at the same level to the CHF 500 million notes issued by the Issuer under the Programme (see "– *Material Contracts – Material Issues of Debt Securities – Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank*"). On 4 September 2012, such notes were assigned an A2 rating by Moody's and this rating was sustained on 22 January 2014.

Intellectual Property

The Group uses a number of trademarks in its activities. As of the date of the Base Prospectus, the Group has been granted rights of protection to 216 trademarks, including 147 trademarks of the Bank. The Group has filed motions with the Patent Office for the rights of protection with respect to an additional 23 trademarks, including 23 trademarks of the Bank. The Group has obtained a right of protection to 3 trademarks abroad under national procedure. It has also filed motions with the Office for Harmonisation in the Internal Market in respect of the registration of five trademarks. One community design has been registered by the Office for Harmonisation in the Internal Market.

As of the date of the Base Prospectus, the Bank is not dependent on any patents or licenses.

Licenses

License for the Bank to use the Inteligo logo

Under an agreement concluded with Inteligo, the Bank was granted a license to use Inteligo's logo to offer the Konto Inteligo product. In exchange, the Bank is required to pay a gross annual license fee of PLN 1,845,000. If the agreement is terminated, the Bank will have the right of first refusal with respect to the Inteligo trademark and to other economic rights under copyright and industrial property rights owned by Inteligo.

The above-described license has material importance for the activities carried out by the Group in respect of PKO Bank Polski's operation of the Inteligo account.

As of the date of the Base Prospectus, the Group does not depend on any patents or new technological processes to a degree that may be considered as significant to its business or profitability.

Website Domains

As of the date of the Base Prospectus, the Group uses 503 registered internet domains, including the www.pkobp.pl domain.

Information Technology

The operations of PKO Bank Polski are supported by over 200 information technology ("**IT**") systems simultaneously operating within the unified architecture based on an integrated IT system (the "**Integrated IT System**") and other key software applications supporting banking products and the implementation of business and internal processes at the Bank. The other key elements of the architecture include: the enterprise service bus (ESB), the business process management (BPM) platform (the service platforms for the electronic iPKO and iPKO Biznes channels) and the IKO application (designed to facilitate mobile payments). The card systems integrated with the Integrated IT System enable the processing of large volumes of data both during the card issuing process and the card authorisation process. In turn, management reporting processes are based in the central data warehouse. Thanks to the elements and services made available through the Bank's key software applications, the Bank is able to build integrated solutions in accordance with the Service-Oriented Architecture (SOA) approach, which improves cost-effectiveness and reduces the lead time for delivering new solutions.

The main infrastructure of the Bank's IT system is composed of the Central and Backup Computing Centres. They are equipped with components the vast majority of which came from renowned manufacturers using state-of-the-art IT technologies. The centres are mainly focused on ensuring the reliability and security of on-going processes.

The Bank has implemented security mechanisms to prevent physical or electronic intrusions, computer viruses or other attacks. The implemented solutions are in line with relevant ISO and BS standards and are regularly audited. Software development and implementation methodologies, including very strict, multi-level testing procedures, protect the Bank from risks related to programming errors and similar disruptive problems. The Bank's IT strategy is designed to support the overall strategy of the Bank, which in practice means supporting the distribution of the Bank's products and services across its distribution network as well as developing a scalable and flexible infrastructure to support the Bank's current and future operations.

The Bank continuously develops its IT systems and implements IT solutions to ensure the consistent and efficient execution of the Bank's business processes. This allows the Bank to continue to provide the highest level of service to its retail and corporate clients.

The Bank's IT strategy also focuses on providing robust and consistent processing of investment transactions, securing the necessary scalability for future business growth and enabling large scale production of standardised products together with tailored, structured customer solutions. Efficient execution of these strategies is expected to reduce operational risk and to support more cost-efficient processing. The Bank internal credit risk rating systems for reporting comply with Basel II.

Compared to other financial institutions of similar scale, the Bank has a relatively simple application environment which allows for effective management of operating costs and facilitates future development. All those systems have been specially tailored to the specific needs of the Bank's business. The Bank has concluded standard agreements with service providers for all IT systems which are material to its operations. These agreements give the Bank a license to use the systems and grant support services in case of system failure and the opportunity to receive updates and upgrades. Nevertheless, the key processes in the IT area regarding both the development and operation of the Bank's IT system are implemented by internal IT specialist teams, which are adapted to suit the scale and specific characteristics of the Bank and its undertakings.

Material Contracts

The Bank believes that the contracts listed below, other than the agreements entered into in the ordinary course of business, are material to the Group given their value or significant influence on the key areas of the Group's operations and their financing. The financing agreements having a value of at least PLN 250 million and the material issues of debt securities discussed below have been deemed material based on the fact that they represent an external source of funding other than deposits. The Bank has deemed the IT agreements discussed below to be material contracts due to their special importance in relation to the management of the Group's information systems.

As of the date of the Base Prospectus, the Bank is not dependent on any commercial or financial contracts.

Financing Agreements

CHF 410,000,000 Credit Facility for the Bank

On 19 June 2012, the Bank as the borrower concluded a credit facility agreement with Bank Handlowy w Warszawie S.A., BNP Paribas and ING Bank NV, as the arrangers, based on which the Bank was granted a term loan in the amount of CHF 410,000,000 for general funding purposes. Under the agreement, the Bank is required to pay interest at the rate of LIBOR plus 2% per annum. The final maturity date is the third anniversary of the date of the agreement. The drawdown under the credit facility agreement was made on 27 July 2012.

Pursuant to the terms of the agreement, the Bank is required to deliver to the facility agent information regarding a material change with respect to the number of shares held by the State Treasury in the Bank's share capital.

For the purposes of the agreement, loss of the State Treasury's control over the Bank constitutes an event of default. The agreement defines 'control' as the right to command (directly or indirectly) the entity's management process or policies on the basis of: (i) holding a relevant number of votes at the Bank's general meeting; (ii) contractual provisions; or (iii) other reasons. Under the agreement, a change of rating (decrease of the long-term credit rating for the Bank assigned by recognised rating agencies below a certain level) also constitutes an event of default. Once an event of default has occurred and is not redressed, the facility agent may (and upon receipt of relevant instructions from the majority lenders, must): (i) cancel all or some of the financing made available under the agreement; (ii) declare the receivables consisting of all or some of the financing paid under the agreement to be immediately due and payable; (iii) establish that all or some of the amounts paid under the agreement are payable at the request of the facility agent acting in accordance with the majority lenders' instructions.

In addition to the above-described change of control and change of rating clauses, the agreement contains clauses typical of facility agreements, including: (i) a *pari passu* clause (the obligation of the borrower to ensure at least equal treatment of the liabilities under the loan agreement compared to any of its other, existing or future, obligations); and (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims). As of 31 December 2014, the carrying amount of the credit facility was PLN 1,465,564,742 (CHF 413,452,405). On 29 January 2015, the Bank repaid half of the facility (CHF 205,000,000) before the maturity date, so the indebtedness under such facility as of the date of the Base Prospectus amounts to PLN 726,663,500 (CHF 205,000,000).

EUR 150,000,000 Finance Contract between the Bank and the EIB

On 31 July 2009, the Bank and the EIB entered into a finance contract based on which the EIB made available to the Bank a credit facility of EUR 150,000,000 for the purposes of financing loans to small and medium-sized projects promoted by SMEs or public sector entities in the field of environmental protection, energy savings, infrastructure (including health and education), industry, creative and cultural industries, services or tourism in Poland. The terms of the disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period are to be proposed by the Bank in a disbursement request and are subject to the acceptance by the EIB in a disbursement notice. As of 31 December 2014, the carrying amount of the credit facility was CHF 227,449,051 (PLN 806,238,651).

Under the agreement the Bank is required to immediately notify the EIB of any circumstances in which, in its opinion or according to its reasonable belief, a change of control over the Bank has occurred or there will be a change of control over the Bank. For the purposes of the agreement, a 'change of control' is understood to be any material change of the ownership structure regarding the Bank's share capital as a result of which: (i) a third party, other than the State Treasury of the Republic of Poland or an entity under the control of the State Treasury of the Republic of Poland (whether directly or indirectly), acting alone or in concert with another third party or parties (other than the State Treasury of the Republic of Poland or an entity under the control of the State Treasury of the Republic of Poland), has acquired or is about to acquire control of the Bank; or (ii) the State Treasury of the Republic of Poland, whether directly or indirectly through entities being under the control of the State Treasury of the Republic of Poland, ceases to hold (directly or indirectly) more than 33.33% of the shares in the Bank.

The agreement provides that the Bank will be subject to a reporting requirement also in the event of a probable change of control event regarding the Bank. In such circumstances, or if the EIB has any reasonable grounds to claim that there has occurred a change of control over the Bank or a change of control over the Bank will occur, the EIB may request that the Bank conduct consultations therewith.

EUR 150,000,000 Finance Contract between the Bank and the EIB

On 21 December 2012, the Bank and the EIB entered into a finance contract based on which the EIB made available to the Bank a credit facility of up to EUR 150,000,000 for the purposes of financing loans to small and medium-sized projects promoted by SMEs or public sector entities in the field of environmental protection, energy savings, infrastructure (including health and education) and services in the Republic of Poland. The terms of disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period proposed by the Bank in a disbursement request, are subject to the EIB's consent in a disbursement notice. As of 31 December 2014, the carrying amount of the credit facility was CHF 185,063,865 (PLN 655,995,881).

Under the agreement the Bank is required to immediately notify the EIB of any circumstances in which, in its opinion or according to its reasonable belief, a change of control over the Bank has occurred or is likely to occur. For the purposes of the agreement, 'change of control' is understood as any material change of the ownership structure regarding the Bank's share capital as a result of which: (i) a third party, other than the State Treasury of the Republic of Poland or an entity under the control of the State Treasury of the Republic of Poland (whether directly or indirectly) acting alone or in concert with another third party or parties (other than the State Treasury of the Republic of Poland or an entity under the control of the State Treasury of the Republic of Poland) has acquired or is about to acquire control of the Bank; or (ii) the State Treasury of the Republic of Poland, whether directly or indirectly through entities being under the control of the State Treasury of the Republic of Poland, ceases to hold (directly or indirectly) more than 33.33% of the shares in the Bank.

Pursuant to the agreement, if the Bank notifies the EIB of the occurrence of a 'change of control' event or notifies the EIB that a change of control event with respect to the Bank is likely to occur, or if the EIB has any reasonable grounds to claim that there a change of control over the Bank has occurred or a change of control over the Bank will in fact occur, the EIB may request that the Bank conduct consultations therewith. Once 30 days have lapsed from the date of the EIB's request or following a change of control over the Bank (whichever occurs earlier), the EIB will have the right to cancel the undisbursed portion of the credit and demand that the Bank prepay the loan along with the interest accrued thereon and all other amounts accrued or outstanding under the finance contract.

In addition to the above-described change of control clause, the above-referenced loan agreement contains clauses typical for facility agreements, including: (i) a pari passu clause (the obligation of the borrower to ensure at least equal treatment of the liabilities under the loan agreement compared to any of its other existing or future obligations); (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims); and (iii) a loss of rating clause authorizing the lender to demand additional security or to terminate and accelerate the loan if the long-term credit ratings for the borrower assigned by recognised rating agencies decrease below a certain level, provided that such decrease may adversely impact the performance of the borrower under the loan agreement.

*EUR 100,000,000 Framework Loan Agreement between the Bank and the Council of Europe Development Bank (the "**CEB**")*

On 31 July 2008, the Bank and the CEB entered into a framework loan agreement based on which the CEB made available to the Bank a loan of EUR 100,000,000 for the partial financing of investment projects aimed at job creation and preservation in SMEs in Poland. For each tranche, the terms of disbursement, including, in particular, the amount of the loan, the disbursement date, the interest rate and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. As of 31 December

2014, the carrying amount of the loan was CHF 75,780,011 (PLN 268,617,406) and EUR 49,822,354 (PLN 212,357,821).

Under the agreement the Bank is required to immediately notify the CEB about any material change regarding its financial condition or shareholding structure. Any material change in the Bank's shareholding structure will result in an event of default as provided in the CEB Loan Regulations that constitute an integral part of the agreement between the CEB and the Bank, and may also constitute grounds for suspending any payments of advances under the loan, termination of the loan agreement or acceleration of the loan in accordance with the CEB Loan Regulations.

EUR 150,000,000 Framework Loan Agreement between the Bank and the CEB

On 6 December 2010, the Bank and the CEB entered into a framework loan agreement, based on which the CEB made available to the Bank a loan of EUR 150,000,000 for the partial financing of investment projects aimed at job creation and preservation in the SME sector in Poland. For each tranche the terms of disbursement, including, in particular, the amount of the loan, the disbursement date, the interest and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. No disbursement may be made after 31 December 2012. As of 31 December 2014 the carrying amount of the loan was EUR 150,018,958 (PLN 639,425,803).

Under the agreement the Bank is required to immediately notify the CEB about any material change regarding its financial condition or shareholding structure. Any material change in the Bank's shareholding structure will result in an event of default as provided in the CEB Loan Regulations that constitute an integral part of the agreement between the CEB and the Bank, and may also constitute grounds for suspending any payments of advances under the loan, termination of the loan agreement or acceleration of the loan in accordance with the CEB Loan Regulations. On 28 July 2011 the Bank received confirmation from the CEB that the proposed sale of the Bank's shares by the State Treasury and BGK will not constitute an event of default under the loan agreement.

In addition to the above-described change of control clauses, the above-referenced loan agreements contain clauses typical to facility agreements, including (i) a *pari passu* clause (the obligation of the borrower to ensure at least equal treatment to the liabilities under the loan agreement compared to any of its other, existing or future, obligations); (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder satisfaction of the lender's claims); and (iii) a loss of rating clause authorizing the lender to demand additional security or to terminate and accelerate the loan if the long-term credit rating for the borrower assigned by recognised rating agencies decreased below a certain level, provided that such decrease may adversely impact the performance of the borrower under the loan agreement.

EUR 120,000,000 Finance Contract between Nordea Bank Polska S.A. and the EIB

On 22 December 2005, Nordea Bank Polska S.A. and the EIB entered into a finance contract based on which the EIB made available to Nordea Bank Polska S.A. a credit facility of up to EUR 120,000,000 for the purposes of financing smaller scale projects in the Baltic Sea region carried out by SMEs and/or public sector entities in the field of environment, infrastructure (including health and urban renewal), the development of a knowledge-based economy, rational use of energy, and education and training in the Republic of Poland. The terms of disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period proposed by the Bank in a disbursement request, are subject to the EIB's consent in a disbursement notice. As of 31 December 2014, the carrying amount of the credit facility was PLN 431,894,188.

On 12 June 2013, the Bank and Nordea Bank BA (publ) concluded an agreement concerning the acquisition by the Bank of Nordea Bank Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. and Nordea Finance Polska S.A. from Nordea Bank AB and other entities from the Nordea Group. The closing of the transaction took place on 1 April 2014. As a consequence, the Bank has become the successor of Nordea Bank Polska S.A in the finance contract with the EIB.

Agreement for a credit facility to finance leasing transactions of up to PLN 400,000,000 between PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.) and Bank Polska Kasa Opieki S.A.

On 3 September 2012, PKO Leasing and Bank Polska Kasa Opieki S.A. executed a credit facility agreement whereunder PKO Leasing was granted a loan of no more than PLN 400 million for the financing or refinancing of leasing agreements executed by PKO Leasing, provided that the maximum value of the financing of any single leasing agreement cannot exceed the net value of the subject of the leasing less the initial payment (in the case of financing) or the outstanding net value under a leasing agreement (in the case of refinancing). Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches were made available during the term of the facility, i.e. until 30 November 2012. The repayment of the facility should be made by 30 November 2017. The facility accrues interest calculated on the basis of WIBOR 1M increased by a

margin, as stated in the agreement. As of 31 December 2014, the carrying amount of the loan amounted to PLN 38,147,893.

Agreement for a credit facility to finance leasing transactions of up to PLN 400,000,000 between PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.) and Bank Polska Kasa Opieki S.A.

On 5 July 2011, PKO Leasing and Bank Polska Kasa Opieki S.A. executed a credit facility agreement whereunder PKO Leasing was granted a loan of no more than PLN 400 million for the financing or refinancing of leasing agreements executed by PKO Leasing, provided that the maximum value of the financing of any single leasing agreement cannot exceed the net value of the subject of the leasing less the initial payment (in the case of financing) or the outstanding net value under a leasing agreement (in the case of refinancing). Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches were made available during the term of the facility, i.e. until 31 March 2012. The repayment of the facility should be made by 31 March 2017. The facility accrues interest calculated on the basis of WIBOR 1M increased by a margin, as stated in the agreement. As of 31 December 2014, the carrying amount of the loan amounted to PLN 69,634,017.

Agreement for a credit facility to finance leasing transactions of up to EUR 70,000,000 between PKO Leasing S.A. (formerly Bankowy Fundusz Leasingowy S.A.) and Credit Agricole Corporate & Investment Bank S.A.

On 7 December 2012, PKO Leasing and Credit Agricole Corporate & Investment Bank S.A. executed a credit facility agreement whereunder PKO Leasing was granted a loan of no more than EUR 70 million for the financing or refinancing of leasing agreements executed by PKO Leasing. Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches were made available during the term of the facility, i.e. until 31 December 2012. The repayment of the facility must be made by 31 December 2015. The facility accrues interest calculated on the basis of EURIBOR 1M plus a margin, as stated in the agreement. As of 31 December 2014, the carrying amount of the loan amounted to EUR 23,325,007 (PLN 99,418,178).

Agreement for a credit facility to finance leasing transactions of up to PLN 324,000,000 between PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.) and BZ WBK S.A.

On 18 July 2013, PKO Leasing and BZ WBK S.A. executed a credit facility agreement whereunder PKO Leasing was granted a loan of no more than PLN 324 million for the financing or refinancing of leasing agreements executed by PKO Leasing, provided that the maximum value of the financing of any single leasing agreement cannot exceed the net value of the subject of the leasing less the initial payment (in the case of financing) or the outstanding net value under a leasing agreement (in the case of refinancing). Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches were made available during the term of the facility, i.e. until 17 July 2014. The credit is renewable. The repayment of the facility should be made by 17 July 2018. The facility accrues interest calculated on the basis of WIBOR 1M increased by a margin, as stated in the agreement. As of 31 December 2014, the carrying amount of the loan amounted to PLN 257,626,093.

Agreement for a credit facility to finance leasing transactions of up to PLN 500,000,000 between PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.) and Bank Polska Kasa Opieki S.A.

On 16 April 2014, PKO Leasing and Bank Polska Kasa Opieki S.A. executed a credit facility agreement whereunder PKO Leasing was granted a loan of no more than PLN 500 million for the financing or refinancing of leasing agreements executed by PKO Leasing, provided that the maximum value of the financing of any single leasing agreement cannot exceed the net value of the subject of the leasing less the initial payment (in the case of financing) or the outstanding net value under a leasing agreement (in the case of refinancing). Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches were made available during the term of the facility, i.e. until 31 December 2014. The repayment of the facility should be made by 31 December 2019. The facility accrues interest calculated on the basis of WIBOR 1M increased by a margin, as stated in the agreement. As of 31 December 2014, the carrying amount of the loan amounted to PLN 456,127,924.

CHF 3.6 billion, EUR 465 million and USD 3.7 million Multicurrency Term Loan Facility for the Bank

On 1 April 2014, i.e. the closing date of the transaction involving the acquisition of Nordea Bank Polska SA (see: *"Description of the group – Corporate Banking – Key Subsidiaries – Acquisition of Nordea Group"*), based on an agreement concluded between the Bank and Nordea Bank AB (publ), Nordea Bank AB (publ) extended a credit facility to the Bank amounting to CHF 3,645,818 thousand, EUR 465,414 thousand and USD 3,725 thousand for a period no longer than seven years, with a three-year suspended repayment period (the "**Credit Facility**").

The Credit Facility is secured by a transfer of certain receivables related to the Mortgage Portfolio made by Nordea Bank Polska in favour of Nordea Bank AB Spółka Akcyjna Branch in Poland or directly to Nordea Bank

AB (publ). The average effective margin over the maximum crediting period under the Credit Facility is 63 bps above the relevant reference rate. The Credit Facility does not involve any commissions related to the granting of the financing.

For the purposes of the agreement, the loss of the control of the State Treasury over the Bank constitutes an event of default. The agreement defines 'control' as the right to influence (directly or indirectly) the Bank's management process or policies on the basis of: (i) holding a relevant number of votes at the Bank's general meeting; (ii) contractual provisions; or (iii) other reasons. Under the agreement, a change of rating (a decrease of the long-term credit rating of the Bank assigned by recognised rating agencies below a certain level) also constitutes an event of default. Once an event of default has occurred and is not redressed, Nordea Bank AB may: (i) cancel all or some of the financing made available under the agreement; (ii) declare the receivables consisting of all or some of the financing paid under the agreement to be immediately due and payable.

In addition to the above-described change of control and change of rating clauses, the agreement contains clauses typical of facility agreements, including: (i) a *pari passu* clause (the obligation of the borrower to ensure at least equal treatment of the liabilities under the loan agreement compared to any of its other, existing or future, obligations); (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims); and (iii) a regulatory change clause. As of 31 December 2014, the carrying amount of the loan was PLN 14,927,551,745 (i.e. CHF 3,647,544,460, EUR 465,716,806 and USD 3,728,375).

CHF 224,000,000 Subordinated Term Loan Facility for the Bank

On 31 October 2014, i.e. the date of the legal merger of the Bank and Nordea Bank Polska S.A. (see *"Description of the group – Corporate Banking – Key Subsidiaries – Acquisition of Nordea Group*"), the Bank assumed all of the rights and obligations of Nordea Bank Polska S.A. arising from a subordinated term loan facility agreement dated 25 April 2012 amounting to CHF 224,000,000, and with a maturity date falling on 25 April 2022, granted by Nordea Bank AB (publ) to Nordea Bank Polska S.A.

The facility accrues interest calculated on the basis of the LIBOR 3M, increased by a margin as stated in the agreement.

According to the agreement, the subordinated term loan facility may be repaid five years before the maturity date, each time on the date of the payment of interest, subject to the obtaining of all the necessary regulatory approvals from the PFSA for each repayment.

As of 31 December 2014, the carrying amount of the subordinated loan amounted to PLN 794,151,608.

Material Issues of Debt Securities

*Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank (the "**Programme**")*

The terms and conditions of the issuance of the Notes under the Programme are set out in the Trust Deeds executed on 23 April 2010 and on 15 April 2011 (including the relevant supplements to those trust deeds) by and between PKO Finance and Citicorp Trustee Company Limited as a trustee which acts in its own name and for the benefit of holders of the Notes issued under the Programme (the "**Programme Trust Deeds**").

The terms and conditions of extending senior loans by PKO Finance to the Bank, financed from the issuance of the Notes under the Programme, are set out in a senior loan facility executed on 23 April 2010 by and between PKO Finance and the Bank (the "**Senior Loan Facility**") and in the relevant supplements to the Senior Loan Facility executed by and between PKO Finance and the Bank on the date of the issuance of a give tranche of the Notes. The terms and conditions of extending subordinated loans by PKO Finance to the Bank, financed from the issuance of the Notes under the Programme, will be set out in a subordinated loan facility to be executed by and between PKO Finance and the Bank (the "**Subordinated Loan Facility**") and in the relevant supplements to the Subordinated Loan Facility to be executed by and between PKO Finance and the Bank before or on the date of the issuance of a given tranche of the Notes.

On 21 October 2010, PKO Finance issued the first series of Notes under the Programme, with a total nominal value of EUR 800,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 21 October 2010. The issued Notes bear interest at a fixed rate of 3.733% per annum, paid annually and have a maturity of five years. The Notes are listed on the Luxembourg Stock Exchange and, since 22 November 2011, on Catalyst – an alternative trading scheme operated by the Warsaw Stock Exchange (retail market) and BondSpot S.A., its subsidiary (wholesale market). In connection with the issuance, on 21 October 2010, the Bank borrowed from PKO Finance funds representing the proceeds from the issuance of the Notes, to be earmarked for the general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and was extended for a term of five years.

On 7 July 2011, PKO Finance issued the second series of Notes under the Programme, with a total nominal value of CHF 250,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 5 July 2011. The issued Notes bear interest at a fixed rate of 3.538% per annum, paid annually and have a maturity of five years. The Notes are listed on the SIX Swiss Exchange. In connection with the issuance, on 7 July 2011 the Bank borrowed from PKO Finance funds representing the proceeds from the issuance of the Notes, to be earmarked for the general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and was extended for a term of five years.

On 25 July 2012, PKO Finance issued a third series of Notes under the Programme, with a total nominal value of EUR 50,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 25 July 2012. The issued Notes bear interest at a fixed rate of 4.00% per annum, paid annually, and have a maturity of ten years. The Notes are listed on the Luxembourg Stock Exchange. In connection with the issuance, on 25 July 2012, the Bank borrowed from the Issuer Programme funds representing the proceeds from the issuance of the Notes, to be earmarked for general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and was granted for a term of ten years.

On 21 September 2012 PKO Finance issued a fourth series of the Notes under the Programme, with a total nominal value of CHF 500,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 19 September 2012. The issued Notes bear interest at a fixed rate of 2.536% per annum and will mature on 21 December 2015. The notes are listed on the SIX Swiss Exchange. In September 2012, such notes were assigned ratings of "A2" by Moody's and "A-" by Standard & Poor's. In connection with the issuance, on 21 September 2012 the Bank borrowed from the Issuer Programme funds representing the proceeds from the issuance of the Notes, to be earmarked for general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and will need to be repaid on 21 December 2015.

On 23 January 2014, PKO Finance issued a fifth series of the Notes under the Programme, with a total nominal value of EUR 500,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 23 January 2014. The issued Notes bear interest at a fixed rate of 2.324% per annum and will mature on 23 January 2019. The notes are listed on the Luxembourg Stock Exchange. In January 2014, such notes were assigned ratings of "A2" by Moody's and "A-" by Standard & Poor's. In connection with the issuance, on 20 January 2014 the Bank borrowed from the Issuer Programme funds representing the proceeds from the issuance of the Notes, to be earmarked for general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and will need to be repaid on 23 January 2019.

The loans extended to the Bank by PKO Finance on 21 October 2010, 7 July 2011, 25 July 2012, 21 September 2012 and 23 January 2014 were senior loans.

If a certain event defined in the Programme Trust Deeds occurs and continues, the trustee may, subject to the provisions of the Programme Trust Deeds, seek to enforce the security interests pledged by PKO Finance under the Programme Trust Deeds in favour of holders of the Notes issued under the Programme.

If an event of default defined in the Senior Loan Facility occurs and continues, the trustee may, subject to the provisions of the Programme Trust Deeds, declare all amounts disbursed by PKO Finance to the Bank under a senior loan immediately due and payable. Once the senior loan has been repaid, as a result of the event of default defined in the Senior Loan Facility, the Notes issued under the Programme will be redeemed or repaid.

In accordance with the Programme Trust Deeds, as long as any Notes issued under the Programme remain unrepaid or unredeemed, PKO Finance will not, without obtaining prior written approval from the trustee, consent to any amendment to or modification or waiver of any terms, conditions or rights provided for in the Senior Loan Facility or in the Subordinated Loan Facility, nor will it grant any authorisation to violate or to attempt to violate the terms and conditions of the Senior Loan Facility or of the Subordinated Loan Facility, subject to the exceptions expressly provided for in the Programme Trust Deeds or in the Senior Loan Facility or in the Subordinated Loan Facility. Under the Senior Loan Facility, the Bank is bound by additional covenants, such as those set out in the negative pledge clause and in the *pari passu* clause.

On 15 May 2013, Moody's confirmed the rating for the Programme to be at the level of A2 for unsecured debt and A3 for secured debt and Prime-1 for long-term debt (issuers who are assigned such rating have the greatest ability to repay short-term financial obligations). On 17 May 2013, Standard & Poor's Ratings Services assigned a credit rating of "A-" for long-term senior notes to be issued under the Programme.

Issuance of USD 1 billion of 4.630% notes due September 2022

On 26 September 2012, the Issuer issued USD 1 billion of unsecured loan participation notes due September 2022 (the "**USD Notes**"). The USD Notes bear a fixed interest rate of 4.630% per annum, payable semi-

annually. The USD Notes are listed on the Luxembourg Stock Exchange (Bourse de Luxembourg). The gross proceeds from the offering of the USD Notes were used by the Issuer for the sole purpose of funding a senior loan granted to the Borrower. The Borrower received the gross proceeds of the senior loan and separately paid commissions and fees connected with the offering and certain expenses incurred in connection with the offering of the USD Notes. The Borrower intends to use the proceeds of the senior loan to refinance its existing financial indebtedness as well as for general corporate purposes.

The USD Notes were issued in registered form in denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof and were issued at par. The USD Notes will be redeemed at a price equal to the par value.

The USD Notes were rated "A-" by Standard & Poor's on 20 September 2012 and "A2" by Moody's on 3 October 2012.

Issue of Subordinated Bonds by the Bank

On 14 September 2012, the Bank issued 16,007 subordinated bonds with a nominal value of PLN 100,000 each. The issue price of each bond equalled to its nominal value. The bonds bear variable interest based on the six-month WIBOR rate plus 164 basis points. Interest on the bonds is payable semi-annually until the date of their redemption. The bonds are dematerialised bearer bonds deposited with the National Depositary for Securities (*Krajowy Depozyt Papierów Wartościowych*, the "**NDS**") and are listed on the Warsaw Stock Exchange (Catalyst). The bonds were issued under Polish Law and the proceeds from the issue, following the approval of the PFSA, were used to augment the Bank's Tier 2 supplementary funds under the CRR.

Issue of Bonds by PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.)

On 10 November 2011, PKO Leasing S.A. entered into an agreement with the Bank (as the arranger) for organizing, carrying out and arranging a bond issue program. Within the framework of the program PKO Leasing S.A. agreed to issue, in private offerings by 9 November 2016, bonds in several series and the total value of the program of up to PLN 600 million. The bonds have been issued as bearer, dematerialised and unsecured bonds. The program provides that the bonds issued in one series must have a total nominal value of not less than PLN 10 million. As of 31 December 2014, PKO Leasing S.A. has issued bonds with a total nominal value of PLN 590 million of which PLN 186 million was held by the Bank. Pursuant to the program, PKO Leasing S.A. undertook to redeem all of the issued bonds at their nominal value by 9 November 2016. The Bank agreed to underwrite each series of the bonds not subscribed for by the bondholders. The agreement governing the program provides for certain standard events of default following the occurrence of which the Bank may terminate the agreement with seven days' notice and is waived of its obligation to underwrite any portion of the bonds in issue.

Programme for the Issuance on the Domestic Market of Bonds of up to PLN 5,000,000,000

On 21 June 2011, the Management Board adopted a resolution regarding granting its consent to the opening of a program for the issuance of bonds on the domestic market (the "**Domestic Market Programme**"). The Domestic Market Programme has a maximum value of PLN 5,000,000,000 or the equivalent thereof in EUR, USD or CHF. The proceeds from the bonds issued under the Domestic Market Programme shall be designated for the purposes of financing the Bank. The term of the Domestic Market Programme has not been determined.

On 8 July 2011, the Bank entered into a contract of mandate with mBank S.A. (formerly BRE Bank S.A.). On 11 August 2011, the parties concluded an agreement concerning the programme for the issuance of bonds of up to PLN 5,000,000,000. Pursuant to the agreement, mBank S.A. acts as an arranger and dealer. The programme established by the Bank (the issuer) under the agreement provides for multiple issues of bonds by the issuer under the terms of the agreement thereof. The total nominal value of the bonds issued under the programme at any time during the programme may not exceed the amount of PLN 5,000,000,000. The bonds issued under the programme are bearer, dematerialised and unsecured bonds. In the event of a material change in the financial or legal situation of the Bank, mBank S.A. may suspend the performance of the contract of mandate or terminate it with immediate effect, provided that such change, in the reasonable opinion of mBank S.A., may adversely impact the issuer's ability to perform the obligations under the bonds.

As of the date of this Base Prospectus, the total nominal value of the bonds outstanding under the Domestic Market Programme amounts to PLN 1,000,000,000 with a three-month tenor.

Programme for the Issuance of Bank Securities of the Bank having the nominal value of no more than PLN 10,000,000,000

Bank securities ("**BPWs**") are issued to procure financing for the general operations of the Bank in accordance with the terms and conditions of the issue of BPWs, which constitute an integral part of the purchase proposal for BPWs. BPWs are issued pursuant to Articles 89-90 of the Polish Banking Law and the resolution of the Management Board of the Bank dated 14 December 2010.

A structured BPW is an unsecured security issued to a bearer. Structured BPWs do not bear interest. The redemption amount for structured BPWs is established on the basis of the terms and conditions of the issue thereof. The redemption amount is equal to the nominal value of the structured BPWs and a premium calculated in accordance with the formula provided in the terms and conditions of the issue of the BPWs.

As of the date of this Base Prospectus, the Bank has issued two tranches of structured BPWs within the scope of the programme with a nominal value of PLN 109,045 thousand and maturity in December 2015 and March 2016.

Material Share Purchase Agreements

Conditional agreement for the purchase of shares in the companies from the Nordea group

On 12 June 2013, the Bank and Nordea Bank AB (publ), a company registered in Sweden, concluded an agreement setting out the terms of an acquisition from Nordea Bank AB (publ) and other entities from the Nordea Group of:

(i) shares in Nordea Bank Polska S.A. representing 99.21% of the share capital of Nordea Bank Polska S.A. which have been acquired through a public tender offer for the sale of shares together with a portfolio of corporate loans to customers of Nordea Bank AB (publ) with a nominal value of PLN 3,604,000,000 as at 31 December 2012;

(ii) shares in Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. representing the entire outstanding share capital of such company; and

(iii) shares in Nordea Finance Polska S.A. representing the entire outstanding share capital of such company; (together, the "**Transaction**").

On 1 April 2014, the Bank announced that that the conditions precedent for the Transaction had been satisfied and the closing of the Transaction occurred (the "**Closing Date**").

In pursuing the assumptions of the Transaction related to Nordea Bank AB (publ) Group (the "**Nordea Group**") continuing the financing of a portfolio of mortgage loans granted by Nordea Bank Polska (the "**Mortgage Portfolio**"), on the Closing Date, based on an agreement concluded between the Bank and Nordea Bank AB (publ) Nordea Bank AB (publ) extended a credit facility to the Bank amounting to CHF 3,645,818 thousand, EUR 465,414 thousand and USD 3,725 thousand for a period no longer than seven years, with a three-year repayment suspension period, secured with a transfer for security of certain receivables related to the Mortgage Portfolio made by Nordea Bank Polska in favour of Nordea Bank AB Spółka Akcyjna Oddział w Polsce or directly to Nordea Bank AB (publ). See "*– Financing Agreements – CHF 3.6 billion, EUR 465 million and USD 3.7 million Multicurrency Term Loan Facility for the Bank*".

On the Closing Date, the Bank and Nordea Bank AB (publ) entered into a special indemnity agreement (the "**Special Indemnity Agreement**") pursuant to which Nordea Group will be required to participate in the default risk of the Mortgage Portfolio, i.e. to cover, for a period of four (4) years following the Closing Date, 50% of the excess of the Mortgage Portfolio cost of risk excess over the annual cost of risk set at 40 base points for each year of such four-year contract period of the Special Indemnity Agreement.

Additionally, on the Closing Date, the Bank and Nordea Bank AB (publ) concluded a purchase agreement regarding what are referred to as the "Swedish portfolio assets", i.e. receivables under facilities, loans and bonds granted by Nordea Bank AB (publ) or other Nordea Group members to corporate customers (the "**Swedish Portfolio**"). Pursuant to the agreement, the Swedish Portfolio sold on the Closing Date excludes: (i) the assets that had remaining maturity period on the Closing Date shorter than 12 months; (ii) the assets which had been repaid, prepaid or fully cancelled by the client between the date of the Agreement (i.e. 12 June 2013) and the Closing Date; and (iii) the assets which could not be transferred without consent of the client or any third party where such consent had not been obtained. The aggregate sale price of the Swedish Portfolio was the sum of PLN 761,811 thousand, USD 120,199 thousand, EUR 136,044 thousand and CZK 459,167 thousand. The book value of the assets acquired under the agreement for the purchase of the Swedish Portfolio converted into PLN amounted to PLN 1,763,815 thousand.

Changes concerning Polski Standard Płatności sp. z o.o.

On 13 January 2014, a new company, Polski Standard Płatności sp. z o.o., was registered with the National Court Register. The share capital of the company amounted to PLN 2,271 thousand and consisted of 45,420 shares, each with a nominal value of PLN 50. All of the shares of the company were acquired by PKO Bank Polski SA for a price equal to the nominal value of the acquired shares.

On 19 September 2014, an increase in the share capital of Polski Standard Płatności sp. z o.o. of PLN 11,355 thousand, i.e. from PLN 2,271 thousand to PLN 13,626 thousand, was registered with the National Court Register. Shares in the increased share capital were acquired by: Alior Bank SA, Bank Millennium SA, Bank Zachodni WBK SA, ING Bank Śląski SA and mBank SA. As a result of the above-mentioned capital increase,

the share of PKO Bank Polski SA in the share capital of the company and votes at the General Meeting of the shareholders of the company decreased from 100% to 16.67%.

During the period from 13 January 2014 to 18 September 2014, the company was a subsidiary of PKO Bank Polski SA, and since 19 September 2014, shares in the company have been recognised as financial assets.

The company was established as part of a project, conducted jointly with partner banks, concerning the establishment of a new mobile payment standard in Poland based on the 'IKO' mobile payment solution introduced by PKO Bank Polski SA in 2013.

The new mobile payment system was launched on 9 February 2015 under the name BLIK.

Letter of intent regarding the potential disposal of Qualia Development sp. z o.o.

The Bank is in the process of selling Qualia Development sp. z o.o. and its subsidiaries, the Bank's real estate development business, together with two real estate assets located in Warsaw. A letter of intent regarding the potential transaction was signed on 19 January 2015 with a real estate fund. The sale is conditional on, inter alia, obtaining anti-monopoly approval from the President of the Anti-monopoly Office.

IT Agreements

Agreement for the Delivery and Implementation of the Integrated IT System

On 18 August 2003, the Bank entered into an agreement for delivery and implementation of the Integrated IT System with Accenture sp. z o.o., Alnova Technologies Corporation S.L. and Softbank S.A. (now Asseco Poland S.A.).

The agreement covers the development, delivery and implementation of the Integrated IT System at the Bank and the granting of a license for the software that runs the Integrated IT System as well as certain other additional services, including in particular maintenance services. Moreover, under the agreement the Bank acquired complete author's economic rights to the Integrated IT System.

Due to the completion of the core system roll-out, the agreement was completed and a new agreement for the development, modification and servicing of the Integrated IT System (the "**New Integrated IT System Agreement**") was signed on 25 February 2010, with an objective to:

- enable further development of the Integrated IT System to fit the Bank's future business needs and related to the development of information technology;
- ensure continuous efforts to increase availability and security of the Integrated IT System; and
- build internal Bank competencies to maintain and develop the Integrated IT System through the Bank's participation in the supplier development team.

The New Integrated IT System Agreement confirms the terms on which the Bank was granted the license for the Integrated IT System and sets new advantageous rules for cooperation with the consortium, more favourable than under the previous contract. The agreement has a character of a framework agreement and also specifies a minimum pool of orders for development work.

On 27 February 2015, the Integrated IT System Agreement was amended with a new annex aimed at continuing swift delivery of the IT changes required to foster business development and support the continuity of business operations based upon the Integrated IT System.

The agreement provides for contractual penalties. The liability of the parties is generally limited to actual damages. Except for any personal injuries, intentional wrongdoing, IP right infringement and confidentiality breaches, the liability of the Bank is limited to PLN 27,375,000. The restriction does not apply, however, to any obligation to pay the fee due under the agreement or to rectify any consequences of a failure to pay such fee.

The net annual fee for the services stated as of the date of execution of the agreement amounted to almost PLN 20,000,000. Moreover, the Integrated IT System Agreement provides for a variable fee that depends on the pool of orders for development work.

The Integrated IT System Agreement was concluded for a term of six years, but it is subject to automatic extension for unspecified term, provided that 12 months prior to the end of the above term none of the parties delivers a representation that it does not wish to extend the term of the agreement. It also includes an option to terminate the contract after four years, subject to additional penalty compensation.

As of the date of the Prospectus, the Bank uses over 200 applications. Compared to other financial institutions of a similar scale, the Bank has a relatively simple application environment which allows for the effective management of operating costs and facilitates potential future development. All such systems have been tailored to the specific needs of the Bank's business. The Bank has concluded standard agreements with service providers

for all IT systems that are material to its operations. Such agreements grant the Bank licenses to use the relevant systems and ensure the provision of support services in cases of system failures, as well as the opportunity to receive updates and upgrades.

Insurance Coverage

The PKO Bank Polski Group maintains insurance coverage particularly against risks related to the elements (such as fire, lightning, hurricane, hail, flood, earthquake and others), theft and burglary, plunder, acts of vandalism, riots, strikes, group layoffs, acts of terror and building damage. Moreover, the Bank has insurance coverage against civil liability against third parties for any personal injuries or property damage resulting from any prohibited acts committed in relation to any activities conducted by the Bank or any of its property. The members of the Management Board and the Supervisory Board as well as the authorities of the Group's subsidiaries have Directors' and officers' liability insurance (D&O). All insurance policies are renewed annually. Currently, the insurance coverage is provided, *inter alia*, by PZU S.A., STU Ergo Hestia S.A., and TuiR WARTA S.A., Generali TU S.A., Lloyd's Polska. The Bank believes that its insurance coverage is in line with the standard adopted for banks in Poland.

Significant Tangible Fixed Assets

Significant Tangible Fixed Assets

The table below shows the various categories of the Group's tangible fixed assets existing as of the indicated dates.

	As at 31 December	
	2014	**2013**
	(in PLN thousand) (audited)	
Land and buildings	1,602,761	1,627,309
Machinery and equipment	499,830	497,121
Assets under construction	165,587	140,907
Investment properties	129,693	114,589
Means of transport	79,573	76,003
Other	176,111	155,304
Total	**2,653,555**	**2,611,233**

Source: 2014 Consolidated Financial Statements

As of the date of the Base Prospectus, the most important fixed assets of the Group are real estate properties.

As of the date of the Base Prospectus, the Bank does not plan to acquire any significant tangible fixed assets in the near future.

The Bank's Properties

As of the date of the Base Prospectus, the Bank has 733 plots of land which are either owned by the Bank, held under usufruct or occupied under lease agreements. Moreover, the Bank holds 9 pieces of real estate without legal titles. As of 31 December 2014, the total book gross value of the properties held by the Bank was PLN 2,429.5 million, including that presented in the "land and buildings" item of PLN 2,429.3 million and in the "investment property" item of PLN 0.2 million.

The Bank holds as the owner or holder of a cooperative member's ownership right to 712 buildings or premises with a total area of 789,174 m^2. Furthermore, the Bank utilises 9 pieces of real estate including 9 facilities with the total area of 6,961 m^2 without legal titles. The Bank, under lease agreements, occupies 2,580 buildings and premises with a total usable area of approximately 235,335 m^2. Leases are usually made for 5 years or unspecified term periods.

The Bank holds the perpetual usufruct right to the land together with the building situated thereon located in Warsaw, at ul. Puławska 15, where the headquarters of the Bank are situated and which the Bank believes is significant to the Bank's operations.

The Bank leases parts of its buildings and premises which are not used by the Bank for its operation to third parties. As of 31 December 2014, the total area leased by the Bank is approximately 35,979 m^2.

Material Intangible Assets

The most significant item of capital expenditure of the Group relates to outlays on the Integrated IT System. The cumulative capital expenditure incurred for the Integrated IT System between 2004 and 2014 amounted to

PLN 1,248.9 million. As of 31 December 2014, the net carrying amount of the Integrated IT System was PLN 735.6 million and its remaining useful life was 9 years.

As a result of the merger with Nordea Bank Polska SA (see: "– *Acquisition of Nordea Group entities*"), the Bank recognised goodwill, as a separate component of intangible assets as at the legal merger date, amounting to PLN 863 million. The amount of such goodwill was calculated as the difference between the price paid for Nordea Bank Polska SA's shares, including the assets of the 'Swedish portfolio', and the fair value of the net assets, including adjustments resulting from standardised accounting policies.

Environmental Protection

The Bank believes that environmental matters are not of material importance to the activities of the Group, its financial situation or for exploitation by it of tangible fixed assets.

Regulatory Issues

The operations of the Group carried out in the financial services sector (activities related to the banking sector, insurance, investment fund associations and the investment funds managed thereby, pension fund societies and the pension funds managed thereby, transfer agent services and brokerage services) are regulated activities.

Except for the Bank, within the Group, regulated activities are also carried out by:

- Kredobank;
- PKO Bank Hipoteczny SA;
- PKO Życie Towarzystwo Ubezpieczeń SA;
- PKO Towarzystwo Ubezpieczeń SA;
- PKO TFI;
- PTE BANKOWY; and
- PKO BP Finat Sp. z o.o.

Furthermore, the Bank runs brokerage activities in the form of a separate organisational unit of the Bank (DM PKO BP) and trust activities.

The aforementioned operations of the Group are subject to strict supervision of the Polish and foreign regulatory authorities, including the PFSA and the NBU, and must be carried out in compliance with community regulations and the provisions of Polish law and other countries in which the Group operates, as well as with specific recommendations, instructions, guidelines and operational and equity-related requirements (see "*Banking Regulations in Poland"*). In the course of its business the Group is subject to numerous inspections, controls, audits and investigations carried out by different regulatory authorities supervising the financial services sector and the other areas of activities of the Group. None of such inspections have, however, identified any breaches of operational requirements and guidelines or internal regulations, which could have a material effect on the Group's business, financial condition or results.

At the same time, Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o. and Finansowa Kompania "Idea Kapitał" Sp. z o.o., as companies that conduct financial services, are supervised by the State Commission for Regulation of Financial Services Markets of Ukraine.

The Group timely implements the guidelines of the regulatory authorities presented in the course of inspections.

Legal, Administrative and Arbitration Proceedings

The Group in the ordinary course of business is routinely involved in legal proceedings concerning its operational activities. To the Bank's best knowledge, as of 31 December 2014, with respect to proceedings involving claims of at least PLN 2 million each, the Group was (i) a plaintiff in 39 proceedings; and (ii) a defendant in 21 proceedings.

According to the Bank's best knowledge, as of 31 December 2014, the total value of claims subject to court disputes where the Group was as a defendant amounted to PLN 427.6 million, while the total value of claims brought by the Group as a plaintiff had a value of PLN 767.5 million. As of 31 December 2014, the total value of the provisions created in the companies of the Group (excluding the Bank) as a result of the court disputes amounted to PLN 18.0 million. With respect to the Bank, such figure amounted to PLN 29.5 million.

According to the information held by the Bank as of the date of the Base Prospectus, except for one proceeding related to its operations in Ukraine (see – "*Other Proceedings*" – "*Tax disputes relating to Kredobank*"), within

the 12 months preceding the date of the Base Prospectus there were no administrative proceedings, proceedings before administrative courts or civil, criminal or arbitration proceedings pending or instituted against the Group which could significantly affect or have recently affected the financial standing or operations of the Group. To the best knowledge of the Bank, there are no legal, administrative proceedings, proceedings before administrative courts, arbitration or criminal proceedings pending or threatened which could significantly affect the financial standing or operational activity of the Group other than those described in this section.

With respect to business-related litigation other than the material regulatory proceedings pending before the President of the Antimonopoly Office or the Antimonopoly Court, for the purposes of the Base Prospectus, it was assumed that any court proceedings were material if there was a possibility that they were related to an obligation of any Group entities to pay or to grant any other form of benefit having the value in excess of PLN 150 million.

Proceedings regarding reprivatisation claims regarding properties held by the Group

Six administrative and court-administrative proceedings are pending, of which one has been suspended, to invalidate administrative decisions issued by public administration authorities with respect to properties held by the Group entities. In the event of an outcome unfavourable for the Bank these proceedings may result in re-privatisation claims being raised and one administrative proceeding for the establishment of perpetual usufruct right to a property owned by the Bank, for which the date of cassation hearing before the Supreme Administrative Court was scheduled for 3 February 2015. With respect to two properties of the Bank claims pertaining to release or return the property and regulation of the legal status of the property have been submitted by their former owners (court proceedings for release of the property, payment of fees for non-contractual use of property by the Bank and for the acquisitive prescription of property by the State Treasure are pending). Proceedings for the statement of acquisitive prescription of a part of two properties held by the Bank's subsidiaries are also pending.

The proceedings concerning a complaint brought by Centrum Finansowe Puławska Sp. z o.o. ("**CFP**") concerning the use of the property located at Puławska and Chocimska street in Warsaw on which the Bank's office is currently located, are pending before the Regional Administrative Court in Warsaw. The proceedings concern the declaration of invalidity of the decision of the Local Government Court of Appeal of 10 April 2001, which stated that the decision of the Council of the Capital City of Warsaw of 1 March 1954 was issued in gross violation of applicable law. Due to the liquidation of CFP and it being removed from the register of companies and the distribution of its assets, the transfer of the right to perpetual usufruct of said plot was issued to the Bank; a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceeding given that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the Court dismissed the complaint. The judgement, together with the explanation, was delivered to the Bank on 20 June 2013. A cassation complaint was filed on 17 July 2013. The Supreme Administrative Court has scheduled the next hearing for 3 June 2015.

Proceedings before the President of the Antimonopoly Office or the Antimonopoly Court for the Infringement of the Collective Rights of Consumers

Proceedings Related to Applying "Interchange" Fees for Transactions Made Using Visa and Europay/Eurocard/Mastercard Cards

The Bank is a party to proceedings currently before the Court for the Competition and Consumer Protection (*Sąd Ochrony Konkurencji i Konsumentów)* (the "**SOKiK**") initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (Urząd Ochrony Konkurencji i Konsumentów) (the "**UOKiK**") upon a request from the Polish Trade and Distribution Organisation – Employers' Association (Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard cards. The claims under these proceedings relate to the use of practices limiting competition on the market of card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using Visa and Europay/Eurocard/Mastercard cards and limiting access to this market by external entities. On 29 December 2006, the UOKiK decided that the practices consisting of joint establishment of 'interchange' fees did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, inter alia, PKO Bank Polski SA, in the amount of PLN 16,597 thousand.

The Bank appealed against the decision of the President of the UOKiK to the SOKiK. On 20 December 2011, a hearing was held during which no resolution of the appeals was reached. The Court required MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon an application of the plaintiffs' attorney was postponed until 24 April 2012 and afterwards the SOKiK postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the SOKiK suspended proceedings until the final conclusion of proceedings before the European

Union Court in the case of MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012, a participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski SA, filed a complaint against the decision of the SOKiK dated 8 May 2012. In August 2012, the appeal of MasterCard against the verdict of the EU Court dated 24 May 2012 rejecting the appeal of MasterCard was received by the European Court of Justice. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for the suspension of the proceedings. The Bank's attorney received the court's decision in this case in January 2013 and in February 2013 the court files were transferred to the court of first instance.

A hearing was held on 29 October 2013 and on 21 November 2013 the judgement was announced in which the SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10,085 thousand. The judgement is not final. On 7 February 2014, the judgement was appealed on behalf of the Bank and eight plaintiffs represented by the Bank's attorney. The judgement was also appealed by other participants to the proceeding. Copies of these appeals have been delivered to the Bank's attorney, who responded to them. The court files have been transferred from the SOKiK to the Court of Appeals in Warsaw. As at 31 December 2014, the Bank had set up a provision in the amount of PLN 10,359 thousand in connection with such proceedings.

Proceedings before the SOKiK as a result of appeal against the decision of the President of the UOKiK

Proceedings due to the suspicion of unfair proceedings violating collective interests of consumers by way of the presentation in the advertising campaigns for a consumer loan under the marketing name 'Max pożyczka Mini Ratka' information that might not be clear for an average consumer and might mislead him as to the availability of loans on conditions advertised.

On 28 December 2012, the President of the UOKiK imposed a fine on the Bank in the amount of PLN 2,845 thousand. The Bank appealed against the decision of the President of the UOKiK on 16 January 2013. The proceedings are pending. As at 31 December 2014, the Bank had set up a provision in the same amount in connection with such proceedings.

Proceedings due to suspicion of use of unfair contractual provisions in forms of consumer loan agreements, excluding credit card agreements

By a decision of 31 December 2013, the Bank's activities were deemed to be practices violating the collective interests of consumers and fines in the amount of PLN 17,236 thousand and PLN 11,828 thousand (i.e. PLN 29,064 thousand in total) were imposed on the Bank. The Bank has appealed against this decision. The proceedings are pending. As at 31 December 2014, the Bank had set up a provision in the amount of PLN 10,000 thousand in connection with such proceedings.

Proceedings before the SOKiK initiated by an individual

Proceedings regard the recognition as abusive of the tariff of fees and charges in sections providing the fees for monitoring and collection activities in relation with customers who are late with the repayment of current debt. The Bank responded to the lawsuit. In this case there is no risk of financial penalties being imposed on the Bank. There is a risk of the provisions relating to monitoring and collection fees being entered into the Register of Prohibited Clauses kept by the President of the UOKiK.

Proceedings before the SOKiK in which the President of UOKiK is the plaintiff

Proceedings regard the determination of some of the provisions in the forms of consumer loan agreements to be illegal. The court proceedings are in progress; there has only been exchange of correspondence between the parties. There is no risk of a financial penalty being imposed on the Bank.

Proceedings before the Court of Appeals

Proceedings in which the Bank is the plaintiff – as a result of the completion of the appeal before the SOKiK initiated by the Bank against the decision of the President of the UOKiK due to the possibility of use of unfair contractual provisions in forms for individual pension account ("**IKE**") agreements.

On 19 December 2012, the President of the UOKiK imposed a fine on the Bank in a total amount of PLN 14,697 thousand, of which:

1) PLN 7,111 thousand was a fine for failing to indicate in the IKE agreements the responsibilities of the Bank for timely and properly carrying out monetary settlements and compensation for the delay in execution of an instruction from the holder;

2) PLN 4,741 thousand was a fine for the use in forms for IKE agreements of an open list of termination conditions;

3) PLN 2,845 thousand was a fine for the use of a clause (such clause being already entered in the register of

Prohibited Clauses kept by the President of the UOKiK) specifying that a court with jurisdiction over the seat of PKO Bank Polski SA's branch carrying a given IKE deposit account as having jurisdiction over for disputes with customers.

The Bank appealed against the decision of the President of the UOKiK on 2 January 2013.

The SOKiK reduced the penalty imposed on the Bank to the amount of PLN 4,000 thousand, based on the court decision of 25 November 2014. With regards to:

1) the practice described in the point 1 above, it reduced the penalty to the amount of PLN 2,500 thousand;
2) the practice described in the point 2 above, it reduced the penalty to the amount of PLN 1,500 thousand;
3) the practice described in the point 3 above, the penalty was repealed, as the Court determined that the practice of the Bank did not violate the collective interests of consumers.

The proceedings are in progress. As at 31 December 2014, the Bank had set up a provision in connection with the penalties in the amount of PLN 4,000 thousand.

Proceedings before the President of the UOKiK

The Bank is a party to the following eight proceedings before the President of the UOKiK:

1) Preliminary proceedings initiated on 7 January 2012 in order to determine whether the manner of offering mortgage loans by the Bank under the 'Autumn promotion of mortgage loans' ('*Jesienna promocja kredytów hipotecznych*') may constitute a practice which violates the collective interests of consumers.
2) Preliminary proceedings initiated on 23 December 2013 concerning the fees charged by the Bank for providing information which constitutes a bank secret.
3) Proceedings initiated on 28 February 2014 in order to determine whether the documents sent by the Bank to the UOKiK regarding selected cases contained business secrets.
4) Preliminary proceedings initiated on 23 January 2014 regarding the provisions in the forms for bank account agreements regarding powers of the attorneys – there is a risk of a financial penalty being imposed. The proceedings are pending and concern the Bank's practice (which is defective in the UOKiK's opinion) of refusing to accept powers of attorney for bank accounts in which account numbers are not specified. The Bank accepted the obligation to change this practice and implemented such a solution.
5) Proceedings initiated on 5 March 2014 in order to determine whether the Bank implemented the UOKiK's decision of 12 December 2008 concerning the advertising message of 'Max Lokata – with no concealed contractual provisions' ('*Max Lokata – bez gwiazdek*'). The Bank replied that it had fulfilled its obligations by placing an announcement in GPW Parkiet twice.
6) Preliminary proceedings initiated on 29 August 2014 in order to determine whether the Bank, in Aurum loan agreements, misled its customers by presenting insurance costs in these agreements and the information forms.
7) Preliminary proceedings initiated on 9 October 2014 concerning the possibility of customers using the 'chargeback' complaint procedure. The Bank replied to the UOKiK's request. There is no such complaint procedure in the Bank's relations with its customers (as such procedure is typical in the relations between the Bank and the card issuer).
8) Proceedings initiated on 15 October 2014 to determine whether the Bank, in its leaflet advertising the 'Mini Ratka loan in the blink of an eye based on a bank statement' ('*Mini Ratka w mgnieniu oka na wyciąg z konta*') misled its customers by mis-presenting the loan amount. On 13 November 2014, the UOKiK initiated relevant administrative proceedings for this matter. The Bank disagrees with the UOKiK's allegations and is considering accepting the obligation to present in line with the UOKIK's assumptions (in order to make the communication more precise).

PKO Życie Towarzystwo Ubezpieczeń SA, a subsidiary of the Bank, is a party to the following proceedings:

1) Seven proceedings before the SOKiK initiated by individuals to determine that some of provisions in forms for life insurance agreements are illegal. In all cases the company has responded to the proceedings and applied for dismissal due to the legal action being brought more than six months after the day of applying the provisions. There is no risk of a financial penalty being imposed on the company as a result of these proceedings.
2) Proceedings before the President of the UOKiK concerning liquidation charges and policy redemption value resulting from insurance agreement cancellation for some forms of life insurance agreements, as well as imprecise information on the total redemption value resulting from insurance agreement cancellation applied

in these forms. The proceedings are in progress; as at 31 December 2014 the Company had set up a provision in the amount of PLN 8,172 thousand in connection with these proceedings.

3) Proceedings before the Supreme Court as a result of the cassation complaint brought by the Company against the judgement of the Court of Appeal in relation to the fine imposed on the Company in 2010 by the President of the UOKiK for the violation of the collective interests of consumers by the Company (the relevant fine was paid in 2013). The proceedings are at the phase before the Supreme Court's decision on acceptation or rejection of the cassation complaint for consideration.

4) Preliminary proceedings before the President of UOKiK in connection with an advertisement used in 2014 by the insurers in the sale of life insurance with capital insurance fund agreements. The proceedings are at a preliminary stage.

Other Proceedings

Claim brought by a shareholder of Warimex sp. z o.o. in bankruptcy for damages

On 15 May 2009, one of the shareholders of Warimex sp. z o.o., acting on behalf of the company, filed a suit in the Regional Court in Warsaw against Bank Amerykański w Polsce S.A. (transformed into DZ Bank Polska S.A.) and the Bank requesting adjudication in favour of Warimex sp. z o.o. in bankruptcy the sum of PLN 163,971,852 as damages related with the defective representation on termination of the loan agreement dated 1 July 1997 executed between Warimex sp. z o.o. and the syndicate of Bank Amerykański w Polsce S.A., and the Bank. In response to the statement of claim dated 21 October 2010, the Bank requested the dismissal of the claim, based on the plaintiff's lack of authorisation to file the claim and the authority of a judged case, or the dismissal of the suit based on the claim being barred by the Bank's Statute of limitation and on such suit being unjustified by merit. The hearing in the above-referenced matter was set for 6 September 2011. Following a series of hearings, on 30 September 2014, the Court announced its judgment dismissing the claim. On 21 November 2014, the plaintiff filed an appeal against the judgment which was delivered to the Bank on 7 January 2015. As of the date of this Base Prospectus, a hearing before the court of appeals has not yet been scheduled.

Tax disputes relating to Kredobank

In 2014 Kredobank had been a party to two proceedings with the tax authority in Ukraine, one of which is now final and binding.

The dispute that has been finalized related to the issue of Kredobank's treatment of costs related to the 2011 transaction of the sale of loan receivables, including factoring operations, between Kredobank and Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o., as revenue-earning costs. Following the decisions of the courts of first and second instance and the Higher Administrative Court, Kredobank had to eliminate the tax loss arising from the transaction, which resulted in the recognition of income tax from legal entities in the amount of UAH 44,583 thousand (PLN 10,013 thousand) in the financial statements of Kredobank for 2013, which were prepared in accordance with IAS/IFRS, and due to the need to reverse deferred tax assets, a deduction from Kredobank's net profit in the amount of UAH 116,882 thousand (PLN 26,252 thousand). As a result, the total net profit of Kredobank was decreased by UAH 161,465 thousand (PLN 36,265 thousand). On 18 February 2014, Kredobank filed a cassation appeal against the Higher Administrative Court's judgment with the Supreme Court of Ukraine. This claim was not allowed to proceed to trial by the Supreme Court of Ukraine. As a result on 7 March 2014, Kredobank was served a decision of the Higher Administrative Court in which its cassation case was refused for review. In May 2014, Kredobank and the Bank filed complaints against the authorities of Ukraine with the European Court of Human Rights. Such complaints were rejected. The rejections are final and non-appealable, the verdict of the court is valid and binding and not subject to appeal.

The pending legal proceedings concern the results of a tax inspection that covered the period from 1 April 2011 to 30 September 2012. The legal claim primarily relates to the recognition of the costs related to the selling of loans in the period covered by the tax inspection as tax deductible expenses, the adequacy of the recognition of impairment allowances on loans, the correctness of the settlement of VAT on property sales and the withholding of tax for the payment of fees for services. The value of the disputed claim amounted to UAH 877 thousand (PLN 197 thousand) and the amount of deducted tax loss from previous years was UAH 626,282 thousand (PLN 140,663 thousand). In February 2013, Kredobank paid the amount of UAH 439 thousand (PLN 99 thousand). Kredobank appealed against the tax decision to the Regional State Tax Service and the Ministry of Revenue and Duties of Ukraine; such appeals were rejected. On 2 August 2013, Kredobank filed a claim against the results of the tax inspection and requested the invalidation of the decision. On 5 November 2013, the court of first instance issued a favorable verdict for Kredobank. On 26 November 2013, the tax authority appealed to the court of second instance. On 2 April 2014, the court of appeal upheld the decision of the court of first instance. On 15 April 2014, the tax authority filed a motion for cassation of this judgement to the Higher Administrative Court. On 10 February 2015, the Higher Administrative Court issued a verdict favorable for Kredobank, upholding the decisions of the court of the first and second instance. Tax liability arising from the above-mentioned judgement

in the amount of UAH 74 thousand (PLN 17 thousand) will be recognized by the Company in the tax return for the year 2014. The judgement is legally binding. It is possible for the tax authority to appeal to Supreme Court of Ukraine.

Claim brought by a natural person against the Bank

On 25 February 2015, the Bank received a lawsuit for the amount of PLN 1,000,000,000. The plaintiff alleges that as a result of the termination of a loan amounting to CHF 220,690 he was forced to declare bankruptcy. The Bank and members of the management board of the Bank have received several calls for settlement from the plaintiff.

Employees

The table below presents the number of employees employed in a number of full-time equivalents by PKO Bank Polski and in other companies within the Group as of the indicated dates.

Headcount	**As at 31 December**	
	2014	**2013**
PKO Bank Polski	25,927	24,437
Other companies in the Group	3,105	2,950
Total	**29,032**	**27,387**

Source: The Bank

As of 31 December 2014, approximately 68.8% of the employees of the Bank held higher education qualifications, and approximately 31% have secondary and post-secondary education.

The average monthly basic salary paid to the Bank's employees (excluding the Management Board members) amounted to PLN 5,274, PLN 5,324 and PLN 5,515 in the years ended 31 December 2012, 2013 and 2014, respectively.

The provisions against pension and retirements benefits or any jubilee awards for the Group employees as of 31 December 2014 stood at PLN 39.9 million.

The number of redundancies due to reasons not attributable to employees was 850, 1,124 and 463 jobs for the years ended 31 December 2012, 2013 and 2014, respectively.

Training programs offered to the Bank's employees are aimed at creating loyal personnel capable of performing in difficult economic conditions and guaranteeing a high level of customer service. The training policy is focused specifically on the improvement of the qualifications and skills of key employees, providing training in introducing new technologies and developing techniques aimed at increasing sales effectiveness. These objectives are supported by unifying the rules on the eligibility of employees for specialist training and inventing solutions to improve internal communication.

The Bank adopted an internal regulation under which all the employees are entitled to additional medical services under medical care packages tailored for different job groups.

The Bank's employees are also awarded cash for disclosing and preventing actions to the detriment of the Bank. The Bank uses two types of non-compete agreements – non-compete agreements during the employment period and after the termination of the employment (with the Bank's employees given access to specifically important information, which, if disclosed, could result in harm to the Bank) and non-compete agreements exclusively for the duration of employment (with other employees of the Bank, to protect the Bank's interests from their competitive activities). The duration of the non-compete obligation after the termination of employment is up to six months. Compensation paid to employees for observing the non-compete obligation after the termination of employment usually amounts up to 100% of the base salary and is payable each month of the duration of the non-compete obligation.

In connection with the PFSA's requirements relating to the variable elements of the remuneration of key employees of banks adopted in October 2011, the Bank introduced in 2012 detailed rules governing the variable elements of the remuneration of its key personnel, including the Management Board members.

Trade Unions and Collective Labour Agreements

As of 31 December 2014, there were three trade unions operating at the Bank which hold special status:

- Niezależny Samorządny Związek Zawodowy "Solidarność" Pracowników PKO BP S.A. with 1,641 members;
- Krajowy Związek Zawodowy Pracowników PKO BP S.A. with 3,198 members; and

- Związek Zawodowy Pracowników Banku PKO BP S.A. with 70 members, of which only the first two are representative.

On 28 March 1994, the Bank and the representative trade unions operating in the Bank concluded a Collective Labour Agreement effective as of 1 April 1994. This agreement covers all the Bank's employees, except for members of the Management Board and individuals with whom the Bank has concluded managerial contracts and other civil-law agreements.

Under the Collective Labour Agreement, the Bank's employees, apart from base salary, are entitled to bonuses, performance bonuses and severance payments upon retirement or becoming disabled.

The Collective Labour Agreement was entered into for an unspecified term and may be terminated by mutual agreement or by either party giving a three-month notice in writing. In the event of the termination of the current Collective Labour Agreement, it will remain binding until a subsequent agreement is concluded.

In May 2013 the Bank introduced changes in the Collective Labour Agreement by removing the provisions on the entitlement to anniversary bonuses and on retirement benefits not arising from the Labour Code. A one-time policy on payment of awards and retirement bonuses providing rules for payment of compensations for awards and retirement bonuses was introduced in July 2013. As a result, funds in the amount of PLN 193 million were paid out as compensation and the provision for retirement benefits and anniversary bonuses in the amount of PLN 179 million was released.

On 24 December 2013 the Bank and the representative trade unions operating at the Bank executed an understanding regarding the rules applicable for terminating employment relationships with the employees of PKO Bank Polski for reasons other than caused by employees in 2014. The understanding specifically regulates the selection rules for layoffs, the principles of granting benefits and the employer's duties within the scope required to settle other employee-related issues with respect to the employees subject to layoffs in 2014. The understanding has been executed for the period between 1 January 2014 and 31 December 2014. The understanding provides:

- all the employees subject to the group layoffs with cash severance pay provided by generally applicable laws;
- the majority of employees subject to the layoffs – additional cash severance pay and earlier payments of retirement payments in the amounts as provided in the Collective Labour Agreement and certain additional benefits depending on the benefits package to which they are entitled.

In 2013 the value of severance pay and damages paid by the Bank to the employees subject to the group layoffs amounted to PLN 48.8 million. The value of such payments paid for the year ended 31 December 2014 amounted to PLN 26.1 million.

In the period covered by the Consolidated Financial Statements and as of the date of the Base Prospectus there were no strikes at PKO Bank Polski or its subsidiaries, and PKO Bank Polski or its subsidiaries were not a party to any collective labour dispute.

Employee Pension System

In 2013, an Employee Pension System (the "**PPE**") was created at the Bank. The PPE was introduced in the form of an agreement based on which the Bank is required to transfer the Basic Premium and the Additional Premium for the Employees to Investment Funds managed by PKO TFI. Based on the selected form of PPE, the Bank allocates its own funds for additional pension security for its employees by systematically financing the basic premium (3% of the remuneration based on which the premiums for the Participant's pension and retirement insurance are calculated). In addition to the collection of funds represented by the basic premium, the Employees can also save their own funds by paying additional premiums into the programme.

Employee Shareholding

In November 2004, by virtue of the Act on Commercialisation and Privatisation dated 30 August 1996 and § 14 section 1 of the Regulation of the Minister of the State Treasury dated 29 January 2003 on the detailed rules for dividing the eligible employees into groups, determining the number of the shares allocated to each of such groups and the procedures for acquiring shares by eligible employees, employee shares in the Bank were granted to its employees. As a result of the allotment, the employees received 105,000,000 shares, which, as of the date of the Base Prospectus, represent a 8.4% interest in the Bank's share capital. As of the date of completion of transfer of the shares in the Bank, 12 February 2010, the employees (and their heirs) had acquired 104,567,344 shares.

As of the date of this Base Prospectus, the employees did not participate in the Bank's share capital or in profit distribution.

Risk Management

Risk management is one the most important internal processes in PKO Bank Polski. Risk management is aimed at securing the profitability of business activity by ensuring control of risk levels and maintaining such risks within the risk tolerance and limits system applied by the Bank in the changing macroeconomic and legal environment. Risk appetite and tolerance play important roles in the planning process.

The Bank has identified the following types of banking risk, which are subject to management: credit risk, interest rate risk, foreign exchange risk, liquidity risk, commodity price risk, price risk of equity instruments, derivative instruments risk, operational risk, compliance risk, macroeconomic changes risk, models risk, business risk (including strategic risk), loss of reputation risk and capital risk.

Risk management at the Bank is based, in particular, on the following principles:

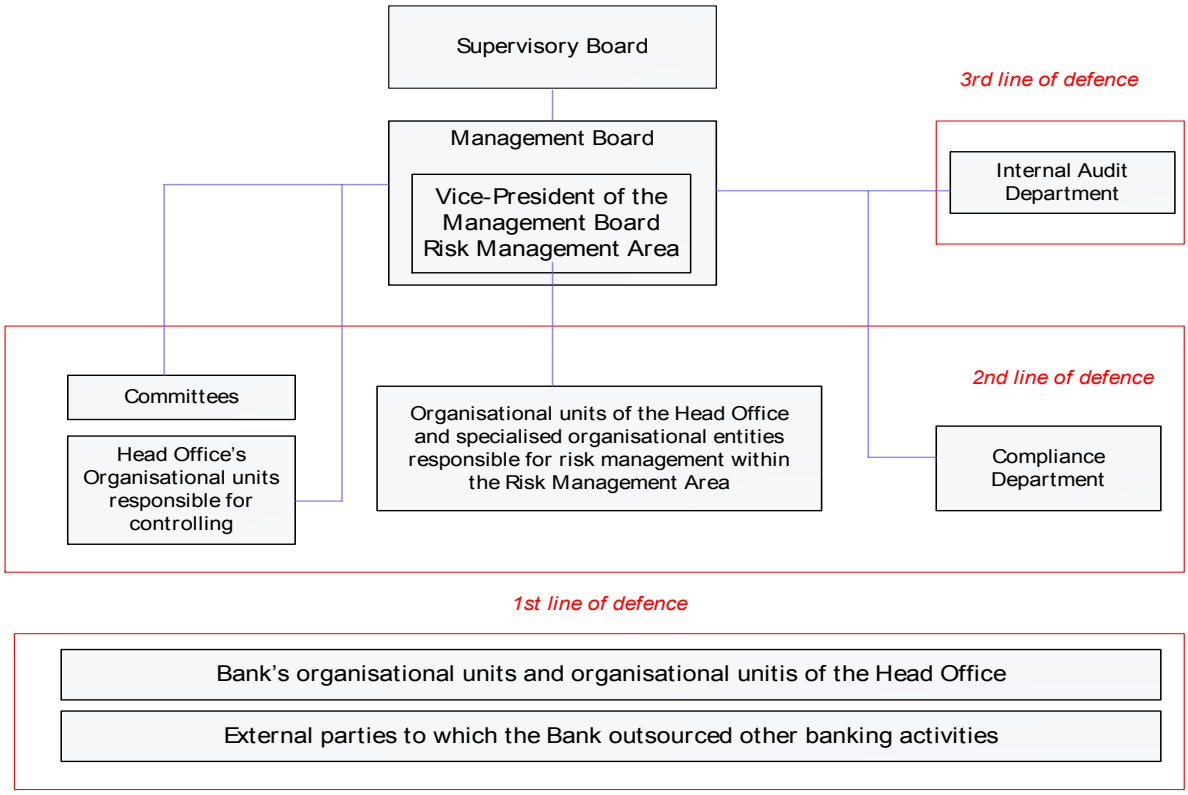
- the Bank manages all of the identified types of banking risk;
- the risk management process is appropriate to the scale of the operations and to the materiality, scale and complexity of a given risk and tailored to emerging risk factors and sources on a current basis;
- the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk and periodically verified and validated;
- the area of risk and debt recovery is segregated organisationally from the business activities;
- risk management is integrated with the planning and controlling systems;
- the level of risk is monitored on a current basis;
- the risk management process supports the implementation of the Bank's strategy by aligning it with the risk management strategy, in particular with regard to the risk tolerance level.

The Bank's risk management process consists of the following steps:

- **risk identification** - The identification of current and potential sources of risk and estimation of the materiality of the potential impact of a given type of risk on the financial situation of the Bank. Within the risk identification process types of risk perceived as material in the Bank's activity are identified.
- **risk measurement and assessment** - Defining risk assessment measures adequate to the type and materiality of the risk, data availability and quantitative risk assessment by means of determined measures, as well as risk assessment aimed at identifying the scale or scope of risk, taking into account the achievement of goals of risk management. Within risk measurement stress-tests are being conducted on the basis of assumption providing a reliable risk assessment.
- **risk forecasting and monitoring** - Preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, previous period results, issued recommendations and suggestions). Risk monitoring is performed with the frequency adequate to the materiality and volatility of a specific risk type.
- **risk reporting** - Periodic informing the management of the Bank about the results of risk measurement, taken actions and actions recommendations. Scope, frequency and the form of reporting are adjusted to the management level of the recipients.
- **management actions** – This includes, in particular, issuing internal regulations, establishing the level of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management. The objective of taking management actions is to influence on the risk management and the risk level.

Risk Management Organisation

The chart below illustrates the structure of the principal elements of the Bank's risk management organisation.



The risk management process is supervised by the Supervisory Board of the Bank, which is informed on a regular basis about the risk profile of the Bank and of the most important activities taken in the area of risk management.

The Bank's Management Board is responsible for risk management, including supervising and monitoring the activities undertaken by the Bank in the area of risk management. The Bank's Management Board takes the most important decisions affecting level of risk of the Bank and enacts internal regulations defining the risk management system.

The risk management process is carried out in three, mutually independent lines of defence:

- the first line of defence, which is functional internal control that ensures the use of risk control mechanisms and compliance of the activities with the generally applicable laws;
- the second line of defence, which is the risk management system, including risk management methods, tools, process and organisation of risk management; and
- the third line of defence, which is an internal audit.

The independence of the lines of defence based on organisational segregation in the following areas:

- the functioning of the second line of defence in respect of developing systemic solutions is independent of the functioning of the first line of defence;
- the functioning of the third line of defence is independent of the first and second line of defence; and
- the compliance risk function is overseen by the President of the Management Board.

The first line of defence is particularly practised in the organisational units of the Bank, the organisational units of the Head Office and the external entities to which the Bank outsourced other banking activities and concerns the activities of those units, sections and entities which may generate risk. The units and entities are responsible for identification of risks, design and implementation of appropriate controls, including in the external entities, unless controls have been implemented as part of the measures taken in the second line of defence.

The second line of defence is being performed, in particular in the Risk Management Area, in the organisational units of the Head Office managing compliance risk and reputation risk, by respective committees, as well as the organisational units of the Head Office responsible for controlling.

The third line of defence is being performed as part of internal audit, including the audit of the effectiveness of the risk management system related to the Bank's activities.

The organisational units of the Head Office of the Bank that are grouped within the Banking Risk Division, the Department of Restructuring and Debt Collection of Corporate Clients and Analysis, the Credit Risk Assessment Centre, the Restructuring and Debt Collection Centre, and the Department of Risk Integration manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for:

- identification of risk factors and sources,
- measurement, assessment, monitoring and reporting of risk levels (material risks) on a regular basis,
- measurement and assessment of capital adequacy,
- preparation of recommendations for the Management Board or committees regarding the acceptable level of risk,
- implementation of internal regulations on managing risk and capital adequacy,
- development of IT systems designated for supporting risk and capital adequacy management.

The Department of Risk Integration is in particular responsible for:

- validation of risk models,
- implementation of an effective system of the model risk management in the Group,
- coordinating the implementation of the integrated risk management system in the Group,
- supervision over risk management in the Group.

The Department of Restructuring and Debt Collection of Corporate Clients is responsible in particular for:

- recovering receivables from difficult corporate clients effectively, in an amount not less than the amount specified in the separate internal regulations of the Bank, through their restructuring and debt collection,
- protection of the Bank's interests as a creditor in the course of the compulsory pursuit of claims,
- selling receivables effectively and acquiring assets as a result of pursuing claims,
- review and classification of receivables being managed within the department and off-balance sheet liabilities granted, as well as the determination of their impairment allowances associated with the risk of the Bank's activities.

The Restructuring and Debt Collection Centre is in particular responsible for:

- recovering receivables from difficult clients effectively through their restructuring and debt collection, and increasing the effectiveness of such actions,
- effective monitoring of delays in the collection of receivables from retail market clients,
- effective outsourcing of the tasks carried out, as well as effective management of assets taken over as a result of recovering the Bank's receivables,
- selling difficult receivables effectively.

The objective of the Analysis and Credit Risk Assessment Centre is the reduction of the credit risk of individual credit exposures of the Bank's retail and corporate market clients and financial institutions, which are significant in particular due to the scale of exposure, client segment, or the level of risk, and ensuring effective credit analyses in respect of mortgage loans granted to individual clients through the Bank's retail network and loans granted to small and medium enterprise clients and corporate clients evaluated with rating methods, as well as taking credit decisions in this respect.

Risk Management Committees

Risk management in the Bank is supported by the following committees:

- the Risk Committee (the "**RC**");

- the Assets and Liabilities Committee (the "**ALCO**");
- the Operational Risk Committee (the "**ORC**"); and
- the Bank's Credit Committee (the "**BCC**").

The RC:

- monitors the integrity, adequacy and efficiency of the bank risk management system, as well as capital adequacy and implementation of the risk management policies consistent with the Bank's Strategy,
- analyses and evaluates the application of strategic risk limits specified in the Bank's Risk Management Strategy,
- supports the Supervisory Board in the risk management process by formulating recommendations and making decisions concerning capital adequacy and the efficiency of the risk monitoring system.

The ALCO:

- makes decisions within the scope of limits and thresholds on particular types of risks, issues related to transfer pricing, models and portfolio parameters used to determine impairment allowances and provisions as well as other significant financial and business risk models and their parameters,
- gives recommendations to the Management Board, inter alia, with regard to determining the structure of the Bank's assets and liabilities, and managing different types of risk, equity and pricing policy.

The ORC:

- takes decisions, and issues recommendations and opinions regarding, inter alia, strategic tolerance limits and limits for operational risk losses, key risk indicators (KRI), assumptions of stress-tests, results of the validation of operational risk measurement models and changes in the AMA approach and actions to reduce the level of operational risk in all areas of the Group's activities,
- issues operational risk management recommendations for the PKO Bank Polski SA Group entities as part of the Bank's corporate supervision over those entities.

The BCC:

- makes loan decisions with regard to significant individual credit exposures and credit risk models,
- issues recommendations in respect of the above-mentioned decisions to the Management Board,
- makes decisions regarding the approval of credit risk models and the results of the validation of these models.

The ALCO, the RC, the ORC, the BCC, the Management Board and the Supervisory Board are recipients of cyclical reports concerning individual risk types.

Credit Risk

Credit risk is defined as the risk of incurring financial loss due to a counterparty's failure to meet its financial obligations to the Bank or as the risk of the decreasing economic value of the Bank's receivables as a result of a counterparty's deteriorating ability to service its liabilities.

The credit risk management process is based on the following principles:

- a credit transaction requires a comprehensive credit risk analysis which results in a credit score or an internal credit rating;
- credit risk in respect of credit transactions is measured during analysis of a loan application and periodically by taking into consideration changing macroeconomic factors and changes in the financial position of the borrowers;
- credit risk assessment is performed by independent internal credit risk assessment units, independent of business units;
- the terms and conditions of a transaction offered to a customer depend on the assessment of the level of credit risk associated with such transaction;
- credit decisions may be made only by authorised persons;
- credit risk is diversified in terms of geographical area, business sector, products and clients; and

- the expected level of credit risk is mitigated by the Bank by accepting collateral, credit margins charged to the customers and by impairment allowances in respect of credit exposures.

Carrying out the above-mentioned policies ensures that the Bank uses advanced credit risk management methods, both at the level of single loan exposure as well as within the Bank's entire credit portfolio. The methods are verified and developed for compliance with the requirements of the internal ratings-based (IRB) approach, which is an advanced method of measuring credit risk which may be used to calculate the capital requirement for credit risk following the obtaining by the Bank of the PFSA's approval.

Currently, the Bank is implementing advanced credit risk management methods that are fully compliant with the advanced IRB method with respect to the retail portfolio and which are based on the foundations of the IRB approach with respect to the corporate portfolio.

Rating and Scoring Methods

The risk associated with single loan transactions is assessed by the Bank through the use of scoring and rating methods which are created, developed and supervised by the Banking Risk Division.

These methods are supported by special centralised IT applications. The manner of credit risk assessment is defined in the Bank's internal regulations, whose main purpose is to ensure a uniform and objective credit risk assessment in the lending process. These regulations determine the manner in which the level of credit risk associated with single credit exposure should be assessed and secured by collateral, as well as criteria for granting or refusing loans.

Retail

The Bank assesses the credit risk for individual clients based on the client's borrowing capacity and their creditworthiness. A client's borrowing capacity assessment consists of verifying their current financial standing (especially net disposable income), while the creditworthiness assessment covers the client score and credit history obtained from the Bank's internal records and from external databases.

Corporate

Credit risk assessment for institutional clients (corporate) is conducted at the level of the client and at the level of the transaction (except for certain types of transactions that involve SME customers which are assessed according to a scoring approach – the Bank assesses the credit risk for those transactions based on the client's borrowing capacity and their creditworthiness). The assessment is expressed in a rating of the client and a rating of the transaction. The synthetic measure of credit risk, which reflects both risk factors, is a joint rating. The Bank has implemented a model for the assessment of entities to which the Bank extends credit via a formula of specialist financing, which enables adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

Rating models for institutional clients are prepared using the internal data of the Bank, which ensures that they are tailored to the risk profile of the Bank's clients. The models are based on a statistical dependence analysis between default and a customer's risk scoring.

In the case of clients from the small and medium enterprises segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and is performed on two levels: the given client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's economic and financial situation, while the creditworthiness assessment involves the scoring and evaluation of the client's credit history obtained from the internal records of the Bank and external databases. In other cases, a rating method is widely used.

The rating and scoring information is used widely by the Bank in the process of risk management in the area of credit decisions, monitoring processes and within the system for credit risk measurement and reporting.

Credit risk relating to loan transactions is measured at the stage of examining a loan application and on a regular basis as part of the monitoring process taking into consideration changes in external conditions and in the financial standing of borrowers.

On 1 January 2013, the Bank introduced a centralised credit risk monitoring process.

With a view to the early identification of potential increases in credit risk or risk associated with the impairment of the collateral of loans granted to institutional clients, the Bank implemented an Early Warning System (the "**EWS**").

Credit Evaluation and Approval Process

The Bank has a tiered system for dividing competencies within the credit approval process. The so-called competence limit depends on the position of the decision maker within the Bank's organisational hierarchy: the higher the level, the greater the limit. The competence limit also depends on the loan amount, the Bank's exposure to the borrower (or group of borrowers), the term of the loan, the results of the evaluation based on the scoring methodology (negative or positive) and the client segment.

The following bodies are authorised to grant credit approvals, on a scale running from the largest approval limit to the smallest approval limit: the Management Board, the BCC, individual members of the Management Board supervising appropriate business areas, the directors of the Bank's organisational entities, branch directors, directors of corporate branches, the director of the Analysis Centre and Credit Risk Assessment. In addition, employees of certain corporate branches have credit approval authority within approved limits.

Recommendations of the credit committees support the credit approval decision-making process. Depending on the amount of the proposed credit facility or loan, the BCC may issue recommendations. The credit committees participate in decisions regarding approvals of applications that involve significant loan amounts or a higher degree of risk.

A negative opinion of the credit committee is binding for the person who makes a credit approval decision, except that for the BCC which issues recommendations to the Management Board. A negative recommendation of a credit committee may be appealed by the decision maker to a higher level of the decision making ladder.

In the case of institutional clients in the corporate client segment, the Bank has made improvements in the functioning of the lending process. These changes relate to changes in portfolio segmentation and organisational changes which meet clients' needs in a much better way and, on the other hand, allow comprehensive credit risk assessments to be made independently of the offered corporate and transaction banking products.

Collateral Policy

The collateral policy followed by the Bank is to appropriately secure the interests of the Bank and to establish collateral that offers the best possible level of debt recovery if a recovery procedure proves necessary.

The specific types of collateral that are accepted depend on the nature and term of a loan and the customer's standing.

In connection with housing loans the principal and mandatory collateral is a mortgage on the financed property and an assignment of receivables under the insurance agreement covering such property. Until a mortgage can be established effectively, depending on the amount of the loan and its type, the Bank accepts temporary collateral in the form of a blank promissory note, guarantee or insurance. In the case of housing loans granted to retail customers, instead of temporary collateral, a higher credit margin is applied until the mortgage on the real property is perfected.

When granting consumer loans to individual clients, the Bank usually accepts personal collateral (a guarantee under civil law or an aval) or establishes collateral on the client's current account, car or securities.

To secure loans which finance SMEs, as well as corporate clients, the following forms of collateral, among others, are used: bank guarantees, transfers of receivables as collateral, transfers (payment) of cash to the Bank's account within the meaning of Art. 102 of the Banking Law, transfers of ownership rights to movables (repossession) as collateral, contractual pledges on movables on general terms and conditions (ordinary pledge), registered pledges, pledges over rights, in particular pledges over participation units in open-ended investment funds, mortgages on real estate, repossession of securities as collateral, pledges and registered pledges on securities and irrevocable blocks on securities admitted to public trading and held in a securities account.

In accepting legal collateral for loans, the Bank applies the following policies:

- in the case of high-ticket, several types of collateral are established, combining personal and tangible collateral whenever possible;
- liquid collateral is preferred, for which there is a high probability that the Bank will quickly satisfy its debt by achieving prices approximating the value of the assets determined at the time of accepting the collateral;
- in the case of the acceptance of property collateral, the Bank accepts as additional security the transfer of the rights from the insurance policy for the subject of the collateral, or an insurance policy issued in favour of the Bank; and
- effective establishment of collateral in accordance with the agreement is a condition for the release of the loan funds.

Perfected collateral is subject to periodic monitoring in order to determine the current credit risk level of the transaction. The Bank monitors the property and financial standing of the entity that issues personal collateral, the condition and value of the object serving as property collateral, and other circumstances affecting the possibility of debt recovery by the Bank.

Collateral in the form of a mortgage is subject to special assessment. The Bank performs periodic monitoring of real properties accepted as collateral (the loan to value ("**LtV**") ratio is taken into account) and monitors the prices on the real estate market. If this analysis shows a significant drop in prices on the real estate market, the Bank activates emergency procedures.

Portfolio Risk Measurement

In order to assess the level of credit risk and credit portfolio profitability, the Bank uses various credit risk measurement and assessment methods, including probability of default, expected loss, credit value at risk, the share and structure of impaired loans, the coverage ratio of impaired loans and the cost of portfolio credit risk.

PKO Bank Polski regularly extends the scope of credit risk measures it uses, taking into account the internal rating-based method (IRB) requirements, and extends the use of risk measures to fully cover the Bank's entire loan portfolio with such methods.

The portfolio credit risk measurement methods allow, among other things, the inclusion of credit risk in the price of the product offer, the determination of the optimum amount of so-called cut-off points, and the determination of rates for making impairment allowances.

Impairment of Credit Exposure

The Bank periodically reviews its credit exposures to identify which loans are threatened with impairment, measures the impairment of its credit exposure and establishes write-downs and provisions. The process of establishing write-downs and provisions comprises the following stages:

- identification of the objective evidence of impairment and of events significant for such identification;
- recording events material for the identification of the objective evidence of impairment of credit exposure in the Bank's IT systems;
- definition of the method for impairment measurement;
- measuring the impairment and determining an impairment charge or provision;
- verification and aggregation of the impairment allowance; and
- recording of the impairment allowance.

The method for defining the amount of the impairment allowance depends on the type of objective evidence of impairment identified and the individual significance of the credit exposure concerned. In particular, any delay in the loan repayment of at least three months, a significant deterioration in a client's internal rating, and the conclusion of a restructuring agreement or a debt relief scheme (if the relief granted to the consumer is a result of his difficult legal or economic position) are each treated as objective evidence of individual impairment.

The Bank uses three methods for impairment assessment:

- the individual method for individually significant credit exposures for which objective evidence of impairment on an individual basis has been identified or which pertains to a debtor whose other types of exposure meet such conditions or which requires individual assessment due to the transaction specifics;
- the portfolio method, which is applied in the case of credit exposures which are not individually significant but for which objective evidence of individual impairment has been identified; and
- the group method (IBNR), which is used in the case of credit exposures where no objective evidence of individual impairment have been identified but there are conditions indicating the possibility of the occurrence of incurred but not reported losses.

The write-down for impairment of the carrying amount of a credit exposure is the difference between the carrying amount of that exposure and the present value of the expected future cash flow from that exposure. When defining a write-down under the individual method, future cash flows are assessed for each credit exposure individually and the possible performance scenarios of the agreement are taken into account and weighed with the probability of their fulfilment. The write-down for credit exposure impairment defined under the portfolio or collective method is the difference between the carrying amount of such exposure and the present value of the expected future cash flow, assessed with statistical methods on the basis of historical monitoring of exposures from homogenous portfolios. Calculations of portfolio parameters (probability of default and recovery rates) are performed on a quarterly basis. Recovery rates are calculated with the use of transition matrices and

vectors of payments. Every single projected payment of principal, interest and collateral is taken into account. Estimates of payments are based on historical observations and they are discounted using the average effective interest rate for the portfolio.

The provision for off-balance sheet credit exposure is determined as the difference between the expected amount of exposure in the statement of financial position which will arise as a result of an off-balance sheet liability and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the liability.

When defining the provision for off-balance sheet credit exposure with respect to individually significant credit exposure for which objective evidence of impairment on an individual basis has been identified or pertains to debtors whose other types of exposure meet such conditions, the Bank uses the individual method.

Recoveries on overdue loans are initially handled by the Restructuring and Debt Collection Division and the Corporate Client Restructuring and Debt Collection Department. Depending on the type of liability, overdue status of the loan and, if applicable, the financial standing of the borrower or the status of the collateral, the collection team takes various actions, including, among others, restructuring, instituting legal proceedings against the borrower and foreclosing on the collateral. The Bank cooperates with third-party collection agencies selected following tender proceedings.

Risk Management Tools

The main credit risk management tools used by the Bank are as follows:

- threshold levels determining the availability of credit for clients, including cut-off points, the minimum score for individual clients or the rating class for institutional clients, from which a loan transaction can be made with a given client;
- the loan transaction credit risk terms and conditions defined for a given type of transaction (the minimum value of the LtV ratio, the maximum LtV, the maximum credit amount and the required collateral);
- the minimum credit spread – credit risk spreads related to the Bank's specific credit transaction concluded with an institutional client, with the provision that the client may not be offered an interest rate lower than that resulting from the reference rate increased by the credit risk spread;
- limits specifying the risk appetite, including the following limits:
  - concentration limits – the limits defined in Article 71.1 of the Polish Banking Law;
  - industry limits – limits of the risk level related to financing institutional clients from industries characterised by high credit risk levels,
  - limits resulting from Recommendation S and Recommendation T related to the credit exposure of the Bank's clients,
  - individual transaction limits – limits in respect of activities on the inter-bank market and on the wholesale market in the area of derivatives; and
- competence limits – which define the maximum level of authority required to take credit decisions with respect to the Bank's clients, the limits depend mainly on the Bank's amount of credit exposure towards a given client (or a group of related clients) and the period of the credit transaction; competence limits also depend on credit decision making levels within the Bank's organisational structure.

Risk Concentration

The Bank monitors credit risk concentration in respect of types of exposure to individual clients (or groups of related clients) and the types of exposure to groups of clients or credit portfolios exposed to a common risk factor.

The Bank defines credit concentration risk as arising from a considerable exposure to single entities or to groups of entities whose repayment capacity depends on a common risk factor. The Bank analyses concentration risk in respect of:

- the largest business entities;
- the largest capital groups;
- industries;
- geographical regions;

- currencies; and
- exposures with established mortgage collateral.

The risk of a concentration of exposure to individual clients (or groups of related clients) is monitored pursuant to Article 71.1 of the Banking Law in respect of the exposure concentration limit (the total amount of individual exposure may not exceed 25% of the Bank's own funds.

As at 31 December 2014 and 31 December 2013, those concentration limits were not breached. As at 31 December 2014, the level of concentration of the Bank's risk with respect to individual exposures was low – the largest exposure to a single entity was equal to 12.7% of the Bank's recognised capital.

The total exposure of the Bank towards its 20 largest non-banking sector clients as of 31 December 2014 and 2013 is presented in the table below:

As of 31 December 2014			As of 31 December 2013		
No.	**Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**
	(in PLN thousand) (unaudited)	*(in %) (unaudited)*		*(in PLN thousand) (unaudited)*	*(in %) (unaudited)*
1.	3,157,166	1.26%	1.*	2,800,744	1.37%
2.	2,474,087	0.99%	2.	2,080,000	1.01%
3.*	2,431,471	0.97%	3.	2,074,380	1.01%
4.	2,266,960	0.90%	4.	2,034,786	0.99%
5.	2,172,936	0.87%	5.*	1,396,115	0.68%
6.	2,080,000	0.83%	6.	1,139,935	0.56%
7.*	2,400,512	0.96%	7.	1,083,993	0.53%
8.	1,643,091	0.66%	8.	1,078,879	0.53%
9.	1,266,301	0.51%	9.	794,068	0.39%
10.	1,177,665	0.47%	10.	752,372	0.37%
11.	1,130,843	0.45%	11.	690,184	0.34%
12.	1,007,768	0.40%	12.	673,507	0.33%
13.	957,362	0.38%	13.	631,454	0.31%
14.	911,026	0.36%	14.	600,000	0.29%
15.	904,016	0.36%	15.	579,657	0.28%
16.	834,655	0.33%	16.	542,805	0.26%
17.	815,680	0.33%	17.	539,467	0.26%
18.	793,137	0.32%	18.	524,686	0.26%
19.	746,933	0.30%	19.	512,993	0.25%
20.	712,771	0.28%	20.	504,905	0.25%
Total	**29,884,380**	**11.93%**	**Total**	**21,034,930**	**10.27%**

Source: 2014 Stand-Alone Financial Statements

Notes:

* *Exposure exempted from the concentration limits under Article 71 item 3 of the Banking Law.*

** *Off-balance sheet exposure includes liability resulting from derivative transactions in their equivalent amount in the statement of financial position (calculated according to the provisions of paragraph 2.1 point 2 of Resolution No. 208/2011 of the PFSA dated 22 August 2011)*

Concentration by largest capital groups

The largest concentration of PKO Bank Polski SA towards the capital group amounted to 1.98% of the loan portfolio of the Bank.

As at 31 December 2014 and as at 31 December 2013, the concentration risk level by the largest capital groups was low – the largest exposure of PKO Bank Polski SA towards a capital group amounted to, respectively, 20.0% and 14.1% of the Bank's recognised capital.

The exposure of the Bank towards the five largest capital groups as of 31 December 2014 and 2013 is presented in the table below:

As of 31 December 2014			As of 31 December 2013		
No.	**Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure includes loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**
	(in PLN thousand) (unaudited)	*(in %) (unaudited)*		*(in PLN thousand) (unaudited)*	*(in %) (unaudited)*
1.*	4,966,979	1.98%	1.*	4,040,364	1.97%
2.	3,497,840	1.40%	2.	3,536,942	1.73%
3.	3,157,647	1.26%	3.	2,790,997	1.36%
4.	2,972,372	1.19%	4.	2,056,058	1.00%
5.	2,315,214	0.92%	5.	1,960,687	0.96%
Total	**16,910,052**	**6.75%**	**Total**	**14,385,048**	**7.02%**

Source: 2014 Stand-Alone Financial Statements

Notes:

* *Exposure exempted from the concentration limits under Article 71 item 3 of the Banking Law.*

** *Off-balance sheet exposure includes liability resulting from derivative transactions in their equivalent amount in the statement of financial position (calculated according to the provisions of paragraph 2.1 point 2 of Resolution No. 208/2011 of the PFSA dated 22 August 2011)*

Risk Reporting

The Bank prepares monthly and quarterly credit risk reports for, *inter alia*: the ALCO, the RC, the BCC, the Management Board and the Supervisory Board. The reporting of credit risk specifically covers periodic information on the results of risk measurement and the scale of the risk exposure of the credit portfolio. In addition to the information concerning the Bank, the reports also contain information about the credit risk level for the Bank's subsidiaries (e.g. Kredobank S.A. and the PKO Leasing Group), which have significant credit risk levels.

Financial Institutions and Derivatives

In the course of its business activities, the Bank uses various types of derivatives to manage the risk resulting from the business activities conducted. The main types of risk relating to derivatives include market and credit risk.

The derivatives used by the Bank within risk management and offered to its clients are mostly IRS, FRA, FX swap, CIRS, FX forward, and FX options.

In order to limit credit risk relating to derivatives, the Bank enters into framework agreements which are aimed at collateralizing the Bank's claims towards counterparties resulting from derivative transactions by netting due and payable liabilities (e.g., mitigation of settlement risk) and liabilities which are not due and payable (e.g., mitigation of pre-settlement risk).

Framework agreements with foreign counterparties are made in accordance with standards developed by the International Swaps and Derivatives Association and the International Capital Market Association, while those made with Polish counterparties are made in accordance with the standards developed by the Polish Bank Association (*Związek Banków Polskich*). Framework agreements with Polish financial institutions for debt securities are made based on the Bank's internal standards. To mitigate credit risk in the case of a planned increase in the scale of operations of a financial institution which has entered into a framework agreement with the Bank, the parties enter into a collateral agreement (Credit Support Annex ("**CSA**") or a collateral agreement developed by the Polish Banking Association). Based on the collateral agreement, each of the parties, after meeting certain criteria specified in the agreement, undertakes to establish appropriate collateral along with the right to set such off.

The Bank has developed a standard policy with respect to signing ISDA master agreements which defines the protocol for negotiating, signing and administering such framework agreements and collateral agreements made with Polish banks and financial institutions, as well as for framework agreements and credit support annexes with foreign banks and credit institutions.

The ICMA and CSA agreements signed by the Bank contain provisions defining the permitted difference between credit exposure and collateral value. The CSA agreements, which are annexes to the ISDA agreements, provide that cash and securities may constitute collateral.

Entering into a master agreement with a counterparty is the basis for the verification of the internal limit per counterparty and of the length of the period of the Bank's engagement in derivative transactions. The client limit is based on an internal assessment (internal rating), as well as on the amount of own funds of the Bank and the client.

The net exposure to the derivatives risk on the inter-bank market for the 10 largest counterparties (excluding exposure to the State Treasury and the NBP) as of 31 December 2014 is presented in the table below.

Counterparty	**As at 31 December 2014**
	(in PLN thousand) (unaudited)
Counterparty 1	9,031
Counterparty 2	-
Counterparty 3	169,566
Counterparty 4	75,202
Counterparty 5	-
Counterparty 6	93,074
Counterparty 7	31,165
Counterparty 8	73,060
Counterparty 9	62,516
Counterparty 10	59,435

Source: 2014 Stand-Alone Financial Statements

When a credit transaction is made with a financial institution which has its registered office outside of Poland, the international standards of loan agreements of the Loan Market Association are applied.

The Bank co-operates on the wholesale market with financial institutions whose registered offices are located in the territories of more than 50 countries. Within the limits set, the Bank may enter into transactions with nearly 340 counterparties, including Polish and foreign banks, insurance companies and pension and investment funds. The transactions made include loan and deposit transactions, securities transactions, foreign exchange operations and derivative transactions.

The Bank monitors the financial standing of its counterparties on a regular basis and sets exposure limits adequate to the risk incurred for pre-settlement and settlement exposure of individual counterparties.

Market Risk

Market risk is defined as the risk of incurring a financial loss due to adverse changes in market parameters, e.g. interest rates and foreign exchange rates or their volatility.

The Bank applies the following market risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- the foreign exchange and interest rate positions must be kept within the accepted limits; and
- the financial results of the Bank are optimised while observing an accepted level of market risk.

In order to assess the level of market risk the Bank uses different risk measurement and assessment methods, including:

- setting general risk tolerance limits by market risk types;
- for interest rate risk – the VaR model, stress-tests, basis point value (BPV), interest rate gap and interest income sensitivity measures;
- for foreign exchange risk – FX positions, the VaR model as well as stress-tests.

The market risk management tools used by the Bank include:

- setting limits and threshold values by individual market risk types; and
- defining the allowed types of transactions which are exposed to specific market risks.

Interest Rate Risk

The interest rate risk is the risk of incurring losses on the Bank's balance sheet and off-balance sheet positions sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

Interest rate risk is the most significant market risk faced by the Bank. In order to mitigate interest rate risk, the Bank defines limits and threshold values with regard to, among other things, the degree of price sensitivity and interest income sensitivity, the maximum amount of losses and allowed derivatives sensitive to interest rate fluctuations. Limits have been set for individual portfolios of the Bank.

In order to determine the level of interest rate risk, the VaR measure is applied with a 99% confidence level and a 10-day time horizon. Stress-tests are also used to supplement the VaR method. The following scenarios are applied at the Bank:

- hypothetical scenarios:
  - parallel shift (up or down) in interest rates of various currencies at the level of plus or minus 50, 100 and 200 bps;
  - a peak-type bending of the yield curve, where the maximum interest rate sensitivity vertex is assumed to change by 80 bps and 20% of the interest rate for this vertex (up or down); for other vertices the change is faded out by applying proper multipliers;
  - a twist-type bending of the yield curve, where the longest and the shortest vertices are assumed to change by 80 bps and 20% of the interest rates for these vertices (up or down) and one of the vertices between them is assumed not to change, in order to generate the most pessimistic scenario;
- historical – assuming changes in yield curves based on the past movements of interest rates. Such scenarios used by the Bank include:
  - an extreme event, where the most substantial one-month change which occurred since June 2008 is calculated; in order to determine such change, the sum of the absolute values of the changes at all of the vertices is used; and
  - basis risk between yield curves: this scenario assumes a loss which may potentially be realised in connection with a change of the spread between yield curves which arises from imperfect correlation between the benchmark yield curve used for treasury bond valuation and the swap yield curve used for the valuation of bond risk hedging instruments.

The VaR of the Bank and stress-tests regarding the Group's interest rate risk sensitivity as at 31 December 2014 and 2013 are presented in the table below.

Name of the sensitivity measure	**As at 31 December**	
	2014	**2013**
	(in PLN thousand)	*(in PLN thousand)*
	(unaudited)	
10-day VaR* at 99% confidence level	282,268	54,930
Parallel movement of the interest rate curves by 200 bp (stress test)**	2,380,354	495,858

Source: 2014 Consolidated Financial Statements

Notes:

** Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. Kredobank S.A. uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 9,480 thousand as at 31 December 2014 and PLN 10,686 thousand as at 31 December 2013, respectively.*

***The table presents the value of the most adverse stress-test of the scenarios: movement of the interest rate curves by 200 bps up and by 200 bps down.*

As at 31 December 2014, the interest rate 10-day VaR ("**IR VaR**") was PLN 282,268 thousand, 1.13% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totalled PLN 24,880 million.

The interest rate risk was determined mostly by the risk of mismatch between the repricing dates of assets and liabilities. Interest rate risk is managed by the whole Bank within the limits determined by the Bank for interest rate risk. In addition, the Bank applies a separate limit on interest rate risk in connection with the operations of the brokerage house only.

The Group's exposure to interest rate risk as of 31 December 2014 consisted mostly of the Bank's exposure. The interest rate risk for PLN, EUR and CHF generated by the other Group companies did not have a material impact on the interest rate risk for the entire Group and thus did not significantly change its risk profile. The interest rate

risk for USD was materially changed through exposure of the Group's subsidiaries with the greatest role played by the exposure of Kredobank S.A.

Foreign Exchange Risk

The Bank offers its customers a number of foreign exchange products and services (especially loans and deposits in foreign currencies) and, to a limited extent, trades in foreign exchange markets to realise additional returns. Consequently the Bank faces foreign exchange risk, which is defined as the risk of incurring losses due to unfavourable changes in foreign exchange rates.

The Bank enters into FX forward transactions and FX options (FX vanilla options, FX binary options, FX barrier options, FX Asian options). The Bank also offers deposit products with various embedded options in order to potentially increase clients' returns, which are usually hedged back-to-back on the market.

In accordance with the requirements of the CRR, for over-the-counter options, or in case the value of delta cannot be obtained from a recognised exchange, the Bank is required to obtain approval from the competent regulatory authorities to use its own valuation model for the purposes of calculating the regulatory capital requirements. FX options for which the Bank has obtained approval from a regulatory authority to apply its own valuation models are managed under a delta-hedging strategy, whereas open risk positions are kept within the internal limits determined by the Bank. As at 31 December 2014, the Bank completed:

- 417 European plain vanilla option transactions, where the open delta position without hedge (gross in foreign currencies) was PLN 584 million;
- 32 European binary options transactions, where the open delta position without hedge (gross in foreign currencies) was approximately PLN 116 million;
- 18 European barrier options transactions, where the open delta position without hedge (gross in foreign currencies) was approximately PLN 82 million;
- 98 Asian options transactions, where the open delta position without hedge (gross in foreign currencies) was approximately PLN 211 million.

The Bank monitors open foreign exchange positions and measures the risk with the use of a VaR model. Stress-tests are used to assess potential losses on FX positions where market situations occur which cannot be described using statistical methods. The scenarios which are applied at the Bank are based on historical scenarios as well as on hypothetical scenarios. The following scenarios are applied at the Bank:

- 20% decrease or increase of foreign exchange rates in relation to PLN depending on which of these two market changes would cause larger loss on the portfolio of foreign currencies held in the Bank;
- 20% decrease or increase of USD, EUR, CHF in relation to PLN, respectively, depending on which of these two market changes would cause larger loss;
- maximum weekly increase of foreign exchange rates in relation to PLN observed since the beginning of May 2004 (historical scenario);
- maximum weekly decrease of foreign exchange rates in relation to PLN observed since the beginning of May 2004 (historical scenario).

With respect to foreign exchange risk mitigation, the Bank defines limits with regard to, among other things, the value of FX position, Value at Risk for a 10-day time horizon at 99% confidence level and daily loss from trading transactions on the foreign exchange market.

The VaR of the Bank and stress-tests regarding the Group's exposure to foreign exchange risk, for all currencies jointly, as at 31 December 2014 and 2013 are presented in the table below.

Name of the sensitivity measure	**As at 31 December**	
	2014	**2013**
	(in PLN thousand) (unaudited)	
10-day VaR at 99% confidence level*	6,230	2,443
Change in FX/PLN by 20% (stress-test) **	28,609	21,428

Source: 2014 Consolidated Financial Statements

Notes:

** Due to the nature of the activities carried out by the other Group entities generating significiant foreign eschange risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in their management of foreign exchange risk. Kredobank S.A. uses a 10-day VaR which amounted to approximately PLN 3,663 thousand as at 31 December 2014 and PLN 906 thousand as at 31 December 2013, respectively.*

***The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.*

As at 31 December 2014, the 10-day VaR at a 99% confidence level resulting from foreign exchange operations ("**FX VaR**") was PLN 6.2 million, 0.025% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totalled PLN 24,880 million.

The foreign exchange positions in the Group as of 31 December 2014 and 2013 are presented in the table below.

	As at 31 December	
	2014	**2013**
	(in PLN thousand) (unaudited)	
USD	(113,960)	79,507
GBP	5,009	3,673
CHF	(36,566)	6,526
EUR	(216,994)	13,010
Other (Global Net)	214,752	6,020

Source: 2014 Consolidated Financial Statements

Commodity Risk

Commodity risk is the risk of incurring losses on the Bank's balance sheet and off-balance sheet positions sensitive to commodity exchange rates changes on the market. The Bank enters into various commodity transactions, such as commodity spots, commodity swaps, commodity futures and commodity forwards in more than 20 different commodities.

Commodity risk management consists of identification, measuring, monitoring, reporting and imposing limits on commodity activity. At the end of each day in 2014, the Bank maintained all of its commodity positions fully hedged.

Market Risk Attributable to the Operations of DM PKO BP

The brokerage house also generates equity price risk primarily due to its function as a market-maker on the WSE and, if relevant agreements are entered into, risk involved in acting as underwriter. The equity price risk is managed within the limits regarding DM PKO BP's operations as a market-maker and an issuer of securities on the WSE, separately for the position in equity securities and equity derivatives and for the position in derivatives on the WSE index. The average equity portfolio position during 2013 was PLN 4.21 million. The average equity portfolio position during 2014 was PLN 7.38 million. The average absolute net position in the portfolio of derivatives on the WIG20 index in 2014 was PLN 1.57 million.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank may be unable to meet its obligations on a timely basis due to a lack of liquid funds.

The Bank applies the following liquidity risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- an acceptable level of liquidity is maintained, which depends on keeping the appropriate level of liquid assets; and
- the main sources of financing of the Bank's assets are stable sources, first of all a stable deposit base.

In order to assess the level of liquidity risk the Bank uses different risk measurement and assessment methods, including the contractual and real-term (adjusted) liquidity gap method, the liquidity reserve method, verification of the stability of the deposit base and loan portfolio and shock analyses.

The Bank has a highly diversified deposit base and a large portion of liquid assets on its books. The liquidity risk management tools used by the Bank include entering into transactions ensuring long-term financing of credit activities.

The methods for measuring liquidity risk are based on the evaluation of contractual and adjusted liquidity gaps. The contractual liquidity gap is a list of all balance positions by their maturity, whereas the adjusted liquidity gap is a list of individual balance categories by their assumed actual maturity. The liquidity reserve is the difference between the most liquid assets and the expected and potential liabilities that mature in a given period. The most liquid assets include lockable treasury papers both in PLN as well as in major foreign currencies, money bills, Treasury bills, Treasury bonds and inter-bank loans less the inter-bank deposits (denominated in PLN, USD, EUR and CHF) which, as at 31 December 2014, amounted to PLN 26.9 billion and accounted for approximately

69% of all liquid assets. Additionally, the most liquid assets are funds in the current account kept with the NBP for PLN, the cash in the Bank's cash registers and the funds in the nostro accounts for major foreign currencies (in USD, EUR and CHF). As at 31 December 2014 these assets accounted for approximately 20%, 10% and below 1% of the most liquid assets, respectively.

The table below presents the adjusted liquidity gap as at 31 December 2014. The adjustments relate to, among others: transfer of core deposits and loans to adequate periods to reflect their actual maturity terms and transfer of liquid securities to the period up to one month.

	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
				(in PLN thousand)				
				(unaudited)				
Group adjusted liquidity gap	12,733,729	13,357,476	536,836	1,309,410	1,088,394	11,977,076	13,281,695	(54,284,616)
Group adjusted cumulative liquidity gap	12,733,729	26,091,205	26,628,041	27,937,451	29,025,845	41,002,921	54,284,616	-

Source: 2014 Consolidated Financial Statements

In all time bands the adjusted cumulative liquidity gap is positive, which reflects a net surplus of maturing assets over maturing liabilities. As at 31 December 2014, the cumulative liquidity gap for up to one-month horizon was PLN 26.1 billion.

The Bank reduces funding mismatch in exchangeable currencies (EUR, USD and CHF) with the use of derivative transactions such as CIRS and FX swaps, acquiring long term funds in EUR, USD and in CHF, or issuing notes. The Bank also offers savings accounts in exchangeable currencies (EUR, USD and CHF) in order to overcome its funding mismatch in foreign currencies. This product allows customers to manage their own FX risk resulting from loans drawn by them in foreign currencies (by providing them with the opportunity for earlier purchase of foreign currencies and repayment of outstanding loans with the funds from such account).

Risk Reporting

The Market Risk Department prepares reports on the level of market risk for operating purposes on a daily and weekly basis. Reports on the level of market and liquidity risk for management purposes, which are presented to ALCO and the Management and Supervisory Boards, are prepared on a monthly and quarterly basis.

Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes business and reputational risk.

The objective of operational risk management is to enhance the security of the Bank's operational activity by improving and increasing the efficiency of the mechanisms for the identification, assessment and measurement, reduction, monitoring and reporting of operational risk which are tailored to the profile and scale of the operations of the Group. All Group entities manage operational risk according to the principles of risk management adopted by PKO Bank Polski SA, while at the same time taking into account the extent and nature of the relationship between the entities included in the Group, their specific nature and the scale of their activities.

In order to manage operational risk, the Bank gathers data about operational events that occurred internally and in other banks together with the causes and consequences thereof, data describing the factors of the business environment, the results of operational risk self-assessment, data on the key operational risk indicators (KRI) and data related to the quality of internal functional controls.

The purpose of operational risk measurement is to assess the scale of threats related to the existence of operational risk with the help of defined risk measures. The measurement of operational risk comprises:

- calculation of Key Risk Indicators (KRI);
- calculation of the own funds requirement in respect of operational risk in accordance with the AMA approach;
- stress-tests; and
- calculation of internal capital.

The PFSA has allowed the Bank to use the Advanced Measurement Approach.

Operational risk self-assessment comprises the identification and assessment of operational risk for the Bank's products, processes and applications as well as organisational changes. Self-assessments are conducted periodically and before the introduction of new or changed products, processes or applications of the Bank.

The purpose of monitoring operational risk is to control operational risk and to diagnose areas requiring management actions. In particular, the Bank regularly monitors:

- the utilisation level of strategic tolerance and operational risk loss limits;
- operational risk events and their consequences;
- results of operational risk self-assessments;
- the own funds requirement in respect of operational risk for the Bank – calculated under the Advanced Measurement Approach (AMA), and for the financial operations conducted by the Group entities– calculated under the Basic Indicator Approach (BIA);
- results of stress-tests;
- Key Risk Indicators (KRI) in relation to threshold and critical values; and
- the effectiveness and timeliness of actions taken to reduce or transfer operational risk.

Reports concerning operational risk are designed to meet the information requirements of:

- bodies of the Bank such as the ORC, the RC, the Management Board, the Supervisory Board's Audit Committee and the Supervisory Board and also of other members of the senior management;
- external supervisory and control authorities; and
- shareholders and financial market participants.

Reporting (for the Bank's internal purposes) of information concerning the operational risk of the Bank and its subsidiaries is performed on a quarterly basis. The recipients of such quarterly reports are the ORC, the RC, the Management Board, the Supervisory Board's Audit Committee and the Supervisory Board. Such quarterly reports in particular contain information on:

- the results of the measuring and monitoring of operational risk;
- the operational risk profile of the Bank resulting from the process of the identification and assessment of threats to products, processes and applications of the Bank;
- operational risk level;
- instruments used for operational risk management; and
- actions taken to reduce operational risk, together with their effectiveness, and the recommendations and decisions of the ORC or the Management Board.

Each month, information on operational risk is prepared and forwarded to the members of the Management Board, organisational units of the Head Office and specialised units, as well as organisational units responsible for the 'systemic' management of operational risk. The scope of information is diversified and tailored to the scope of responsibilities of the individual recipients of the information.

The process of operational risk management is performed at the level of the entire Bank and for all areas of operational risk management. 'Systemic' management of operational risk involves finding solutions allowing the Bank to exercise control over the level of operational risk and to enable the achievement of the Bank's objectives. Ongoing operational risk management is conducted by every employee of the Bank and includes prevention against the materialisation of operational events arising during life of a product, the realisation of processes and the use of applications, as well as responses to occurring operational events.

In order to mitigate exposure to operational risk, the following tools are used by the Bank:

- control instruments (authorisation, internal controls, separation of duties);
- human resources management instruments (staff selection, enhancement of the professional qualifications of employees, motivation packages);
- setting threshold and critical values of Key Risk Indicators (KRI);
- the Group's strategic tolerance limits and the Bank's limits for operational risk losses;
- contingency plans;
- insurance; and
- outsourcing.

Management actions are taken:

- on the ORC's initiative;
- on the initiative of organisational units of the Bank in order to manage operational risk; and
- when there is a reasonable likelihood that a risk will in the future be considered as increased or high or when these levels have already been reached.

In particular, when the risk level is increased or high, the Bank uses the following approaches:

- risk reduction – mitigation of the impact of risk factors or the consequences of risk materialisation;
- risk transfer – transfer of responsibility for covering potential losses to a third-party; and
- risk avoidance – cessation of activity that generates risk or the elimination of the relevant risk factors.

The process of operational risk management is subject to an internal control system which includes:

- review of the strategy regarding and the process of operational risk management;
- self-assessment of compliance with the AMA approach requirements;
- validation of the AMA approach; and
- internal audit.

Compliance Risk

"Compliance risk" is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards, and codes of conduct (including ethics), applicable to its banking activities.

The objective of compliance risk management is the strengthening of the Group companies' image as entities acting legally and according to the adopted standards and which are reliable, fair and honest by eliminating compliance risk, counteracting the potential loss of the Group's reputation for reliability and counteracting the risk of financial losses or legal sanctions which could be the result of violating regulations and operating standards. Compliance risk management specifically relates to the following issues:

- preventing the Group from becoming involved in operations which are non-compliant with the law;
- ensuring the protection of information;
- promoting ethical standards and monitoring their implementation;
- managing conflicts of interest;
- preventing situations in which the Group's employees could be seen as acting in their own self-interest with respect to business matters of the Group;
- professional, fair and clear phrasing of product offers and of advertising and marketing communications;
- immediate, fair and professional investigation of claims and complaints made by clients.

The Group adopted a zero tolerance policy in respect of lack of compliance, meaning that in its operations it seeks to eliminate compliance risk. Reports on compliance risk are prepared for the Management and Supervisory Boards on a quarterly basis.

The reports include, among other things, information on the identification and assessment of the compliance risk process, compliance risk monitoring, the Group's adaptation to new regulations, adopting post-inspection recommendations of the PFSA and correspondence with the PFSA.

Reputation Risk

Reputation risk is defined as the risk of the deterioration of the Bank's reputation among customers, counterparties, investors, supervisors, regulators and the general public as a result of the Bank's business decisions, operational incidents, non-compliant activities or other events.

The objective of managing reputation risk is to protect the Bank's reputation by preventing the occurrence of reputation-related losses and reducing the negative impact of image-related events on the Bank's reputation.

Reputation risk management includes mainly:

- monitoring the media, including television, radio, the press and the Internet, in terms of the identification of the negative effects of image-related events and the distribution of information in this regard;
- conducting protective communication actions;
- registering image-related events which occurred and their negative effects in the form of reputation-related losses;
- analysing and evaluating reputation-related losses and determining the level of the reputation risk; and
- identifying the potential reputation risks.

The main tools for the execution of activities related to the assessment of the Bank's reputation risk level are:

- a register of image-related events and losses and a catalogue of the categories of their classification;
- a sources and reputation risk factors identification survey; and
- key reputation risk indicators as an auxiliary measure of the business environment.

Activities relating to reputation risks are taken on the basis of a semi-annual management report presented to the Risk Committee, the Management Board and the Supervisory Board. Such activities are undertaken to in particular avoid or discontinue operations resulting in reputation risk and to conduct protective communication actions.

Business risk management

Business risk is the risk of incurring losses due to adverse changes in the business environment, taking bad decisions, the incorrect implementation of decisions taken, or not taking appropriate actions in response to changes in the business environment; this includes in particular strategic risk.

Managing business risk aims to maintain, at an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

Business risk identification is performed by identifying and analysing the factors that had an impact on the significant deviations in the realisation of income and expenses from their forecasted values.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk includes:

- calculation of internal capital; and
- conducting stress-tests.

The internal capital for covering the business risk of the Bank is determined on the basis of the analysis of the historical volatility of the deviations of realised net business income from their forecasted values in accordance with the concept of 'Earnings at Risk'.

Forecasting of business risk in the Bank is conducted once a quarter and includes forecasts of the level of business risk and internal capital. Once a quarter, a verification of the business risk forecast (which is referred to as 'backtesting') is also performed. Backtesting is based on a comparison of the internal capital amount, estimated for the particular quarter (performance), with the forecast of this capital, estimated in the previous quarter (forecast).

Monitoring of business risk is aimed at diagnosing areas for management actions and in particular includes:

- strategic levels of business risk tolerance, on a quarterly basis;
- stress-tests results, on an annual basis;
- internal capital level, on a quarterly basis;
- deviations from the implementation of business risk forecast, on a quarterly basis; and
- the results of a survey conducted among senior management staff of the Bank on an annual basis.

Business risk reporting of the Bank is conducted quarterly. Reports on business risk are prepared for the ALCO, the RC, the Management Board and the Supervisory Board. The reports include in particular:

- results of business risk measurement, particularly internal capital, stress-test results and the results of the annual survey conducted among the senior management staff of the Bank;

- the utilisation level of strategic tolerance limits for business risk;
- the business risk forecast and forecast backtesting;
- the level of business risk; and
- information on business risk in the entities of the Group.

The main tools used in business risk management include:

- updates of the quarterly forecasts of internal capital for business risk, and the determination and monitoring of deviations from the forecasted values of the internal capital for business risk,
- monitoring of the level of the strategic tolerance limit; and
- conducting a survey among senior management staff of the Bank.

Model risk management

Model risk is the risk of incurring negative financial or reputation effects as a result of making incorrect business decisions on the basis of the models used by the Bank. Within the Group, model risk is managed both on the part of a given Group entity (an owner of a model) and at the level of the Bank, as a parent company of the Group.

The objective of models management and model risk management is to mitigate the level of model risk in the Group.

Identification of model risk mainly consists of:

- gathering information on all existing, built and planned to be build models,
- cyclical determining the relevance of models,
- determining potential threats that may occur during the life cycle of the model.

Model risk assessment is aimed at determining the scale of threats associated with the occurrence of the model risk. Assessment of the risk level may be aggregated mainly at the level of the Bank or the Company, particular risk types or classes of models, particular processes of model life-cycle. The model risk assessment is performed at least once a year and at the moment of the appearance of new models and changes in the scale or business profile of the Bank or the Company.

The purpose of model risk monitoring is to control model risk and diagnose areas for management actions. The model risk monitoring process involves, in particular, an update of the level of model risk, verification of the implementation status of planned recommendations and an evaluation of the effectiveness of the implementation of the recommendations on the mitigation of model risk. Monitoring results are periodically presented in the reports addressed to the RC and the Management Board and include a complex model risk assessment, which in particular includes:

- information on the level of model risk (from the standalone and consolidated perspectives);
- a model risk map;
- information on the validation process and the implementation status of the recommendations after validation;
- an evaluation of the effectiveness of the recommendations made to reduce the model risk level; and
- potential new management actions aimed at reducing the model risk.

The purpose of management actions is to influence the model risk management process and to manage the level of such risk in the Group.

Management actions in particular consist of:

- issuing internal regulations of the Bank;
- determining acceptable levels of risk;
- issuing recommendations; and
- making decisions about the use of tools supporting model risk management.

Macroeconomic changes risk management

Risk of macroeconomic changes is the risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

Identification of risk of macroeconomic changes aims to determine scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the Bank. Risk of macroeconomic changes results from the interaction of factors dependent and independent of the Bank's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during the carrying out of comprehensive stress-tests.

The risk of macroeconomic changes materialises indirectly through other risks affecting the Bank's operations by:

- credit losses,
- losses arising from adverse changes in market situation (changes in exchange rates, changes in interest rates),
- a decrease in the liquidity of the Bank,
- losses arising from the operational risk realisation,
- other losses.

For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

- financial result and its components,
- capital adequacy measures and their components,
- selected liquidity measures.

A process of risk of macroeconomic changes monitoring includes monitoring of:

- changes in the macroeconomic situation,
- macroeconomic factors to which the Bank is sensitive,
- results of stress-tests,
- level of risk of macroeconomic changes.

Risk of macroeconomic changes reporting is realised in the form of reports summarising the results of each stress-tests. Reports are addressed to ALCO and the Management Board. Reports include information such as:

- a summary of the results of stress-tests;
- in case of increased or high level of risk of macroeconomic changes an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

Management actions in particular consist of:

- issuing internal regulations of the Bank,
- determining acceptable levels of risk,
- proposals of actions aimed at reducing the level of risk in the event of increased or high risk of macroeconomic changes occurrence.

Capital risk management

Capital risk is defined as the risk of failing to ensure an appropriate level and structure of own funds with respect to the scale of PKO Bank Polski SA's operations and risk exposure and, consequently, which are insufficient for the absorption of unexpected losses, taking into account development plans and extreme situations.

Therefore, the objective of managing capital risk is to ensure an appropriate level and structure of own funds with respect to the scale of the operations and risk exposure of the Bank, taking into account the assumptions of the Bank's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The capital risk level for the Bank is determined based on a minimum threshold and maximum values of capital adequacy measures, inter alia, the total capital ratio and basic capital (Tier 1) ratio. In addition, threshold and maximum values are determined for capital adequacy measures as the excess over the minimum values constituting strategic tolerance limits for capital adequacy measures.

The Bank regularly monitors the level of capital adequacy measures in order to determine the degree of compliance with supervisory standards and internal strategic limits, and to identify instances which require taking capital contingency actions.

Should a high level of capital risk be identified, the Bank takes measures to bring capital adequacy measures to a lower level, taking into account the assumptions of the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.

Comprehensive stress-tests

Comprehensive stress-tests are an integral part of the Bank's risk management and are complementary for stress-tests specific to particular types of risks.

Comprehensive stress-tests collectively include the following risks considered by the Bank to be material, including:

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- business risk.

Comprehensive stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the Bank, in particular on:

- the income statement,
- the statement of financial position,
- own funds,
- capital adequacy, including capital requirements, internal capital, capital adequacy ratios,
- selected liquidity norms.

Comprehensive stress-tests for the own use of the Bank are carried out at least once a year with three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

INDUSTRY OVERVIEW

The information contained in this section has been extracted from publicly available documents and information. The source of any external information is always given if such information is used in this section. Such information has been accurately reproduced, and as far as the Issuer and the Bank are aware and are able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as PFSA or government publications, no independent verification of such was carried out by the Issuer, the Bank, the Arranger or the Dealers or any of their affiliates or the Issuer's or the Bank's advisors in connection with the Programme. The Bank does not intend to and does not warrant to update the data concerning the market or the industry as presented in this section, subject to the duties resulting from generally binding regulations.

The Polish Economy

The Polish economy is one of the fastest developing economies in the EU. Poland, with its 38.5 million residents, remains the largest accession member of the EU and the sixth largest EU country by population. With a GDP of EUR 403 billion in 2014 (according to Eurostat), it is the seventh largest EU economy and the 23rd largest economy globally (according to data from the IMF). The Polish economy has expanded consistently, with real GDP growing at a CAGR of 3.0% over the six years to 31 December 2014. In 2009, Poland was the only European country to record positive GDP growth, 2.6%, which increased to 3.7% in 2010 and to 4.8% in 2011. In 2012, the GDP growth rate in Poland slipped to 1.8%, but remained substantially higher than the average for the EU, which recorded 0.4% decrease in GDP. In 2013, the GDP growth rate in Poland slightly slipped to 1.7%, but remained substantially higher than the average for the EU, which recorded a 0.1% increase in GDP. Such recovery in domestic demand resulted in an acceleration of GDP growth to 3.4% in 2014. The European Commission forecast for Poland is also optimistic for 2015 and 2016: GDP growth in Poland is expected to reach 3.2% in 2015 and 3.4% in 2016. These figures are above the growth forecasts for the EU as a whole, which in 2015 is expected to grow by only 1.7% and in 2016 by 2.1%.

The following table shows GDP, population and GDP growth rate for 2014 for the 20 largest countries in the EU by GDP.

Rank[1]	Country	GDP	Population	2014 real GDP Growth Rate
		(EUR billion)	*(in million)*	*(%)*
1	Germany	2,742.6	80.7	1.6
2	France	2,060.4	65.8	0.4
3	United Kingdom	1,937.8	64.3	2.6
4	Italy	1,537.2	60.7	(0.4)
5	Spain	1,053.2	46.5	1.4
6	Netherlands	632.2	16.8	0.8
7	Poland	402.8	38.0	3.4
8	Sweden	382.6	9.6	1.3
9	Belgium	377.0	11.2	1.0
10	Austria	307.5	8.5	0.3
11	Denmark	243.9	5.6	1.0
12	Greece	186.5	10.9	0.8
13	Finland	186.4	5.4	(0.1)
14	Portugal	170.0	10.4	0.9
15	Ireland	169.2	4.6	0.2
16	Czech Republic	160.2	10.5	2.0
17	Romania	137.0	19.9	2.9
18	Hungary	103.2	9.8	3.6
19	Slovakia	72.8	5.4	2.4
20	Luxembourg	41.1	0.5	2.0

Source: Eurostat

No single sector of the Polish economy accounted for more than 25% of Poland's total GDP in 2014. Industry, trade and repair, manufacturing and leasing of real estate are the greatest contributors to Poland's GDP. Small and medium-sized enterprises (defined as an enterprise with less than 250 employees, yearly sales of less than EUR 50 million and/or total assets less than EUR 43 million) are also significant contributors to the Polish

economy. According to data from the Central Statistical Office, small and medium-sized enterprises represented 99.8% of the total number of enterprises in Poland in 2013, employed 69.5% of the total number of employees in Poland and contributed 48.5% of GDP in 2012 (according to the Polish Agency for Enterprise Development).

Furthermore, Poland has maintained its "A-/A-2" in local currency and "A/A-1" in foreign currency sovereign rating from Standard & Poor's, and its outlook was changed from stable to positive on 6 February 2015. The Polish government is tightening its structural fiscal balance and decreasing its public debt through various initiatives, which include the reform of the pension system, a privatisation program and the implementation of rules for public spending. The goal of these activities is to ensure that the ratio of national debt to GDP stays below 60%, which is required under the Constitution of the Republic of Poland and is one of the eligibility criteria for accession to the Eurozone.

The following table sets forth key economic indicators for Poland for the periods indicated.

	For the year ended 31 December		
	2014	**2013**	**2012**
Real GDP growth (%)	3.4	1.7	1.8
Individual consumption growth (%)	3.1	0.9	1.0
Public sector spending growth (%)	2.8	2.1	0.2
Investment expenditures growth (%)	9.5	0.9	(1.5)
Inflation rate on a year-on-year basis (%)	0.0	0.9	3.7
Average wage growth (%)	3.5	3.7	3.6
Harmonised unemployment rate (%)	8.2	10.0	10.4
Exports growth (%)	5.6	5.0	4.3
Imports growth (%)	8.7	1.8	(0.6)
Budget deficit / GDP (domestic definition, %)	1.7	2.5	1.9
Government debt / GDP (domestic definition, %)	46.9	53.1	52.0
PLN / EUR (average)	4.19	4.20	4.18

Source: GUS, NBP, Eurostat, European Commission

As a result of a deceleration in domestic investment, the prolonged fiscal crisis in the Eurozone and weak external demand, GDP growth in Poland decreased in 2013. The full year growth in economic activity slipped to 1.7% compared to 1.8% in 2012. The weakening of GDP growth was mainly due to a decrease in public investment (partly as a result of the 2007-2013 EU budget coming to an end) and a deceleration in consumption growth in the private sector. However, in 2014 the growth rate remained stable and amounted to 3.4% on a year-on-year basis in spite of unfavourable developments in the external environment (the escalation of the Russian-Ukrainian conflict, sanctions and restrictions on trade between Russia and the EU, etc.).

The Polish banking sector, characterised by relatively strong capitalisation and a solid deposit base, remained resilient throughout the crisis and continued to provide funding to Polish companies and consumers.

Forecasts of Macroeconomic Indicators

The European Commission expects that, despite negative external factors, Poland's economic activity is to remain robust on the back of solid domestic demand, bolstered by improving labour market conditions and rising real disposable incomes. The Russia-Ukraine crisis and weak demand in the Euro area are now forecast to weigh less than previously expected. Public finances are projected to improve.

Exports and private investment are set to level off in early 2015 as the repercussions of the Russia-Ukraine crisis become more tangible and growth in the Euro area remains modest. However, the slowdown in exports and investment is expected to be short-lived. The negative impact from weak Euro area growth and the Russia-Ukraine crisis are expected to be offset by the redirection of Polish exports towards more dynamic markets and by gains in price competitiveness. Private consumption is set to grow as real wages and employment climb. The ongoing recovery of credit growth supported by declining financing costs is expected to further encourage private investment. Profit margins in the corporate sector are set to increase as prices of imported intermediate goods fall faster than prices of final goods. This increase should support corporate investment spending and wage growth. Public investment is set to gather steam in 2015 with the implementation of new projects co-financed by the EU. Economic activity is expected to accelerate somewhat in 2016 as external demand picks up.

Poland's labour market should, according to the Commission, benefit from the solid pace of economic activity and growing production capacities. The unemployment rate is set to decline from 9.1% in 2014 to 8.3% in 2016.

The EC forecast for the general government deficit will fall to 2.9% in 2015. Government revenues are set to benefit from the pace of economic growth. Moreover, social security contributions retained by the general

government are set to increase due to the partial reversal of previous systemic pension reform (limiting the role of private pension funds). On the expenditure side, the cost of the planned restructuring of the mining sector and some social spending measures (including higher indexation of low-income pensions) will partially offset expenditure savings in other areas, such as the continued partial freeze of public wages. In 2016, the general government deficit is projected to improve to 2.7% on the back of the projected acceleration of GDP. Moreover, the projected deflation of consumer prices in 2015 will have a constraining effect on social expenditure (some of which is indexed to inflation from the previous year). The restructuring of the mining sector poses a downside risk to the public finances forecasts for 2015 and 2016.

The structural deficit is set to improve over the forecast horizon from 3.5% of GDP in 2013 to 2.4% in 2016. The general government debt-to-GDP ratio is set to fall from 55.7% in 2013 to 48.6% in 2014 due to a large transfer of assets accumulated in private pension funds. It is expected to amount to 49.8% in 2016.

The Polish Banking Sector

Structure of the Polish Banking Sector

The Polish banking market operates as a two-tiered system (*i.e.* commercial and co-operative banks). In the period from December 2012 to December 2014, there were no significant changes in the number of banks and branches of foreign credit institutions operating on the Polish market. According to data from the PFSA, as of the end of 2012 a total of 642 banks and branches of foreign credit institutions were operating in Poland. As of the end of 2013, the total number of banks and branches of foreign credit institutions operating in Poland was 640. As of 31 December 2014, the total number of banks and branches of foreign credit institutions operating in Poland was 631: there were 38 domestic commercial banks, 28 branches of foreign credit institutions and 565 co-operative banks operating in Poland.

The table below presents the number of banks and branches of foreign credit institutions conducting business activities.

	2014	2013	2012
Total, including:	**631**	**640**	**642**
Domestic commercial banks	38	41	45
Branches of foreign credit institutions	28	28	25
Cooperative banks	565	571	572

Source: PFSA's monthly data on the banking sector – December 2014.

According to data from the PFSA, as of the end of December 2014, banks with a majority of private capital dominated constituting 92% (578 entities) of all banking institutions operating in Poland. The sector is characterised by a significant presence of international banks, and currently seven out of the ten largest commercial banks (by assets) are controlled by foreign parents.

Consolidation on the Polish banking market and the increasing use of IT solutions in banking services have caused the number of bank branches to dwindle. In the period from December 2012 to December 2014, the number of bank branches in Poland decreased by 181 locations and amounted to 7,353 as of the end of 2014.

Competitive Landscape of the Polish Banking Sector

The level of competition in the Polish banking sector is relatively high due to its low level of concentration. Among the other factors having an impact on competition is a recent trend for consolidation. e.g. in 2013: the merger of BZ WBK and Kredyt Bank, the acquisition of Dexia Kommunalkredit Polska by Getin Noble Bank, and the acquisition of the retail operations of DnB Nord Polska by Getin Noble Bank; and in 2014: the merger of Nordea Bank Polska with PKO Bank Polski and the merger of Bank BGŻ with BNP Paribas.

The table below shows the Herfindahl index (used for measuring concentration ranging from 0 to 10,000, where a higher value of the index shows higher concentration) and the share of the total assets of credit institutions in the countries of the European Union (based on 2013 data).

Country	**Herfindahl index** *(index points)*	**Share of the five largest credit institutions in total assets** *(%)*
Finland	3,080	84.1
Estonia	2,483	89.7
Greece	2,136	94.0
Netherlands	2,104	83.8
Lithuania	1,892	87.1
Cyprus	1,486	62.6

Country	Herfindahl index *(index points)*	Share of the five largest credit institutions in total assets *(%)*
Malta	1,458	76.50
Slovakia	1,215	70.3
Portugal	1,196	70.6
Denmark	1,160	68.4
Slovenia	1,045	57.1
Latvia	1,037	64.1
Czech Republic	999	62.8
Belgium	979	64.0
Sweden	876	58.3
Hungary	836	51.9
Romania	821	54.4
Spain	757	56.2
Bulgaria	730	49.9
Ireland	674	47.8
Poland	**586**	**45.2**
France	551	45.9
United Kingdom	525	43.7
Italy	406	39.6
Austria	405	36.7
Luxembourg	357	33.7
Germany	266	30.6

Source: ECB

The concentration ratio of the Polish banking sector, measured by the share of the total assets of the five largest banks in the total assets of the sector, as of the end of 2014 increased to 48.5%, and the share of the five largest banks in deposits and loans in the non-financial sector increased to 54.9% and 48.9%, respectively, according to PFSA data. The concentration ratio in 2014 increased by 2.4 p.p. compared with 2013 in terms of total assets. In terms of deposits, the concentration increased by 9.0 p.p. as compared with 2013. In terms of loans to the non-financial sector, the concentration increased by 6.4 p.p. as compared with 2013.

The table below presents the market concentration of the five largest banks.

	As at 31 December		
	2014	**2013**	**2012**
	(%)		
Assets	48.5	46.1	45.0
Deposits	54.9	45.9	44.2
Loans to non-financial sector	48.9	42.5	39.1

Source: PFSA

The lingering uncertainty as to the direction of economic trends in Poland (caused by, inter alia, the economic downturn in the Eurozone), as well as lower credit appetite among households and businesses in the years 2012 and 2013 translated into a limited increase in the scale of operations of banks as measured by the balance-sheet sum. In that period, the year-on-year rate of asset growth in the Polish banking sector was approximately 4.2% and was significantly lower than that seen in the years 2010 and 2011. In 2014, the economic upturn brought about a 9% increase in the rate of asset growth in the banking sector.

Banks in Poland finance their operations from stable sources, mainly deposits. A reduction in the base interest rates translated into lower interest rates of bank deposits, which in turn had an adverse effect on households' propensity to save. Consequently, in the years 2012 to 2014, the share of commitments to clients remained at a relatively stable level.

In the years 2012 and 2013 the credit (lending) activity growth rate was somewhat restricted. Due to greater credit risks caused by worsening macroeconomic conditions, the majority of banks maintained restrictive credit policies. Retail lending growth during 2012 and 2013 was negatively impacted by the implementation of the PFSA's Recommendations S and T, as well as the ending of the "*Rodzina na swoim*" program (a government program providing an eight-year interest repayment subsidy in respect of eligible new mortgages granted by commercial banks aimed at increasing mortgage availability for young families, singles and single parents).

However, since the beginning of 2013, banks have systematically mitigated credit conditions. Since the beginning of 2013, banks have gradually eased the criteria and conditions for granting loans. As the economy began to recover, demand for business loans increased and banking sector balances started to record growth. Corporate lending was driven predominantly by investments in upgrading existing production capacity and infrastructure rather than new development projects. According to the PFSA's data, in 2014, the credit growth rate was approximately 7% on a year-on-year basis.

Financial Situation of the Polish Banking Sector

The table below presents the basic financial data for the banking sector.

	As at 31 December		
	2014	**2013**	**2012**
	(in PLN billion)		
Polish banks' aggregate assets	1,532.6	1,405.7	1,350.2
Deposits from the non-financial sector	854.1	775.4	724.0
Loans to the non-financial sector	895.5	837.8	810.4

Source: PFSA

Total assets

The main structural driver for significant growth, both in the value of deposits and customer loans, is the low level of banking intermediation in Poland compared with other EU Member States. The aggregate assets of banks in the Polish banking sector as of 31 December 2013 amounted to 86% of Poland's GDP for the year compared with the average in the Eurozone of approximately 309%. As of the end 2014, the aggregate assets of banks in the Polish banking sector amounted to 89% compared with the average in the Eurozone of approximately 310% (based on calculations prepared by the Bank).

As of 31 December 2013 and 31 December 2012, the total assets of the banking sector amounted to, respectively, PLN 1,405.7 billion and PLN 1,350.2 billion and in 2013 were 4.1% higher than as of 31 December 2012. At the end of 2014, total assets of the banking sector were 9.0% higher than in 2013 and amounted PLN 1,532.6 billion.

Loans

The "*Senior loan officer opinion survey on bank lending practices and credit conditions*" survey of 26 banks conducted by the NBP with regard to the expectations for the first quarter of 2015 (carried out in December 2014 and January 2015) identified certain trends which are discussed below. According to the survey, in the fourth quarter of 2014, banks eased their lending policy towards large enterprises and SMEs. In the assessment of the banks, the risk associated with the economic downturn was lower, and the situation of the largest borrowers continued to improve. In the survey, the banks expressed the expectation that they will further ease their lending policies for businesses, especially SMEs, and anticipated an increase in demand for loans.

As in previous surveys, the majority of the banks had not changed the standards for granting housing loans. The banks that had eased their lending policies mainly pointed to a change in competitive pressures as the reason. Individual banks which tightened their lending policies pointed to the implementation of Recommendation S and more precise rules governing the calculation of the value of real estate. According to the banks, the demand for housing loans has not changed to a significant extent. Many banks have announced a tightening of their lending policies in the housing loan segment and simultaneously expect a fall in demand for these loans.

In the fourth quarter of 2014, banks experienced growing demand for consumer loans, which was mainly accounted for by a growth in demand for the financing of durable goods and the better economic situation of households. The banks expect a growth in demand for consumer loans given the significant easing of lending policy.

In 2014, the credit growth rate for both businesses and households accelerated, partly due to a general improvement in economic conditions, including a better situation on the job market, as well as an environment of low interest rates.

	As at 31 December *(in PLN billion)*			Change (%)	
	2014	**2013**	**2012**	**2014/2013**	**2013/2012**
Loans to the non-financial sector, of which	895.5	837.8	810.4	6.9	3.4
- to businesses and non-commercial institutions	306.6	283.2	277.2	8.3	2.2

	As at 31 December (in PLN billion)			Change (%)	
	2014	2013	2012	2014/2013	2013/2012
- to households:	588.5	554.6	533.2	6.2	4.0

Source: PFSA

Amounts due from households constitute the majority of the amounts due from non-financial entities. As of the end of 2014, amounts due from households comprised 65.7% of the gross amounts due from the non-financial sector and 38.4% of the banks' total assets. In 2013 and 2012, amounts due from households also constituted the majority of the amounts due from non-financial entities.

Thus, the scale of changes during last three years was not significant. This direction of changes in the structure of amounts due from non-financial entities corresponds with the trends currently prevailing in the banking sector of developed countries. However, the predominance of loans to households in the total loans to non-financial entities is unusual for EU banking systems.

The table below shows the breakdown of loans granted to households.

Breakdown of loans granted to households	As at 31 December (in PLN billion)			Change (%)	
	2014	2013	2012	2014/2013	2013/2012
Total	588.9	554.6	533.3	6.2	4.0
Breakdown by product					
Housing	355.9	335.7	321.8	6.0	4.3
- in PLN	190.4	167.0	143.5	14.0	16.4
- in foreign currencies	165.5	168.7	178.3	(1.9)	(5.4)
Consumer (individuals)	131.6	126.3	123.4	4.2	2.4
- credit cards	12.7	12.2	12.6	4.1	(3.2)
- car instalment loans	4.2	4.8	5.7	(12.5)	(15.8)
- other instalment loans	52.3	50.0	48.9	4.6	2.2
- other consumer loans	62.4	59.3	56.2	5.2	5.5
Other	101.4	92.6	88.1	9.5	5.1
- operating	38.8	34.5	31.0	12.5	11.3
- investment	31.7	30.4	28.8	4.3	5.6
- other real property	10.7	10.1	9.6	5.9	5.2
- other amounts due	20.2	17.6	18.7	14.8	(5.9)

Source: PFSA

In 2014, the housing loan growth rate in the household segment was higher than in 2013 (6% year-on-year, as opposed to 4.3% year-on-year in 2013) thanks to the relatively positive climate on the housing market.

The consumer loan growth rate also increased in 2014 in all categories of consumer loans except car loans. The growth rate of other household loans (mainly operating facilities for micro-businesses) accelerated and was almost twice as high as in 2013.

The table below presents the breakdown of loans granted to enterprises.

Breakdown of loans granted to enterprises	As at 31 December (in PLN billion)			Change (%)	
	2014	2013	2012	2014/2013	2013/2012
Total	300.9	278.0	272.2	8.2	2.1
Breakdown by entity and product					
1) SMEs	175.7	163.9	164.8	7.2	(0.5)
- operating	62.6	59.0	62.3	6.1	(5.3)
- investment	53.4	50.5	47.2	5.7	7.0
- real property	42.7	40.8	42.0	4.7	(2.9)
– other	17.0	13.6	13.3	25.0	2.3
2) Large corporations	125.2	114.1	107.4	9.7	6.2
- operating	50.1	50.3	47.1	(0.4)	6.8
- investment	42.7	36.5	34.4	17.0	6.1
- real property	8.4	8.8	9.2	(4.5)	(4.3)

Breakdown of loans granted to enterprises	As at 31 December (in PLN billion)			Change (%)	
	2014	2013	2012	2014/2013	2013/2012
– other	24.0	18.4	16.7	29.7	10.8

Source: PFSA

The economic upturn in 2014 translated into a significant growth in lending to businesses. In 2014, the growth rate for these loans was almost four times higher year-on-year than in 2013.

In the period from 2012 to 2014, the business loan portfolio increased by 10.5%, from PLN 272.2 billion as of the end of 2012 to PLN 300.9 billion as of the end of 2014. Changes occurred in the Small and Medium Enterprise (SME) segment, which increased its debt by PLN 10.9 billion (6.6%), as well as in large enterprises, which increased by PLN 17.8 billion (16.6%).

Deposits

The table below presents the deposit base of the non-financial sector.

Deposits of the non-financial sector	As at 31 December (in PLN billion)			Change (%)	
	2014	2013	2012	2014/ 2013	2013/ 2012
Deposits of the non-financial sector, of which:	854.1	775.4	724.0	10.1	7.1
- to businesses	229.4	209.7	191.3	9.4	9.6
- to households	606.4	548.2	516.0	10.6	6.2
- to non-commercial institutions	18.3	17.5	16.7	4.6	4.8

Source: PFSA

The systematic increase in the deposit base in the analysed period is the result of favourable macroeconomic conditions and relatively good market trends in the banking sector. The situation on the deposit market was positively influenced by lower competition on the part of investment fund participation units as a result of increased aversion to risk resulting from a downturn in the stock exchange market and increased geopolitical risk due to the situation in Ukraine and Russia. In 2013, the growth rate of deposits was moderate, with banks being challenged by the environment of low and falling interest rates and the slackening of economic growth. The reduction of the NBP's interest rates translated into a major reduction in the interest rates for deposits, which in turn caused a reduction in the growth of deposits on account of interest on existing term deposits and adversely affected the propensity of clients to save, as well as lead to clients searching for alternative forms of saving. In 2014, the dynamics of deposit growth accelerated despite the persisting record low interest rates. An increase in the deposit base was aided by an improvement of economic conditions and the associated increase in salaries, which had a positive influence on the financial situation of households and businesses. In 2014, the growth in the non-financial sector (10.1%) was primarily caused by a growth in the volume of household deposits that was almost twice as large as in the preceding year (an increase from PLN 548.2 billion in 2013 to PLN 606.4 billion in 2014). Furthermore, the situation on the market for deposits made by businesses stabilised as they increased in 2014 following a fall in 2012, from PLN 191.3 billion to PLN 229.4 billion.

Financial results

The table below shows the financial results of the Polish banking sector:

	For the year ended 31 December (in PLN billion)			Change (%)	
	2014	2013	2012	2014/2013	2013/2012
Profit on banking activities	57.7	55.5	58.8	4.0	(5.6)
Net profit/(loss)	16.2	15.2	15.5	6.6	(1.9)
ROE (%)	10,2%	10.1%	11.2%	n/a	n/a

Source: the PFSA; ROE 2012

In 2013 and 2014, despite weakened profits from banking activities, the net profit level in the Polish banking sector reached a historic high, which was aided by a strong reduction in base interest rates and a fall in the interest and commission margins. The scale of the fall in the margins was curbed by an improvement in cost effectiveness and lower impairment charges connected with the more stable quality of loan portfolios.

In 2013, profit from banking activities fell and was 5.6% lower than in 2012, with net profit being 1.9% lower. In 2014, the net profit was the highest in the history of the Polish banking sector at PLN 16.2 billion, 6.6% higher than in 2013. This improvement was due to the completion of the process of the adaptation of the deposit and lending policy of banks to suit the functioning of banks in an environment of low interest rates and stronger control of operating costs.

Key Trends in the Polish Banking Sector

Convergence in the Polish Banking Sector

There is strong potential for further growth of the banking industry in Poland. The aggregate assets of the Polish banking sector as of 31 December 2013 amounted to 86% of Poland's GDP for the year as compared to the average in the Eurozone, which was 309%. As of 31 December 2014, the aggregate assets of the Polish banking sector amounted to 89% of Poland's GDP, compared to the average in the Eurozone, which was 310% (internal calculations of the Bank prepared based on data from Eurostat, the ECB, GUS and the PFSA).

Consolidation Trends

For a description of the consolidation trends, see "*Competitive Landscape of the Polish Banking Sector*".

Growing Importance of Alternative Distribution Channels and Products

In recent years, alternative distribution channels, in particular internet banking and mobile banking, are becoming of increasing importance. Moreover, new products, such as markets for financial advisory services, wealth management, insurance products and various investment funds in Poland have seen significant growth and are likely to be a significant driver for profitability in the future.

The impact of the ageing population of Poland on banking products and services

The banking sector in Poland has to deal with a growing proportion of the population being above the age of fifty. According to the forecasts of the Polish Central Statistical Office (GUS), in 2020, the median age of the Polish population will be over 40, and in 2035 it will be near 50. After 2025, there will be a drastic increase in the proportion of octogenarians in the population, and at the end of the forecast horizon (i.e. in 2050), every third Pole will be a senior citizen (based on the population forecast for the years 2014 to 2050 prepared by GUS in October 2014). Banks will be forced to adjust their product ranges to take account of the changing demographic structure.

Shift away from FX Mortgage Lending

The activities of the PFSA involving the issuance of Recommendation S, coupled with a higher awareness of exchange rate risks on the part of clients and banks, caused a decline in the volume of housing loans granted in foreign currencies in the years 2012–2014. New sales are dominated by PLN lending, while FX mortgages are becoming an increasingly rare product offered to selected customers only as banks seek to avoid potential difficulties in gathering FX funding. There has been a significant change in the FX structure of housing loans, but loans in foreign currencies continue to account for 46.5% of such portfolio (as at the end of 2014), with the largest share being accounted for by CHF loans.

Given the above situation, banks in Poland and in other countries have been faced with the challenge posed by the decision of the Swiss National Bank (SNB) of 15 January 2015 on discontinuing the minimum exchange EUR/CHF rate and lowering the main interest rate to –0.75%. That decision caused an increase in the risk associated with the CHF loan portfolios held by banks in Poland.

In relation to the risks associated with the FX loan portfolio, in particular the high share of loans with an LTV ratio exceeding 100%, the PFSA anticipates that it might apply individual capital measures within the framework of pillar 2 (Single Resolution Mechanism). The rules governing the application of capital measures are set out in the "Guidelines on capital measures for foreign currency lending to unhedged borrowers under the supervisory review and evaluation process (SREP)" issued by the European Banking Authority.

Capital Adequacy

Over the course of the past three years, banks have maintained a strong capital base. The following table shows the capital adequacy ratios and own equity of the Polish banking sector as of the dates indicated, as reported by the PFSA:

	31 December 2014	30 June 2014	31 December 2013	30 June 2013	31 December 2012	30 June 2012
Capital adequacy ratio	14.7%	14.8%	15.7%	15.2%	14.7%	13.6%
Own funds for capital adequacy *(in PLN billion)*	136.9	135.4	138.6	136.0	129.0	123.3

Source: PFSA

Two key factors have contributed to the strengthening capital base of the Polish banking sector: capital accumulation and equity issuances. In recent years banks have been increasing their equity, mainly by retaining their profits.

2014 saw the introduction of new capital adequacy rules set by the CRR/CRD IV package; those rules did not, however, bring about major changes in capital adequacy levels. The advantageous capital structure of Polish

banks means that the Tier 1 capital ratio and the common equity Tier 1 ratio significantly exceeded the requirements set by the new regulations.

Asset Quality

In the second half of 2012 and the first half of 2013, the quality of the loan portfolio deteriorated in response to a significant weakening of economic growth and the poor situation on the job market. This situation was primarily caused by a deterioration in the quality of loans extended to corporate clients. In 2012, the NPL ratio of corporate portfolios increased due to the weak condition of the construction sector. Notably, the credit quality of large corporate clients is materially better than that of SMEs. Starting from the second half of 2013, the quality of the corporate loan portfolio has been systematically improving.

During that time, the quality of the household loan portfolio remained stable and improved significantly towards the end of 2014. That beneficial situation was largely brought about by sale transactions in the NPL portfolio (mainly comprising consumer loans), the reduction of the NBP's interest rates that lowered the costs of servicing loans, and the strengthening of the credit risk management process.

The NPL ratio in the mortgage loan portfolio has not grown significantly, which is in part due to the fact that a large part of the portfolio has not yet been sufficiently seasoned (which is expected to take place in several years). The overall level of non-performing loans is currently relatively high compared to recent historical levels, but the pace of growth in NPL ratios has levelled off. The table below sets out the NPL ratios of various types of client segments in Poland, as of the dates indicated.

	December 2014	June 2014	December 2013	June 2013	December 2012	June 2012	December 2011	June 2011	December 2010
NPL ratio of corporate clients	11.2	10.9	11.6	11.8	11.8	11.1	10.4	11.0	12.4
NPL ratio of households	6.5	7.0	7.1	7.2	7.4	7.3	7.2	7.2	7.2
Total NPL ratio	8.1	8.3	8.5	8.7	8.9	8.6	8.2	8.4	8.8

Source: PFSA

Inflation Rate and Interest Rates

Inflation in Poland (as measured by the CPI - consumer price index) ended 2014 at –1.0% on a year-on-year basis, with an annual average at 0.0%. While the decline has been, for the second year in a row, driven mainly by a confluence of exogenous factors (global prices of food and fuels, as well as the Russian embargo), underlying inflationary pressure measured by core inflation also remained subdued. The large fall in oil prices resulted in an even larger fall in CPI inflation, to –1.6% on a year-on-year basis in February 2015. Despite our view that there will be a gradual normalisation of food prices and core inflation, we expect deflation to continue until at least September (if the crude oil price stabilises at below USD 60 per barrel). Despite the prospect of GDP growth acceleration, prolonged deflation convinced the Monetary Policy Council that interest rates should be lowered. First a –50/–100bps (reference rate/Lombard rate) cut took place in October 2014 followed by another cut by –50bps in March 2015 (bringing the reference rate to 1.50%, the Lombard rate to 2.50%, the deposit rate to 0.50% and the rediscount rate to 1.75%). Further easing of monetary policy appears to be unlikely in light of the fact that the Council of Monetary Policy declared an end to the cycle of easing monetary policy.

Margins

The fall in market interest rates following the decisions of the Monetary Policy Council taken in the years 2013 and 2014 had a significant effect on the interest rates for deposits and loans extended to clients. Deposit interest rates remained at a level only marginally higher than interbank rates.

	December 2014	June 2014	December 2013	June 2013	December 2012	June 2012
Average interest on new corporate deposits in zlotys	2,0	2,5	2,4	2,5	4,0	4,7
Average interest on new household deposits in zlotys	2,3	2,6	2,6	2,6	4,2	4,9
3M WIBID	1,86	2,49	2,47	2,55	4,05	4,92

Source: NBP, Reuters

Banks were able to maintain a positive level of deposit margins thanks to strong liquidity resulting from the deposit growth rate being higher than the loan growth rate, with the scale of the generated lending activity and the scale of the collected deposits being almost even.

At the end of 2014, credit margins for households fell to a record low since 2012. Corporate credit margins also fell and currently stand at a level lower than that prevailing before the financial crisis.

Margins on household loans and corporate loans have decreased to the lowest levels since the first half of 2012.

	December 2014	June 2014	December 2013	June 2013	December 2012	June 2012
Average interest on new corporate loans in zlotys	3,5	4,2	4,4	5,1	6,2	6,8
Average interest on new household deposits in zlotys.....	7,4	9,4	9,2	9,9	10,6	10,8
3M WIBOR	2,06	2,69	2,67	2,75	4,25	5,12

Source: NBP, Reuters

BANKING REGULATIONS IN POLAND

The information included in this section is of a general nature and describes the legal environment and the changes proposed thereto as of the date of this Base Prospectus.

Regulatory Environment

Banking operations are highly regulated. EU and Polish laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Among the most important regulations are capital adequacy requirements and consumer protection-related regulations.

The conducting of banking activity in Poland requires a permit and is subject to a range of regulatory requirements. Banks are also required to protect banking secrets; the regulations concerning personal data protection are especially important in the retail operations of banks in Poland.

Agreements between banks and their customers are subject to detailed regulations. The relevant provisions protecting consumer rights impose on the banks numerous obligations connected with the signing of agreements with customers (i.e. with natural persons who do not engage in business or professional activity on their own behalf).

Banks must also comply with the regulations concerning assets which come to the financial market from illegal or undisclosed sources and the counteracting of the financing of terrorism (widely referred to as "money laundering" regulations).

Certain restrictions also apply to intermediary dealings of third parties in performing banking activities for and on behalf of a bank and to engaging in any activities related to banking operations (i.e. outsourcing).

Banks also enjoy several privileges relating to their business.

Banking Supervision

Banking supervision in Poland is exercised by the PFSA, which has extensive competencies and legal instruments at its disposal to exercise its supervision over banks.

The competencies of the PFSA include, in particular:

- granting permits for:
  - the establishment of a bank and the commencement of its operational activity,
  - amendments to a bank's statute, and
  - the appointment of two members to a bank's management board, including the president;
- issuing objections to the purchase of or subscription for shares or rights to shares or becoming a domestic bank's parent company in the case of exceeding or reaching certain percentage thresholds of total voting rights;
- supervision of banks as far as compliance with applicable law (including, in particular, with banking regulations) and the regulations stated in a given bank's statute and with the permit issued for the establishment of a given bank;
- monitoring the financial condition of banks and the establishment of liquidity ratios and other standards of permitted risk in a given bank's operations which are binding on that bank;
- issuance of recommendations concerning the best practices in terms of the prudent and stable management of banks;
- issuance of guidelines to banks concerning taking or refraining from taking any specific actions;
- imposing penalties and designating recovery measures in case of a breach of any banking regulations, including cash penalties, suspension of management board members from their duties, restriction of the bank's business or revocation of banking permits; and
- appointment of trustee management (*zarząd komisaryczny*) for banks.

Other Polish Authorities which Exercise Material Supervision over the Activities of Banks

Specific areas of banking operations are also subject to the supervision of other administrative authorities, including, in particular:

- the President of the Antimonopoly Office, within the scope of the law of competition and consumer rights;

- the General Inspector for the Protection of Personal Data, within the scope of collecting, processing, administration and protection of personal data; and
- the Minister competent to oversee issues related to financial institutions and the General Inspector of Financial Information, within the scope of preventing money laundering and the financing of terrorism.

European Supervision Authorities

As a part of the reform of the European financial supervision system, in January 2011 the EU's Committee of European Banking Supervisors was replaced by the European Banking Authority, which constitutes a part of a European System of Financial Supervisors. The European Banking Authority and the European System of Financial Supervision were created to improve the co-operation between banking supervisors within the EU. The main objective of the European System of Financial Supervisors is to ensure that the rules applicable to the financial sector are adequately implemented so as to preserve financial stability and to ensure confidence in the financial system as a whole and sufficient protection for customers of financial services. To achieve its tasks, the European Banking Authority is entitled to, *inter alia*: develop draft regulatory and technical standards in relation to the specific cases referred to in Regulation 1093/2010; develop drafts implementing such technical standards; issue guidelines and recommendations in certain cases; and take individual decisions addressed to the competent authorities of the Member States in relation to the specific cases referred to in Regulation 1093/2010.

Furthermore, as part of the reform of the European financial supervision system of the European Union, the concept of an integrated banking union is being contemplated. Pursuant to the proposals of the European Commission, such potential banking union is to comprise four pillars: (i) more integrated banking supervision; (iii) a single rulebook in the form of capital requirements (in particular, CRD 4 regulations, as defined below); (iii) common deposit protection schemes (as indicated in the European Commission legislative proposal dated 12 July 2010 for a thorough revision of Directive 94/19/EC on deposit guarantee schemes); and (iv) a European recovery and resolution mechanism (based on the proposal for a directive dated 6 June 2012 establishing a framework for the recovery and resolution of credit institutions and investment firms).

To implement the first pillar, on 12 September 2012 the European Commission proposed a single supervisory mechanism ("**SSM**") for banks led by the ECB in order to strengthen the Economic and Monetary Union.

The proposals presented by the European Commission on 12 September 2012 concern: (i) a regulation conferring specific tasks on the European Central Bank ("**ECB**") concerning policies related to the prudential supervision of credit institutions; (ii) a regulation amending Regulation (EU) No. 1093/2010 establishing the European Supervisory Authority (the European Banking Authority) as regards its interaction with the regulation specified in point (i) above; and (iii) the communication from the European Commission to the European Parliament and the Council of a roadmap towards a banking union.

Based on the proposals, the ECB will be exclusively competent for key supervisory tasks that are indispensable for detecting risks with regard to the viability of banks and will be authorised to require such banks to take the necessary actions. The ECB will be, *inter alia*, the competent authority for licensing and authorizing credit institutions, assessing qualifying holdings, ensuring compliance with minimum capital requirements, ensuring the adequacy of internal capital in relation to the risk profile of a credit institution, conducting supervision on a consolidated basis, and overseeing supervisory tasks in relation to financial conglomerates. Furthermore, the ECB will also ensure compliance with the provisions on leverage and liquidity, apply capital buffers and carry out, in co-ordination with resolution authorities, early intervention measures when a bank is in breach of, or is about to breach, regulatory capital requirements. The ECB will also co-ordinate and express the common position of the representatives from the competent authorities of the participating Member States in relation to the above-mentioned tasks.

Therefore, pursuant to the current proposals the above-mentioned material supervision powers will be removed from the level of national authorities from the Eurozone and transferred to the ECB. However, all tasks not conferred on the ECB will remain with national supervisors. For example, national supervisors will remain in charge of consumer protection, anti-money laundering initiatives and the supervision of third-country credit institutions establishing branches or providing cross-border services within a Member State. Additionally, despite the number of tasks conferred on the ECB, most day-to-day verifications and other supervisory activities necessary to prepare and implement the ECB's acts can be exercised by national supervisors operating as an integral part of the SSM.

On 12 September 2013, the European Parliament and the ECB signed a declaration committing both institutions to formally conclude an Inter-institutional Agreement on the practical aspects of the exercise of democratic accountability and oversight of the tasks conferred on the ECB within the framework of the SSM. The comprehensive assessment of the banks that are likely to be deemed significant (and will hence be subject to direct supervision by the ECB) was publicly launched in October 2013. The SSM Regulation entered into force

on 3 November 2013 and the Inter-institutional Agreement on 7 November 2013. The implementation date was set for 4 November 2014.

Starting from 4 November 2014, the ECB was granted a supervisory role to monitor the financial stability of banks based in participating states. Eurozone states are required to participate, while member states of the European Union outside the eurozone can voluntarily participate. As of 3 November 2014, none of the non-eurozone member states had opted to join, although the ECB reported that some of them had expressed an interest in joining, and that talks were being held with each of them to map which changes to national legislation need to be adopted in order to become an SSM member.

Member States outside the Eurozone cannot fully be a part of the Single Supervisory Mechanism. Nevertheless, such countries may notify the ECB of their intention to join the SSM by establishing close co-operation between their competent authorities and the ECB. For that purpose, they will have to take all the necessary measures to ensure that their competent national authorities will abide by and implement the relevant ECB acts. On 31 January 2014, the ECB undertook to closely cooperate with the national competent authorities of participating Member States whose currency is not the euro, specifying procedures related to: (i) requests by non-euro area Member States to enter into close co-operation with the ECB; (ii) the ECB's assessment of those requests; (iii) the ECB's decision on establishing close co-operation; and (iv) suspension or termination of close co-operation.

According to a statement made by the Prime Minister of Poland, a decision on Poland joining the SSM will be made following internal consultations with the Minister of Finance, the NBP, the PFSA and the Bank Guarantee Fund.

As of the date of this Base Prospectus, Poland hasn't joined the SSM.

Capital Adequacy and Risk Management Requirements

Banks must comply with a number of regulatory requirements related to their operations. The crucial ones include the requirement for banks to manage their finances in a strictly regulated fashion and all the requirements concerning equity, capital adequacy ratio, concentration of exposures, liquidity and risk management systems.

Polish Law Requirements

All the resolutions and recommendations issued by the PFSA are also of material importance for the banks. Presented below are selected and material recommendations, resolutions and letters recently issued by the PFSA.

In February 2010, the PFSA issued Recommendation T, which is intended to improve risk management at banks, including preventing retail borrowers from becoming excessively in debt. The PFSA stated that the maximum ratio of debt servicing expense to the average income generated by a given debtor should not be greater than 50% for retail customers with an income lower than or equal to the average remuneration in the economy, and for other customers not greater than 65% of their remuneration.

In February 2013, the PFSA issued a new Recommendation T. The objective of the new recommendation is to introduce certain legal solutions which will allow for an increase in the activity of the banking sector in the area of extending loans compared with the activity of non-banking entities which extend loans, while ensuring the standards required for the purposes of the management of the risk of retail credit exposures. One of the changes involves the exclusion of mortgage-secured credit exposures from the scope of Recommendation T, meaning that the recommendations regarding retail credit exposures (Recommendation T) are separated from mortgage-secured credit exposures (Recommendation S). Additionally, pursuant to the new recommendation, the PFSA simplified the terms of assessment of credit compliance with respect to low-value retail credit exposures (defined as an assessment of the amount and stability of the sources for repayment of the exposures and assessment of some features of the customer material from the perspective of the repayment). Such simplified terms may be applied to assessments of credit compliance of the following exposures by banks, provided that such banks satisfy the criteria indicated in the new recommendation: (i) instalment exposures of a maximum exposure equal to four times the average monthly remuneration in the business sector (Polish: *średnie miesięczne wynagrodzenie w sektorze przedsiębiorstw*); (ii) other exposures where the given debtor has been the bank's customer (satisfying the criteria specified in the new Recommendation T) for at least six months (then the maximum value of the exposure is six times the average monthly remuneration in the business sector) or when the given debtor has been the bank's customer (satisfying the criteria specified in the new Recommendation T) for at least 12 months (then the maximum value of the exposure is twelve times the average monthly remuneration in the business sector) or any other exposures where a given debtor has been the bank's customer (satisfying the criteria specified in the new Recommendation T) (then the maximum value of the exposure is not higher than the average monthly remuneration in the business sector).

In January 2011, the PFSA amended Recommendation S, which imposed limitations on Polish banks in respect of granting foreign currency mortgage loans. According to detailed recommendations concerning the financing of mortgage-secured loan exposures: (i) the bank should aim to limit the borrower's exposure to currency risks,

specifically by ensuring that the exposure is in the same currency as the borrower's income; (ii) when assessing the creditworthiness of a borrower, the bank should assume a maximum repayment term of 25 years; (iii) in the assessment of creditworthiness, the bank should take into account the likely change in the borrower's income after retirement, if the repayment term goes past the age of retirement, (iv) in the case of foreign currency retail real-estate-financing loan exposures and foreign currency retail mortgage-secured loan exposures, the maximum ratio of the loan service expenditure to the average net income earned by individuals required to repay the debt should not exceed 42%.

On 18 June 2013 the PFSA announced the issuance of the new Recommendation S (III) containing guidelines for banks on how they should manage their mortgage exposure, lowering the loan-to-value ratio on mortgage loans to 80-90% for apartments and to 75-80% for commercial properties, most of the provisions of which were planned to be implemented by banks by 1 January 2014.

The new Recommendation S (III) introduced the following changes: (i) the exclusion of exposures financing real property which are not mortgage-secured credit exposures from the scope of Recommendation S, meaning that the new Recommendation S would regard only mortgage-secured credit exposures; (ii) foreign currency mortgage loans should be a niche product offered exclusively to borrowers who generate consistent income in the currency of the loan; (iii) a bank should not finance the entire value of the real property which constitutes the collateral and should determine internal thresholds of the minimum down payments required and such thresholds should be approved by the supervisory board; (iv) the extension of the maximum period assumed for the purposes of the analysis of creditworthiness from a 25-year period to 30-year period, the designation of a 25-year period as a period recommended by the PFSA for the maximum duration of a facility period and the designation of a 35-year period as the maximum permitted duration of a facility period; and (v) a departure from the strict rules regarding the establishment by the PFSA of the maximum level of the maximum ratio of debt servicing expense to the average income generated by a given debtor.

In June 2011, the PFSA amended Recommendation R, under which the PFSA introduced rules regarding depreciated balance sheet credit exposures, selecting impairment losses for balance sheet credit exposure and provisions for off-balance sheet credit exposure. Pursuant to this recommendation, banks are required to follow certain procedures to identify and manage the risk referred to in the preceding sentence, the aim of which is to limit the discrepancies in the previous practice of banks in the presentation of credit exposure which have lost value, impairment loss in view of the lost value of balance credit exposure and reserves for off-balance credit exposure in their financial statements.

In June 2011, the PFSA increased the risk weighting of retail and mortgage loans denominated in foreign currencies from 75% to 100% (Resolution 153/2011 amending resolution No. 76/2010 regarding the manner of and the detailed rules for defining equity requirements in light of specific types of risk), such resolution has been in force since 30 June 2012. Risk weighting applies to the calculation of the value of risk-weighted assets which are the basis for the calculation of banks' capital adequacy ratios. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type.

Additionally, the PFSA, in its letter dated 24 January 2012 addressed to Polish banks, expressed an expectation that banks in Poland maintain a capital adequacy ratio of at least 12% and a Tier 1 ratio of at least 9%. However, the expectation of the PFSA as to the level of the capital adequacy ratio (CAR) and the Tier 1 capital ratio was reiterated in a letter from the PFSA dated 21 March 2014.

On 11 September 2012, the PFSA adopted a new Recommendation J addressed to banks and regulating the collection and processing by banks of data regarding real estate ("**Recommendation J**"). The major changes introduced in Recommendation J include the application of Recommendation J by banks in which the share of exposure to loans secured by a mortgage in their own loan portfolios exceeds 10%, the recommending of harmonised standards of collection, the processing and disclosure of data regarding the real estate market through reliable databases, a description of a set of features that identify the type of real estate that should be collected in the database, and the recommending of statistical models for the assessment of the risk of a change in the value of collateral in the form of real estate in the case of banks materially involved in loans secured by such collateral. The new Recommendation J came into force on 1 October 2013 (the exceptions being recommendations 11 and 12, which came into force on 1 April 2014).

In addition, each year since 2012, the PFSA has adopted a stance on the rules regarding the dividend policy of financial institutions, including banks. On 2 December 2014, the PFSA adopted its most recent stance on the rules regarding the 2015 dividend policy of banks for the year 2014. According to the PFSA's stance, dividends for the year 2014 in the amount up to 100% of the net profit for 2014 may only be paid by banks with a significant share in non-financial sector deposits and which meet all of the following criteria: (i) are not subject to pending rehabilitation proceedings; (ii) have a Tier 1 (CET1) core equity capital ratio of over 12% (9% + 3% systemic risk buffer); (iii) have a total capital ratio (TCR) of over 15.5% (12.5% + 3% systemic risk buffer); (iv)

have a final BION assessment rating equal to 1 (good) or 2 (satisfactory); and (vii) have a BION assessment of capital level risk not worse than 2 (satisfactory).

Banks with a significant share in non-financial sector deposits which have a total capital ratio (TCR) of 12.5% to 15.5% may dispose of up to 50% of their profit earned in 2014, provided they meet all other criteria.

It is recommended that dividends in the amount of up to 100% of the profit earned in 2014 may be paid by all other banks that meet all of the following criteria: (i) are not subject to pending rehabilitation proceedings; (ii) have a Tier 1 (CET1) core equity capital ratio of over 9%; (iii) have a total capital ratio (TCR) of over 12.5%; (iv) have a final BION assessment rating equal to 1 (good) or 2 (satisfactory); and (v) have a BION assessment of capital level risk not worse than 2 (satisfactory).

It is recommended that banks that do not meet the dividend payment criteria should credit the total profit earned in 2014 to equity. Due to the situation with the PLN/CHF exchange rate, in March 2015, some banks (among others, the Bank, mBank S.A. and BZ WBK S.A.) with significant CHF-denominated loan portfolios received from the PFSA a recommendation to withhold their entire net profit earned for the period from 1 January 2014 to 31 December 2014 until the PFSA is able to determine whether and what additional capital requirements it may impose.

On 8 January 2013, the PFSA adopted a new Recommendation M concerning the management of operating risk by banks ("**Recommendation M**") and Recommendation D concerning the management of risks associated with IT and telecommunications systems used by banks ("**Recommendation D**"). The objective of these recommendations was to present to banks the supervisory expectations of the PFSA regarding the management of operating risk as well as the stable and prudent management of IT solutions. The implementation of Recommendation M took place by 30 June 2013. In respect of Recommendation D, the PFSA believes that the new recommendation will be implemented by 31 December 2014.

In June 2014, the PFSA issued Recommendation U, which was addressed to banks and concerned good bancassurance practices which, as expected by the PFSA, should come into force no later than by 31 March 2015 ("**Recommendation U**"). Recommendation U is aimed at improving the quality standards of collaboration between banks and insurance companies when banks offer insurance products to their customers and at defining conditions for the further stable development of the bancassurance market. All of the recommendations incorporated into Recommendation U refer to business activities of banks offering insurance and apply to: (i) management and supervisory boards; (ii) protecting banks against risks; (iii) the role of the bank/its accounting policy; (iv) relations with customers; (v) the internal bancassurance control system; and (vi) the role of the compliance function.

Recommendation U is addressed to all banks operating under the laws of Poland in co-operation with insurance companies by offering insurance, understood as intermediation in concluding insurance agreements, offering accession to insurance agreements on behalf of a third party, or as the client paying the costs of insurance cover for a risk incurred by banks.

On 16 April 2015, the PFSA announced Recommendation W on good practices for managing model risk in banks, which is expected to come into force no later than by 30 June 2016.

The objective of Recommendation W is to: (i) determine the regulatory framework defining the supervisory expectations as regards managing model risk (including those resulting from CRD IV), indicating the need to introduce a systematic approach to model risk establishing standards applicable throughout the entire institution to ensure the adequate adjustment of risk involved in models used by a given bank to the actual expectations of such bank in this regard; (ii) indicate to banks the best practices for ensuring efficient model risk management at every stage and, consequently, to improve the quality of model risk management and develop high market standards; (iii) adjust the actions taken by banks in respect of managing model risk to the actual level of model risk (the principle of proportionality); and (iv) reduce the exposure of the banking sector to model risk and to prepare banks for taking efficient and appropriate actions and preventative/remedial measures in the event of the materialisation of model risk in the future.

The document includes 18 recommendations, which were divided into the following areas: (i) the rules and the organisation of the management of models; (ii) the process of managing model risk; (iii) model management; and; (iv) validation.

The PFSA is also working on draft guidelines for amendments to regulations addressed to mortgage banks: Recommendation K on the principles under which mortgage banks keep security accounts for mortgage bonds and for their projections, and Recommendation F on the basic criteria applied by the PFSA when approving regulations on the mortgage lending values of real properties determined by mortgage banks.

In addition to the above-mentioned PFSA recommendations and letters, within the last four years the PFSA has issued certain other resolutions and communications regarding capital adequacy and risk management, in

particular: (i) in October 2011, resolution No. 258/2011 regarding the detailed principles of the operation of risk management systems and internal control systems, the detailed conditions for the estimation of internal capital by banks and for reviews of internal capital retention and estimation processes, and the principles of determining policy with regard to the variable components of the remuneration of persons in managerial positions at banks; (ii) in October 2011, resolution No. 259/2011, which amended resolution No. 385/2008 regarding the detailed rules for and methods of the announcement by banks of qualitative and quantitative information concerning capital adequacy and other information subject to announcement (subsequently amended by resolution No. 326/2011 of 20 December 2011), which was followed in July 2012 by a letter from the PFSA addressed to the presidents of the management boards of banks, in which the PFSA reminded the banks of the requirement to accurately comply with the disclosure requirements resulting from resolution No. 385/2008, as amended, in the said letter the PFSA also stated that compliance with the above-mentioned requirements would be subject to detailed analyses conducted by the PFSA within the scope of its supervisory duties; (iii) in June 2012, resolution No. 172/2012 of the PFSA amending resolution No. 76/2010 regarding the manner of and the detailed rules for defining equity requirements in light of specific types of risk; (iv) in June 2012, resolution No. 173/2012 amending resolution No. 208/2011 on the detailed rules and conditions for the determination of exposure when determining compliance with limits on exposure concentration and limits on large exposures, and amending the resolution on the requirements for identifying, monitoring and controlling exposure concentrations, including large exposures; and (v) in November 2012, resolution No. 307/2012 amending resolution No. 76/2010 on the manner of and the detailed rules for defining equity requirements in light of specific types of risk.

European Law Requirements

On 24 November 2010, Directive 2010/76/EU of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for trading books and for re securitisations, and the supervisory review of remuneration policies was adopted ("**CRD 3**"). CRD 3 increased capital requirements for certain assets that banks hold in trading books and for re-securitisation instruments. It also increased disclosure obligations in several areas, such as securitisation exposures in the trading book and sponsorship of off-balance sheet vehicles. CRD 3 imposed a requirement that remuneration policies be consistent with sound and effective risk management and therefore subject to supervisory oversight. As a result, supervisory authorities have to monitor the implications of remuneration policies for the risk management of financial institutions. Member States were required to implement some of the provisions of CRD 3 by 1 January 2011 and the remaining provisions by 31 December 2011. In connection with this, on 1 January 2012, PFSA Resolutions 258/2011 and 259/2011 came into force to adjust the Polish regulations to the requirements of CRD 3.

In December 2010, at the G-20 summit in Seoul, the Basel Committee on Banking Supervision approved the Basel III Accord (which was subsequently revised in June 2011) ("**Basel III**"), which provides new capital and liquidity requirements for banks with a view to strengthening the resilience of entities of the banking sector and which are to be gradually introduced by January 2019. The main assumptions of the Accord include: (i) the introduction of an additional capital conservation buffer to absorb bank losses in periods of crisis and economic pressure, with a buffer ratio of 2.5%, where it is assumed that the banks will reach this ceiling in January 2019; (ii) banks regarded as key banks must expect increased capital requirements, since the authors of Basel III assume that strategic banks should as a rule legitimise themselves with an above-average absorption of losses; and (iii) the introduction of a leverage ratio to limit financing being granted where there is a small share of initial capital.

To implement Basel III, on 20 July 2011, the European Commission initiated a European legislative procedure in connection with the adoption of two European acts which were to influence the banking sector. In July 2011, the European Commission presented a draft CRD 4 package, which consisted of the draft of the capital requirements directive and the capital requirements regulation. The new regulations were intended to strengthen the regulation of the banking sector and investment firms, and to be a further step towards creating a safer and more transparent financial system. They take account of the Basel Committee on Banking Supervision proposals known as Basel III.

The effect of the above was the CRD 4 package consisting of: (i) the Regulation of the European Parliament and of the Council (EU) No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the "**CRR**") and Directive of the European Parliament and of the Council 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the "**CRD**") (jointly, "**CRD 4**"). CRD 4, which transposes the new global standards on bank capital, i.e. Basel III, into the EU legal framework, entered into force on 17 July 2013 and on 1 January 2014, CRD 4 entirely replaced the existing binding provisions of the then existing laws.

The changes proposed under Basel III and CRD 4 include, *inter alia*: (i) the strengthening of capital requirements for credit risk exposures arising from derivatives, repos and securities financing activities; (ii) the

introduction of a minimum liquidity standard for banks that are active internationally and allowing such banks to calculate liquidity ratios for their whole group; (iii) the promotion of more forward-looking provisioning based on expected losses; and (iv) reducing procyclicality and promoting countercyclical buffers.

The provisions of the CRR are directly applicable in all Member States, whereas the provisions of CRD 4 must, in order to be effective, be transposed into the Polish legal system. Thus, a draft amendment to the Banking Law is currently being prepared by the Polish Council of Ministers.

On 24 December 2013, the draft amendment to the Banking Law prepared by the PFSA was forwarded to the Ministry of Finance, which is responsible for the draft. The draft incorporates the new and amended provisions of the CDR IV directive. The provisions which were included in the CRR regulation were removed. In the process of amending the Banking Law, consideration had to be given to the ongoing works on the draft Act on the macroprudential oversight of the financial system. This draft including the proposed amendments specifically introduces the provisions of the CRD IV directive regarding capital buffers: a capital conservation buffer, an institution-specific countercyclical capital buffer, a global systemically important institutions buffer, an other systemically important institutions buffer and a systemic risk buffer. The PFSA has also prepared certain amendments to other banking regulations. The new proposals were to be issued in the form of regulations of the Ministry of Finance and will incorporate amendments, on the one hand resulting from the CRD IV directive, and on the other hand from the CRR regulation, which is primarily aimed at identifying individual provisions / entire resolutions which must be repealed. The final text of those legal acts essentially depends on the specific solutions included in the proposal of the amended Banking Law. The Government Legislation Centre is currently working on drafts of the amended Banking Law and certain other acts drafted between 2014 and 2015.

On 15 May 2014, the European Parliament approved the Bank Recovery and Resolution Directive (BRRD). The Directive establishes a bail-in system (for creditor losses) which ensures that taxpayers will be the last to incur costs relating to the problems of banks. This does not preclude state intervention to maintain the liquidity of a failing bank, but such intervention will only be possible in exceptional circumstances and only when a bank's creditors incur losses of at least 8% of the bank's assets. In any case, owners of smaller, EU-protected deposits (below EUR 100,000) are to be excluded. Additional public capitalisation of banks will be possible in exceptional circumstances when there is a chance of saving a bank despite the absence of the possibility of further capital from private sources. The BRRD also foresees that countries will establish bankruptcy funds to which banks will contribute.

Other Law Requirements in the Banking Sector

In August 2011, the Polish legislature passed an act amending the Banking Law pursuant to which changes to the provisions governing the outsourcing of banking services were introduced. The aim of the act was to broaden the scope of services that may be subject to outsourcing without the approval of the PFSA. Moreover, the act regulated the institution of sub-outsourcing and liability for actions conducted by sub-outsourcing entities.

In February 2012, the PFSA published a letter addressed to the presidents of banks in which the PFSA presented its position with regard to the necessary changes to the rules of co-operation between banks and insurance companies. The letter referred to situations where a bank offering its products acts both as the insuring party and as the insurance broker. In respect of such products, the PFSA recommends that a clear division of roles assigned to specific entities which participate in bancassurance must be introduced by each bank offering bancassurance products. The above-mentioned letter from the PFSA also mentions: (i) excessive commission received by banks for such insurance services, which according to the PFSA is grossly contradictory to the need to build customers' confidence in the financial markets, specifically as such commission is greatly different from the commission usually collected by insurance brokers; (ii) the inability of insured parties or their heirs to prosecute their claims directly against the insurance company; (iii) the restricted right of choice of an insurance company; and (iv) situations where the insurance company, having paid damages to the bank, files a recourse claim against the borrower.

Furthermore, in a letter dated 26 September 2012 the PFSA identified a potential conflict of interest arising from the sale of insurance products in which a bank acts both as the insuring party arranging insurance coverage for risks associated with its own products (such as the risk of default on its loans to customers) and as the agent collecting commission from the insurance company underwriting the risk. Moreover, on 7 March 2013 the PFSA addressed a letter to the Polish banks in which it expressed the need to make financial statements in the banking sector mutually comparable in terms of the manner of recognizing insurance-related fees. The PFSA recommended the manner in which revenues representing the fees collected by banks for providing insurance cover and for intermediation services should be presented in the accounting books of banks (as agreed with the Ministry of Finance).

In June 2014, the PFSA issued Recommendation U, which was addressed to banks and concerned good bancassurance practices. Recommendation U was set to come into force no later than by 31 March 2015 (*for more information regarding Recommendation U, see above*).

Bank Guarantee Fund

The cash deposited in individual Polish bank accounts and any cash due under receivables confirmed by documents issued by banks in favour of specific persons is covered by a statutory guarantee system: the Bank Guarantee Fund. Apart from guaranteeing deposits, the functions of the Bank Guarantee Fund include such actions as granting financial assistance to banks threatened with insolvency or for the acquisition of shares or ownership interests in banks. Such activities of the Bank Guarantee Fund are financed out of its own resources collected under an assistance fund created from compulsory annual charges paid by banks. Banks pay mandatory annual fees to the Bank Guarantee Fund.

Pursuant to the Bank Guarantee Fund Act, entities covered by the guarantee system pay the BGF compulsory annual charges in an amount which is the product of a rate not exceeding 0.3% and the basis for calculating the annual charge, i.e. an amount corresponding to 12.5 times the sum of the capital requirements for an individual type of risk and the capital requirements for exceeding limits and infringing other standards specified in the Banking Law, calculated by a bank on the basis of the provisions of such act. The rate for the following year is established and sent to the entities covered by the guarantee system by the Board of the Fund no later than by the end of the calendar year preceding the year in which the charge is to be paid. As at the date of this Base Prospectus, the binding rate for 2015 to be paid to the BGF by entities covered by the compulsory guarantee system was set at 0.189% of 12.5 times the sum of the capital requirements for an individual type of risk and the capital requirements for exceeding limits and infringing other standards specified in the Banking Law. The compulsory guarantee system ensures that in the event of the insolvency of a bank, the cash accumulated in the accounts of the bank will be reimbursed up to the amount specified in the relevant regulations.

On 26 July 2013, an amendment to the Bank Guarantee Fund Act was passed and came into force on 4 October 2013. Pursuant to such amendment, the Bank Guarantee Fund, acting at the instruction of the Minister of Finance, will be able to grant domestic banks which are conducting recovery measures a guarantee for increasing equity (known as a recapitalisation guarantee). Funds for that purpose will be taken from a stabilisation fund to be created as a new own fund of the Bank Guarantee Fund. The stabilisation fund will be created from cautionary charges paid by entities covered by the guarantee system. The amount of the cautionary charge will be determined as the product of a rate not exceeding 0.2% and the basis for calculating the annual charge, i.e. an amount corresponding to 12.5 times the sum of the capital requirements for an individual type of risk and the capital requirements for exceeding limits and infringing other standards specified in the Banking Law. The Bank Guarantee Fund Board set the rate of the cautionary charge for 2015 to be paid to the BGF by entities covered by the compulsory guarantee system at 0.05% of 12.5 times the sum of the capital requirements for an individual type of risk and the capital requirements for exceeding limits and infringing other standards specified in the Banking Law.

The detailed terms and conditions of extending a guarantee to increase a bank's own level of funds, in addition to a list of documents and information that should be included in an application for the guarantee, were adopted by the Bank Guarantee Fund Council under Resolution No. 34/2013 of 25 September 2013.

As of date of this Base Prospectus, the guarantee system fully covers cash up to the PLN equivalent of EUR 100,000.

Additionally, on 12 June 2013 the amendment on the Savings and Credit Cooperative Unions Act (Polish: *spółdzielcze kasy oszczędnościowo-kredytowe* or *SKOK*) came into force. Since 29 November 2013, deposits in cooperative savings and credit unions are covered by the Bank Guarantee Fund and, in the event of the fulfilment of the guarantee condition, the Bank Guarantee Fund will reimburse guaranteed funds up to the amount stipulated in the respective legislation.

Payment services

On 19 August 2011, the Polish Payment Service Act, which influences the banking sector, was adopted. Since 24 October 2012 banks have been required to adjust their operations to the regulations of that act.

The Polish Payment Service Act defines the rules for providing payment services, including the conditions for providing payment services, in particular concerning the transparency of contractual provisions and the requirements pertaining to providing information on payment services. It also defines the rights and obligations of parties resulting from agreements for the provision of payment services, the scope of liability of providers for the performance of payment services, the rules under which payment institutions and payment service bureaus must conduct their activities, including through the intermediation of agents of those entities, and the rules for exercising supervision over those entities. In October 2013, an amendment to the Polish Payment Service Act entered into force. The amendment was aimed at implementing Directive 2009/110/EC of 16 September 2009 intended to remove entry barriers to the electronic money market and to facilitate the taking up and pursuing of business activities in the electronic money industry. The amendments under the new regulations apply mainly to

the issuance, redemption and distribution of electronic money and to the creation, organisation and operation of electronic money institutions, as well as to supervision over such entities.

On 30 March 2012, the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards. It has been recommended that multilateral arrangements be concluded between banks and the payment card organisations, with the aim to reduce the levels of interchange fees. The law amending the Polish Payment Services Act dated 19 August 2011 (consolidated text: Journal of Laws of the Republic of Poland of 2014, sec. 873) regarding interchange fees was adopted by the Polish legislature on 30 August 2013 and came into force on 1 January 2014 (with a six-month adjustment period). Further changes to the Polish Payment Services Act were introduced by an amendment dated 28 November 2014 (effective since 29 January 2015) further reducing the level of interchange fees for domestic payment transactions, to 0.2% for transactions made with debit cards and 0.3% for transactions made with credit cards. In addition to the statutory reduction of interchange fee rates, the recent amendment introduced new pre-contractual obligations of acquirers.

Consumer Protection

The Consumer Credit Act (the purpose of which is to implement Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers of 23 April 2008), the regulations of the Civil Code and other consumer protection laws impose on banks several obligations relating to agreements with natural persons who perform actions which are not directly related to their business or professional activities (i.e. consumers). The most important of those are the requirements to inform consumers about the cost of extended credit and loans and the prohibition against including specific clauses which are unfavourable to consumers in agreements. In particular, the Consumer Credit Act introduces the Standard European Consumer Credit Information Form, which requires the creditor to quote the total cost of a loan, comprising all the costs (including interest, commissions, taxes, fees for credit intermediaries and any other fees) which the consumer has to pay in connection with a credit agreement, except for notarial costs.

The Consumer Credit Act applies, as a rule, to all consumer loans, defined as loans of no more than PLN 255,550, and also applies, to a limited extent, to mortgage loans. The Consumer Credit Act applies to all institutions granting consumer loans: not just to banks, but also to all intermediaries.

On 26 August 2011, amendments to the Consumer Credit Act were introduced granting the borrower, in the case of a loan denominated or indexed to any currency other than PLN, the right to make the principal and the interest repayments directly in that currency. The exercise of such right must not involve any additional cost to the borrower and the lender cannot make the borrower's exercise of such right conditional on the introduction of any additional restrictions. Specifically, it must not require the borrower to buy the currency to be used for the repayment of the loan instalments, whether in whole or in part, from an entity designated thereto.

In January 2013 and January 2014, additional amendments to the Consumer Credit Act entered into force, concerning the definition and the manner of calculating loan interest rates.

Apart from the Consumer Credit Act, the Group has to comply with a number of consumer protection regulations. The operations of the Group may be subject to review by the President of the Office of Competition and Consumer Protection to assess the compliance thereof with the provisions regarding prohibited practices that violate the collective interests of consumers (including the provision of inaccurate information to clients, unfair market practices and the use of contractual provisions registered in the Register of Prohibited Clauses maintained by the President of the Office of Competition and Consumer Protection).

Pursuant to the Competition and Consumer Protection Act dated 16 February 2007 (Journal of Laws of 2007, No. 50, item 331, as amended), the President of the OCCP has the authority to declare that the provisions of agreements or practices applied by the Group companies violate the collective interests of consumers and, as a consequence, may prohibit certain contractual provisions or practices and impose fines on the Group companies (in general, up to 10% of the revenues generated in the year preceding the year in which such penalty is imposed).

Personal Data Protection

The Personal Data Protection Act of 29 August 1997 (consolidated text, Journal of Laws of 2002, No. 101, item 926 as amended) (the "**Personal Data Protection Act**") imposed numerous obligations on entities taking part in data processing. In view of the fact that banks possess comprehensive databases on clients, they were required to exercise particular care in order to ensure the safety of the information systems they use to collect and exchange information on account holders and borrowers. The provisions of the Banking Law require bank employees to maintain the secrecy of all information concerning banking activities, including personal data obtained during negotiations or during the conclusion and performance of an agreement on the basis of which the bank carries out activities. The banking secrecy measures established by the Banking Law and the provisions on personal data protection provide a fundamental guarantee of personal data protection for bank clients against the threats

associated with the improper use of such data when conducting banking activities. Nevertheless, the provisions of the Banking Law, which are specific regulations in relation to the provisions of the Personal Data Protection Act, impose significant restrictions on banks in respect of the processing of personal data covered by banking secrecy.

One of the basic principles of personal data protection is that compliance with the law, in accordance with which personal data may only be processed after one of the conditions set out in the Personal Data Protection Act has been met. Personal data processing is permissible when, for example, it is necessary for the exercise of an entitlement or to discharge an obligation resulting from provisions of law. This should be understood as not only compliance with the Personal Data Protection Act, but also with all other legal standards binding in the domestic and EU legal systems. Furthermore, the processing of personal data is permissible when it is necessary for the performance of an agreement with the person the data concerns, or necessary in order to take actions before the conclusion of an agreement at the request of the person the data concerns. Processing data is also permissible when it is necessary for legally justified purposes to be performed by the data administrator or data recipients and it does not infringe the law or the freedom of the person the data concerns. A legally justified purpose should be understood primarily as the direct marketing of one's own products and administrator services. The time limit for processing the personal data of a bank client for marketing purposes is the moment the person concerned objects to or demands the cessation of the data processing due to the particular situation of the person.

In addition to banks having to ensure that their personal data processing legally compliant, as data administrators, banks are required to ensure the substantive correctness of the data they process, and to continually update such data. To this end, a bank must have a procedure in place for verifying the correctness of data and, where such data is to be updated or corrected, the bank must promptly inform other administrators to whom the data has been sent about such fact. Additionally, the persons to whom the data pertains should be able to access and correct such data.

Changes in the "Rodzina na swoim" Program – Introduction of a new "Mieszkanie dla Młodych" Program

In July 2011, the law amending the terms for the implementation of the "*Rodzina na swoim*" program of preferential housing loans was adopted and entered into force on 31 August 2011, providing a new definition of preferential loans so as to exclusively include loans taken to satisfy the personal housing requirements of the target borrowers who benefit from financial support. The subsidies for credit facilities apply if a borrower submits a request no later than by the end of the calendar year in which such borrower turns 35. State aid with regard to the repayment of a loan taken to purchase an apartment will be available not only to married couples and to persons bringing up at least one child as a single parent, but also to persons who are not married or those who do not have children. The ratio applicable to the price of one square meter of usable space of a real property was decreased. Applications for preferential loans under the "*Rodzina na swoim*" program were accepted until 31 December 2012.

At a press conference held on 14 October 2012, the Minister of Transportation, Construction and the Maritime Economy presented the assumptions of the new "*Mieszkanie dla Młodych*" program, which were to constitute a new instrument of support in connection with the taking out of loans for the purchase of residences once the "*Rodzina na swoim*" program has been phased out. The "*Mieszkanie dla Młodych*" program was introduced based on the Act on State Assistance for Young People for Purchasing a First Home of 27 September 2013 (Journal of Laws of 2013, item 1304) (the "**Mieszkanie dla Młodych Act**"), which came into force on 23 November 2013. Young people fulfilling the respective requirements could apply for state support by 1 January 2014.

The Mieszkanie dla Młodych Act sets forth the rules for granting moneys from the fund for financial support in connection with the first purchase of an apartment or single-family house. The program stipulates that in order to take advantage of such subsidy, an applicant must meet the following conditions: (i) no other housing can be owned (or have been owned in the past); (ii) the applicant cannot be more than 35 years old; (iii) the home must be purchased on the primary market; (iv) the area of the apartment cannot exceed 75 square metres, or in the case of a single-family house, 100 square metres, or 85 square metres and 110 square metres, respectively, if the purchaser is raising at least three children; (v) a loan must be taken out for at least 50% of the price of the home and for at least 15 years; and (vi) the price of the home cannot exceed the indicator established for the given location. The value of financial support will amount to 10% of the value of the apartment for those who do not have children and 15% for those who do, with additional payments due when more children are born.

Class Action Lawsuits

The ability to bring class action lawsuits was introduced into Polish law in July 2010. Class action law suits may be brought by at least ten persons whose claims are of the same type and which are based on identical or similar factual circumstances. Class action lawsuits are used specifically in matters regarding claims for the protection of consumers, liability for damages caused by any harmful product and on account of any acts in tort, excluding the infringement of personal rights. Furthermore, the initiation of a class action lawsuit does not exclude the

possibility of persons who do not join such lawsuit, or who withdraw from it, from pursuing their own claims. Since claims raised by customers against banks are, in principle, often of the same type and based on the same factual basis, the introduction of class action lawsuits creates the possibility of customers demanding their claims jointly (which greatly decreases the unit cost of legal services).

Class action lawsuits regarding the protection of consumers (relating to, for example, the interest rate and FX provisions in banking contracts) have already been brought against some Polish banks (among others, Bank BPH SA, mBank SA and Bank Millennium S.A.).

Bank Privileges

Polish banks benefit from certain privileges related to their business. In particular, Polish law provides for simplified procedures for taking security interests and enforcing the payment of a bank's claims. Banks do not need to comply with the requirements of a specific form of establishing collateral. Additionally, banks have the right to transfer their receivables to another entity which may issue securities collateralised by the transferred receivables (securitisation of bank receivables). Banks are authorised to apply simplified procedures for prosecuting claims through the issuance of bank enforcement titles (Polish: *bankowy tytuł egzekucyjny*). Moreover, documents issued by banks have, in general, the same status as official documents. However, a judgment of the Constitutional Court (Judgment of March 15, 2011, Ref. act P 7/09) declared Article 95 section 1 of the Banking Law, pursuant to which the accounting books of and extracts from the accounting books of banks have the same status as official documents in civil proceedings against a consumer, to be contrary to the constitutional principles of a democratic state of law such as the principle of equality and the principle of consumer protection, because it guarantees the statutory superiority of a professional entity (the bank) over the consumer.

As a consequence of the Constitutional Court's judgment on the matter, the Banking Law has been amended, with effect from 20 July 2013, to provide that in civil proceedings documents issued by banks do not have the same status as official documents (Art. 95 section 1a of the Banking Law).

On 15 April 2015, the Constitutional Court questioned two clauses of the Banking Law (article 96, paragraph 1 and article 97, paragraph 1) which regulate bank enforcement titles. The Constitutional Court found that the subject privilege "*goes too far*", "*makes the bank a judge in its own case, whereas the bank and the client should be equal sides in a legal relation*", and so as result ruled that such clauses are discordant with the Constitution as they violate the constitutional principle of equality. Poland's legislative body has until 1 August 2016 to amend the regulation regarding bank enforcement titles.

GENERAL INFORMATION ON THE BANK

Basic Information

Name and legal form:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Registered office:	ul. Puławska 15, 02-515 Warsaw, Poland
Telephone number:	(+48 22) 521 91 82
Fax number:	(+48 22) 521 91 83
Website:	www.pkobp.pl
Email address:	ir@pkobp.pl
KRS (company registration number):	0000026438
REGON:	016298263
NIP:	525-000-77-38

The Bank in the form of a joint stock company was formed by virtue of the Regulation of the Council of Ministers dated 18 January 2000 on the transformation of Powszechna Kasa Oszczędności – Bank Państwowy into a wholly state-owned joint stock company operating under the business name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna issued under Article 44 of the Polish Banking Law. On 28 March 2000, under the aforementioned Regulation, the act on transformation of the state-owned bank into a wholly state-owned joint stock company was executed.

The Bank was entered in the commercial register under a court decision dated 12 April 2000. On 12 July 2001, the Bank was entered in the National Court Register kept by the District Court for the Capital City of Warsaw, XVI Registry Division. At present the competent registry court is the District Court for the Capital City of Warsaw, XIII Business Division of the National Court Register.

The Bank has been established for an unspecified period of time. The Bank operates in accordance with the Polish Commercial Companies Code, the Polish Banking Law and other rules and regulations governing banks and commercial companies as well as the provisions of the Bank's Statute and other internal regulations.

Object of Activities

The Bank's object of activities is set forth in § 4 of the Statute.

PKO Bank Polski is a universal deposit and lending bank providing services to individuals, legal entities, small, medium and large enterprises as well as to state and local government institutions and other domestic and foreign entities. The Bank is also active in the areas of treasury and investment. The Bank may hold foreign exchange values and trade in them, carry out currency and foreign exchange operations as well as open and hold accounts in foreign banks and deposit funds in accounts.

Share Capital

As of the date of the Base Prospectus, the Bank's share capital is PLN 1,250,000,000 and is divided into 1,250,000,000 shares with a nominal value of PLN 1 each, including 510,000,000 series A shares, including 312,500,000 registered series A shares and 197,500,000 bearer series A shares, 105,000,000 series B bearer shares, 385,000,000 series C bearer shares and 250,000,000 series D bearer shares. The conversion of series A shares into bearer shares and the transfer of these shares shall require consent expressed in a resolution of the Council of Ministers. Pursuant to § 6 section 2 of the Bank's Statute, the conversion into bearer shares or transfer of series A shares upon obtaining such consent shall result in the expiration of the restrictions provided for in the preceding sentence in respect of the shares that are subject to such conversion into bearer shares or transfer, to the extent such consent was granted.

The registered series A shares (510,000,000) issued by the Bank and owned by the State Treasury were admitted to public trading, dematerialised and registered in the depository and settlement system maintained by the Polish National Depositary for Securities (*Krajowy Depozyt Papierów Wartościowych*, the "**NDS**") in 2004, but they were not included in a motion for the admission and introduction to trading on the regulated market maintained by the WSE. Under a resolution of 7 April 2011, the Council of Ministers granted consent to the conversion of 197,500,000 registered series A shares owned by the State Treasury into bearer shares which, pursuant to §6.2 of the Bank's Statute, is necessary to convert such shares into bearer shares. On 22 November 2011 the management board of the Polish National Depositary for Securities decided to assign ISIN code PLPKO0000073 to 197,500,000 ordinary bearer shares in the Bank, following the conversion of such shares from registered

shares (assigned ISIN code PLPKO0000024) to bearer shares which was effected on 24 November 2011 at the request of the State Treasury as the Bank's shareholder. On 19 July 2012, such shares were admitted to trading on the WSE and assimilated by the NDS with the remaining 740,000,000 shares in the Bank traded on the WSE and assigned the code PLPKO0000016. The remaining 312,500,000 registered series A shares in the Bank continue to have ISIN code PLPKO0000024.

Furthermore, registered series A shares may be converted into bearer shares only in the case where they have been dematerialised within the meaning of the Polish Act of 29 July 2005 on Trading in Financial Instruments. Series A share, series B shares, series C shares and series D shares were registered in the depositary system maintained by the NDS.

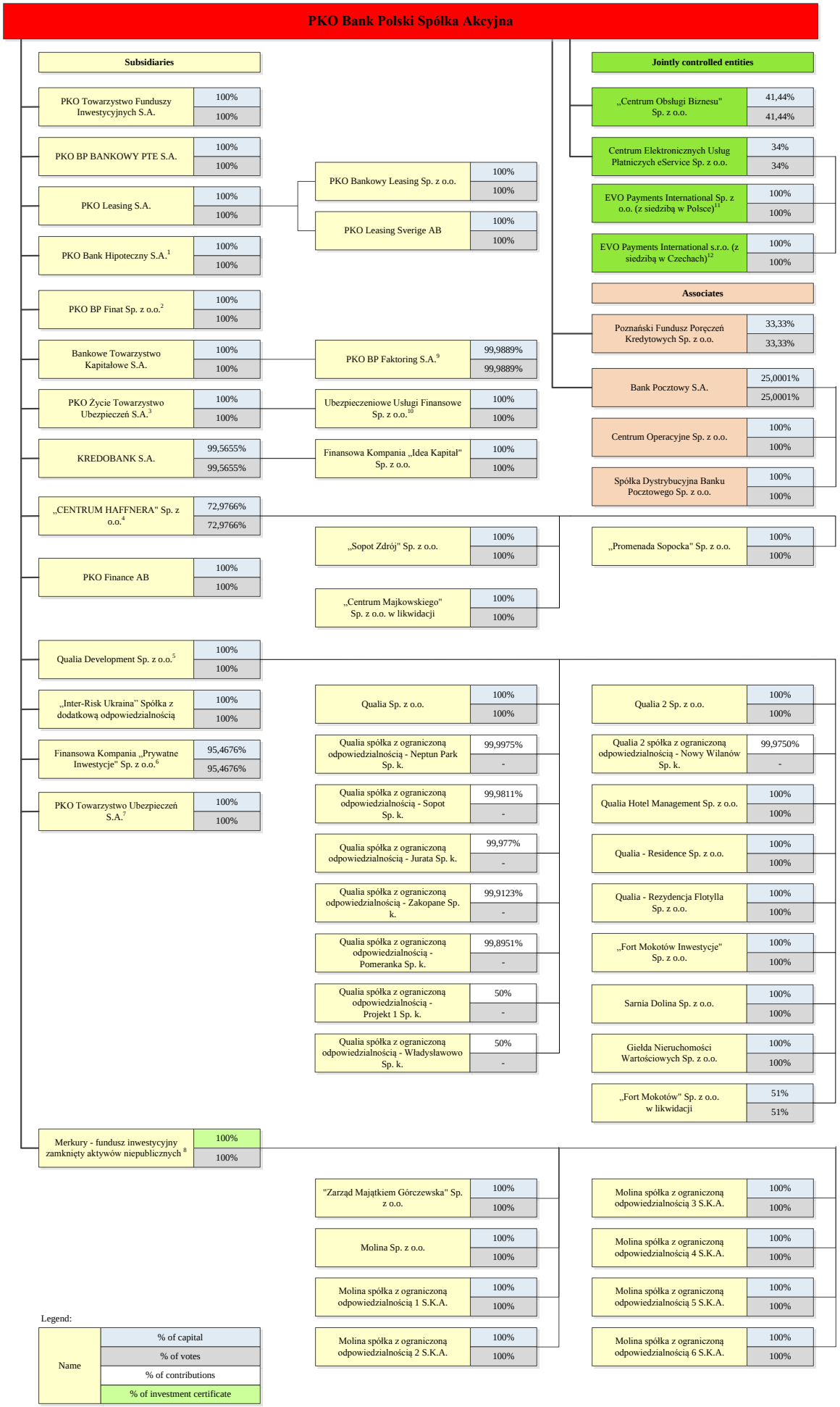
The same rights and obligations are attached to all shares. None of the shares entitle the holders to any preference, specifically as to voting rights or dividends. However, while the Bank's Statute limits the voting rights of shareholders holding over 10% of the votes at the General Meeting, such limitation does not apply to: (i) shareholders that on the date of the adoption of the resolution of the General Meeting imposing such restrictions already had rights attached to shares representing more than 10% of the total number of votes in the Bank (the State Treasury and BGK); (ii) the holders of series A registered shares (the State Treasury); and (iii) shareholders acting jointly with the shareholders mentioned in (ii) on the basis of agreements with regard to the joint exercise of the voting rights attached to their shares.

Moreover, the moment the share held by the State Treasury in the share capital of the Bank falls below five percent, the voting right limitations will expire.

PKO Bank Polski Group

As of the date of the Base Prospectus, the Group consists of the Bank and 48 entities directly or indirectly controlled by the Bank. These Group companies support the Bank by performing sales functions and supplementing the product range that the Bank offers. They allow the Group to provide wider scope of services and to sell a larger number of products as well as to solicit new clients through cross-selling. Furthermore, some Group entities provide services to the Bank.

The chart below presents the structure of the Group and the Bank's subordinated companies as of the date of the Base Prospectus:


PKO Bank Polski Spółka Akcyjna
Subsidiaries
PKO Towarzystwo Funduszy Inwestycyjnych S.A.
100%
100%
PKO BP BANKOWY PTE S.A.
100%
100%
PKO Leasing S.A.
100%
100%
PKO Bankowy Leasing Sp. z o.o.
100%
100%
PKO Leasing Sverige AB
100%
100%
PKO Bank Hipoteczny S.A.[1]
100%
100%
PKO BP Finat Sp. z o.o.[2]
100%
100%
Bankowe Towarzystwo Kapitałowe S.A.
100%
100%
PKO BP Faktoring S.A.[9]
99,9889%
99,9889%
PKO Życie Towarzystwo Ubezpieczeń S.A.[3]
100%
100%
Ubezpieczeniowe Usługi Finansowe Sp. z o.o.[10]
100%
100%
KREDOBANK S.A.
99,5655%
99,5655%
Finansowa Kompania „Idea Kapitał" Sp. z o.o.
100%
100%
„CENTRUM HAFFNERA" Sp. z o.o.[4]
72,9766%
72,9766%
„Sopot Zdrój" Sp. z o.o.
100%
100%
„Promenada Sopocka" Sp. z o.o.
100%
100%
PKO Finance AB
100%
100%
„Centrum Majkowskiego" Sp. z o.o. w likwidacji
100%
100%
Qualia Development Sp. z o.o.[5]
100%
100%
„Inter-Risk Ukraina" Spółka z dodatkową odpowiedzialnością
100%
100%
Qualia Sp. z o.o.
100%
100%
Qualia 2 Sp. z o.o.
100%
100%
Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.[6]
95,4676%
95,4676%
Qualia spółka z ograniczoną odpowiedzialnością - Neptun Park Sp. k.
99,9975%
-
Qualia 2 spółka z ograniczoną odpowiedzialnością - Nowy Wilanów Sp. k.
99,9750%
-
PKO Towarzystwo Ubezpieczeń S.A.[7]
100%
100%
Qualia spółka z ograniczoną odpowiedzialnością - Sopot Sp. k.
99,9811%
-
Qualia Hotel Management Sp. z o.o.
100%
100%
Qualia spółka z ograniczoną odpowiedzialnością - Jurata Sp. k.
99,977%
-
Qualia - Residence Sp. z o.o.
100%
100%
Qualia spółka z ograniczoną odpowiedzialnością - Zakopane Sp. k.
99,9123%
-
Qualia - Rezydencja Flotylla Sp. z o.o.
100%
100%
Qualia spółka z ograniczoną odpowiedzialnością - Pomeranka Sp. k.
99,8951%
-
„Fort Mokotów Inwestycje" Sp. z o.o.
100%
100%
Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k.
50%
-
Sarnia Dolina Sp. z o.o.
100%
100%
Qualia spółka z ograniczoną odpowiedzialnością - Władysławowo Sp. k.
50%
-
Giełda Nieruchomości Wartościowych Sp. z o.o.
100%
100%
„Fort Mokotów" Sp. z o.o. w likwidacji
51%
51%
Merkury - fundusz inwestycyjny zamknięty aktywów niepublicznych[8]
100%
100%
"Zarząd Majątkiem Górczewska" Sp. z o.o.
100%
100%
Molina spółka z ograniczoną odpowiedzialnością 3 S.K.A.
100%
100%
Molina Sp. z o.o.
100%
100%
Molina spółka z ograniczoną odpowiedzialnością 4 S.K.A.
100%
100%
Molina spółka z ograniczoną odpowiedzialnością 1 S.K.A.
100%
100%
Molina spółka z ograniczoną odpowiedzialnością 5 S.K.A.
100%
100%
Molina spółka z ograniczoną odpowiedzialnością 2 S.K.A.
100%
100%
Molina spółka z ograniczoną odpowiedzialnością 6 S.K.A.
100%
100%
Jointly controlled entities
„Centrum Obsługi Biznesu" Sp. z o.o.
41,44%
41,44%
Centrum Elektronicznych Usług Płatniczych eService Sp. z o.o.
34%
34%
EVO Payments International Sp. z o.o. (z siedzibą w Polsce)[11]
100%
100%
EVO Payments International s.r.o. (z siedzibą w Czechach)[12]
100%
100%
Associates
Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.
33,33%
33,33%
Bank Pocztowy S.A.
25,0001%
25,0001%
Centrum Operacyjne Sp. z o.o.
100%
100%
Spółka Dystrybucyjna Banku Pocztowego Sp. z o.o.
100%
100%
Legend:
Name
% of capital
% of votes
% of contributions
% of investment certificate

1. The company was registered in the National Court Register on 24 October 2014.
2. The merger of Inteligo Financial Services SA (as the acquired company) with PKO BP Finat sp. z o.o. (as the acquiring company) was finalised on 28 November 2014.
3. Subsidiary of PKO Bank Polski SA since 1 April 2014; previous name Nordea Polska Towarzystwo Ubezpieczeń na Życie SA.
4. Until 19 January 2014, the company was a joint venture of PKO Bank Polski SA.
5 The company is classified as non-current assets held for sale; in the limited partnerships of the Qualia Development Sp. z o.o group, Qualia Development Sp. z o.o is a limited partner and Qualia Sp. z o.o is the active partner; with the exception of Qualia 2 spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k., in respect of which Qualia Spółka 2 Sp. z o.o is the active partner and Qualia Development Sp. z o.o is a limited partner.
6. The second shareholder of the company is "Inter-Risk Ukraina" Sp. z d.o.
7. The company was registered in the National Court Register on 13 April 2015.
8. PKO Bank Polski SA holds investment certificates of the fund enabling it to exercise control over the fund.
9. The second shareholder of the company is PKO Bank Polski SA.
10. Since 1 April 2014, an indirect subsidiary of PKO Bank Polski SA; previous name: Nordea Usługi Finansowe sp. z o.o.
11. The company was registered in the National Court Register on 9 February 2015.
12. On 16 February 2015, the company was registered in the Commercial Register kept by the Municipal Court in Prague.

The Bank's Principal Subsidiaries

General information on the Bank's principal subsidiaries is presented below.

Kredobank S.A.

The Bank holds 99.57% of the shares in the share capital of Kredobank, which entitles it to exercise 99.57% of the votes at the general meeting of shareholders.

Name and legal form:..... Public Joint Stock Company "Kredobank"

Registered office: ..... Sacharowa 78A, 79026 Lviv, Ukraine

Share capital:..... UAH 1,918,969,469.16

Principal object of the company:..... Banking activity.

PKO Bank Hipoteczny S.A.

The Bank holds 100% of the shares in the share capital of PKO BH SA, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Bank Hipoteczny S.A.

Registered office: ..... Plac Kaszubski 17/19/21,81-350 Gdynia, Poland

Share capital:..... PLN 300,000,000

Principal object of the company:..... Banking activity.

PKO Towarzystwo Funduszy Inwestycyjnych S.A.

The Bank holds 100% of the shares in the share capital of PKO TFI, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Towarzystwo Funduszy Inwestycyjnych S.A.

Registered office: ..... Puławska 15, 02-515 Warsaw, Poland

Share capital:..... PLN 18,000,000

Principal object of the company:..... Creation and management of investment funds.

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.

The Bank holds 100% of the shares in the share capital of PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.

Registered office: ..... Puławska 15, 02-515 Warsaw, Poland

Share capital:..... PLN 260,000,000

Principal object of the company:..... Management of an open-end pension fund.

PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.)

The Bank holds 100% of the shares in the share capital of PKO Leasing S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.)

Registered office:..... Aleja Marszałka Edwarda Śmigłego-Rydza 20, 93-281 Łódź, Poland

Share capital:..... PLN 94,056,900

Principal object of the company:..... Operational and financial leasing of tangible and real estate assets; the special services provided by PKO Leasing S.A. and PKO Bankowy Leasing sp. z o.o. and PKO Leasing Sverige AB (the subsidiaries of PKO Leasing S.A.) are: leasing of cars, leasing of construction equipment and building machinery and long-term leasing of cars and car fleet management.

Bankowe Towarzystwo Kapitałowe S.A.

The Bank holds 100% of the shares in the share capital of Bankowe Towarzystwo Kapitałowe S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... Bankowe Towarzystwo Kapitałowe S.A.

Registered office:..... Bitwy Warszawskiej 1920 r. 7, 02-366 Warsaw, Poland

Share capital:..... PLN 33,243,900

Principal object of the company:..... Rendering services in favour of other Group entity, including payroll, human resources and accounting services; factoring services through its subsidiary, PKO BP Faktoring S.A.

Qualia Development sp. z o.o.

The Bank holds 100% of the shares in the share capital of Qualia Development sp. z o.o., which entitles it to exercise 100% of the votes at the meeting of shareholders.

As of 31 December 2014, Qualia Development sp. z o.o. and its subsidiaries were fully consolidated in the financial statements of the PKO Bank Polski Group. In December 2014, in accordance with IFRS 5 (*Non-current Assets Held for Sale and Discontinued Operations*), the Bank reclassified the shares it holds in Qualia Development sp. z o.o. as 'Non-current assets held for sale', which means that the Bank intends to recover the value of the above-mentioned shares through a sale transaction. See "*Material Contracts – Material Share Purchase Agreements – Letter of intent regarding the potential disposal of Qualia Development sp. z o.o.*"

Name and legal form:..... Qualia Development sp. z o.o.

Registered office:..... Mokotowska 1, 00-640 Warsaw, Poland

Share capital:..... PLN 347,107,500

Principal object of the company:..... Construction and real estate development activity through its subsidiaries.

PKO Finance AB (publ)

The Bank holds 100% of the shares in the share capital of PKO Finance AB (publ), which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:..... PKO Finance AB (publ)

Registered office:..... c/o AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden

Share capital:..... EUR 55,474 (until 31 December 2010: SEK 500,000)

Principal object of the company:..... Special purpose vehicle established in order to raise funds for Bank deriving from the issue of notes.

PKO BP Finat sp. z o.o.

The Bank holds 100% of the shares in the share capital of PKO BP Finat sp. z o.o., which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:..... PKO BP Finat sp. z o.o.

Registered office:..... Grójecka 5, 02-019 Warsaw, Poland

Share capital:..... PLN 107,302,500

Principal object of the company:..... Services, including services supporting fund management.

Centrum Haffnera sp. z o.o. (a subsidiary of PKO Bank Polski since January 2014)

The Bank holds 72.98% of the shares in the share capital of Centrum Haffnera sp. z o.o., which entitles it to exercise 72.98% of the votes at the meeting of shareholders. The remaining shares in Centrum Haffnera sp. z o.o. are held by NDI S.A.

Name and legal form:..... Centrum Haffnera sp. z o.o.

Registered office:..... Powstańców Warszawy 19, 81-718 Sopot, Poland

Share capital:..... PLN 60,801,000

Principal object of the company:..... Real estate management.

"Inter-Risk Ukraina" additional liability company

The Bank holds 100% of the shares in the share capital of Inter-Risk Ukraina additional liability company, which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:..... "Inter-Risk Ukraina" additional liability company

Registered office:..... Artema 52A Office 147, 04053 Kiev, Ukraine

Share capital:..... UAH 78,275,000

Principal object of the company:..... Debt collection of the impaired loans portfolio of Kredobank and the impaired loans portfolio purchased by Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.

Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.

The Bank holds 95.47% of the shares in the share capital of by Finansowa Kompania "Prywatne Inwestycje" Sp. z o.o, which entitles it to exercise 95.47% of the votes at the meeting of the shareholders.

Name and legal form:..... Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.

Registered office:..... Artema 52A Office 147, 04053 Kiev, Ukraine

Share capital:..... UAH 950,101,000

Principal object of the company:..... Factoring operations.

PKO Życie Towarzystwo Ubezpieczeń S.A. (a subsidiary of PKO Bank Polski since April 2014)

The Bank holds 100% of the shares in the share capital of PKO Życie Towarzystwo Ubezpieczeń S.A. (previous name: Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A.), which entitles it to exercise 100% of the votes at the meeting of the shareholders thereof.

Name and legal form:..... PKO Życie Towarzystwo Ubezpieczeń S.A.

Registered office:..... Chłodna 52, 00-872 Warsaw, Poland

Share capital:..... PLN 192,529,463.11

Principal object of the company:..... Life insurance.

PKO Towarzystwo Ubezpieczeń S.A. (a subsidiary of PKO Bank Polski since April 2015)

The Bank holds 100% of the shares in the share capital of PKO Towarzystwo Ubezpieczeń S.A., which entitles it to exercise 100% of the votes at the meeting of the shareholders thereof.

Name and legal form:..... PKO Towarzystwo Ubezpieczeń S.A.

Registered office:..... Chłodna 52, 00-872 Warsaw, Poland

Share capital:..... PLN 20,000,000

Principal object of the company:..... Property insurance.

Significant joint ventures of the Bank

General information on the Bank's significant joint venture – CEUP eService is presented below.

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.

The Bank holds 34% of the shares in the share capital of CEUP eService, which entitles it to exercise 34% of the votes at the general meeting of the shareholders thereof.

Name and legal form:..... Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.

Registered office:..... Jana Olbrachta 94, 01-102 Warsaw, Poland

Share capital:..... PLN 56,000,000

Principal object of the company:..... Processing of information regarding payment transactions at retail and service outlets and management of the debit and credit card acceptance network, development and implementation of additional services offered on the basis of POS terminals.

Significant associates of the Bank

General information on the Bank's significant associate – Bank Pocztowy is presented below.

Bank Pocztowy S.A.

The Bank holds 25% plus ten shares in the share capital of Bank Pocztowy S.A., which entitles it to exercise 25% plus ten votes at the general meeting.

Name and legal form:..... Bank Pocztowy S.A.

Registered office:..... Jagiellońska 17, 85-959 Bydgoszcz, Poland

Share capital:..... PLN 97,290,400

Principal object of the company:..... Banking activity.

Other entities controlled by the Bank

Merkury private assets closed-end investment fund

The Bank holds 100% of the investment certificates in Merkury – private assets closed-end investment fund, which entitles it to exercise 100 % of the votes at the meeting of the investors

Name and legal form:..... Merkury – private assets closed-end investment fund

Registered office:..... Puławska 15, 02-515 Warsaw, Poland

Capital:..... PLN 120,000,000

Principal object of the company:..... Placement of funds collected from Fund members.

MANAGEMENT AND CORPORATE GOVERNANCE

In accordance with the Polish Commercial Companies Code and the Polish Banking Law, the Bank is managed and supervised by the Management Board and the Supervisory Board. The description of the Management Board and the Supervisory Board herein has been prepared based on the Polish Commercial Companies Code, the Polish Banking Law, the Bank's Statute and the By-Laws of the Management Board and Supervisory Board as of the date of the Base Prospectus.

Management Board

The governing body of the Bank is the Management Board.

Composition

Pursuant to the Bank's Statute, the Management Board consists of three to nine members, including the president of the Management Board, the vice-president of the Management Board and other members.

Members of the Management Board are appointed for a joint three-year term. The Supervisory Board appoints and dismisses, by secret vote, the president of the Management Board, and at the request of the president of the Management Board, the vice-presidents of the Management Board and other members of the Management Board. A member of the Management Board may be dismissed only for an important reason. The appointment of two members of the Management Board, including the president of the Management Board, requires the consent of the PFSA. The Supervisory Board applies to the PFSA for consent for the appointment of the two members, including the president of the Management Board. Furthermore, the Supervisory Board notifies the PFSA about the composition of the Management Board and any changes thereto immediately after an appointment or change to its composition. The Supervisory Board also informs the PFSA which members of the Management Board are specifically responsible for the management of credit risk and the internal audit unit. Currently, the consent of the PFSA for the performance of the functions of the Management Board has been granted to the president of the Management Board, Zbigniew Jagiełło, and the Vice-President of the Management Board in charge of Risk Management, Piotr Mazur.

The Supervisory Board has the right to suspend, for important reasons, either all or selected members of the Management Board from the performance of their duties, and may delegate authority, for up to three months, to the members of the Supervisory Board to temporarily perform the duties of the members of the Management Board who were dismissed, have resigned or are unable for other reasons to perform their duties.

A member of the Management Board may also be dismissed or suspended from his duties by virtue of a resolution of the General Meeting.

Powers of the Management Board

The Management Board manages the Bank's affairs and represents the Bank. The authority of the Management Board include all matters not reserved by the provisions of law or the Bank's Statute for the authority of other governing bodies of the Bank.

Resolutions of the Management Board shall be required for all matters that go beyond the scope of the ordinary activities of the Bank. The Management Board shall adopt resolutions, in particular to: (i) define the strategy of the Bank, taking into consideration the risk involved in the activities of the Bank as well as the principles of prudential and stable management of the Bank; (ii) define the annual financial plans, including the conditions of their implementation; (iii) adopt organisational regulations and the principles of the division of authority; (iv) create and close permanent committees of the Bank and define their authority; (v) adopt the by-laws of the Management Board; (vi) adopt regulations concerning the management of special funds created from net profits; (vii) set the dates of dividend payments within the deadlines set by the General Meeting; (viii) appoint commercial proxies; (ix) define banking products and other banking and financial services; (x) define the principles of participation of the Bank in companies and other organisations, taking into account § 15 section 1.12.c of the Bank's Statute; (xi) define systems for effective risk management, internal control and estimating the Bank's internal capital; (xii) define the principles and functions of the internal audit system and the annual internal audit plans; and (xiii) create, transform and dissolve organisational units of the Bank in Poland and abroad.

The Polish Commercial Companies Code prohibits the General Meeting and the Supervisory Board from issuing binding instructions to the Management Board as to the conduct of the Bank's affairs. Furthermore, Management and Supervisory Board members are liable to the Bank for damage caused through negligence or an action which is against the law or in breach of the Bank's Statute.

Powers of the President of the Management Board

The powers of the president of the Management Board include, specifically: (i) managing the work of the Management Board; (ii) convening and presiding over meetings of the Management Board; (iii) presenting the position of the Management Board to the governing bodies of the Bank and in external relations; (iv) determining the assignment of the individual areas of the Bank's operations to the members of the Management Board; (v) ensuring implementation of the resolutions of the Management Board; (vi) issuing instructions; (vii) presenting motions to the Supervisory Board for the appointment and dismissal of the vice-presidents and other members of the Management Board; and (viii) making decisions concerning the staffing of the positions reserved for his competence.

In particular the president of the Management Board is responsible for the matters related to supervision over the functions supporting the operation of the Bank's governing bodies and the matters related to supervision over the functions supporting the operation of the standing committees of the Bank and the matters related to internal audits, communication and promotion and legal matters.

During the absence of the president of the Management Board, his duties will be fulfilled by a member of the Management Board appointed by the president of the Management Board.

Functioning

The Management Board operates under its by-laws adopted by its resolution and approved by the Supervisory Board.

The Management Board makes decisions by way of resolutions. Resolutions of the Management Board are passed by an absolute majority of votes cast by those present at the meeting of the Management Board, except for resolutions which according to generally applicable regulations require all members of the Management Board to vote in favour of the resolution. In case of a tie, the president of the Management Board casts the deciding vote.

Representations on behalf of the Bank are made by: (i) the president of the Management Board acting individually; (ii) two members of the Management Board acting jointly, or one member of the Management Board acting jointly with a commercial proxy; or (iii) attorneys acting individually or jointly, to the extent of the power of attorney granted.

Members of the Management Board

As of the date of the Base Prospectus, the Management Board consists of seven members.

The current term of office of the members of the Management Board commenced on 26 June 2014 and will expire on the date of the General Meeting approving the financial statements for the financial year ended 31 December 2016.

The table below presents a list of the members of the Management Board, their age, position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date the current term began	Expiration of term of office
Zbigniew Jagiełło	51	President of the Management Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Piotr Stanisław Alicki	50	Vice-President of the Management Board in charge of IT and Services	26 June 2014	On the date of the general meeting of the shareholders in 2017
Bartosz Drabikowski	44	Vice-President of the Management Board in charge of Finance and Accounting	26 June 2014	On the date of the general meeting of the shareholders in 2017
Piotr Mazur	48	Vice-President of the Management Board in charge of Risk Management	26 June 2014	On the date of the general meeting of the shareholders in 2017
Jarosław Myjak	60	Vice-President of the Management Board in charge of Bancassurance	26 June 2014	On the date of the general meeting of the shareholders in 2017
Jacek Obłękowski	49	Vice-President of the Management Board in charge of Retail Banking	26 June 2014	On the date of the general meeting of the shareholders in 2017
Jakub Papierski	42	Vice-President of the Management Board in charge of Corporate and Investment Banking	26 June 2014	On the date of the general meeting of the shareholders in 2017

Zbigniew Jagiełło

Zbigniew Jagiełło (born in 1964) has been the president of PKO Bank Polski's management board since October 2009, with appointment for a new term in 2011. Prior to this he was the Pioneer Pekao TFI S.A. Management Board President for nearly nine years. Also, within the global structure of Pioneer Investments he was responsible for the CEE region distribution. In the late 1990s he was, among others, active in establishing PKO/Credit Suisse TFI S.A. investment funds company, in the function of its first Vice-President. In his more than ten-year long career in the financial markets he can be credited, among other things, with:

- Successfully steering PKO Bank Polski through the critical period of turmoil in the international financial markets, while strengthening the Bank's position of leadership in terms of assets, equity funds and earnings in Poland and the CEE region;
- Development and implementation of PKO Bank Polski's strategy for the years 2010-2012, which resulted in strong efficiency gains as measured in terms of ROE, ROA and C/I ratio as well as in increased interest in the company among domestic and international investors (PKO Bank Polski continues to lead the market in terms of the value of its free float and as a major corporate debt issuer);
- Adjustment of PKO Bank Polski to the requirements of the ever more competitive financial market through increased attractiveness of its product offer and quality of its customer service;
- Refocusing of the PKO Bank Polski Group's operational model toward its core activity of providing financial services.

Zbigniew Jagiełło is actively involved in development and promotion of the most demanding financial market standards in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institut International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, among others, that of the Chairman of the Chamber of Fund and Asset Management.

A graduate of the Wrocław Technical University, School of Computer Science and Management, he also completed Postgraduate Management Studies at the Gdańsk Foundation for Management Development and the University of Gdańsk, with Executive MBA certified by the Rotterdam School of Management, Erasmus University.

The President of the Republic of Poland decorated him with the Officer's Cross of the Order of the Rebirth of Poland and he was awarded the Social Solidarity Medal for promoting the idea of corporate social responsibility. He is the Deputy Chairman of the Programme Council of the PKO Bank Polski Foundation, an entity formed at his initiative in the year 2010.

Chosen the CEO of the Year 2011 by Parkiet daily; the recipient of the Wektor 2011 granted by the Polish Employers' Chapter and of the Golden Banker in the Personality of the Year 2011 category; he was also lauded the Manager of the Year 2011 in a competition ran by Gazeta Bankowa. In the year 2012, Bloomberg Businessweek Polska singled him out as one of the Top 20 Managers in Crisis.

In 2013, Zbigniew Jagiełło was honoured by Bank monthly with the title of "Innovator from the Banking Sector 2012"; he also received the title of "Visionary and Man of the Year" from Brief monthly and Dziennik Gazeta Prawna daily in appreciation of his contribution to financial sector development, consistency in strengthening the Bank's market leading position and determination to change its image.

In 2014, he was chosen as one of the "25 most Valuable Managers in the Polish Finance Industry" by Gazeta Finansowa monthly. In 2014, Zbigniew Jagiełło was also awarded by Bloomberg Businessweek Polska in the "TOP 20 Best Managers in Polish Economy 2014" contest. Zbigniew Jagiełło's consistency and modern way of managing PKO Bank Polski – a company that stands for quality, innovative product offerings and market success – were highly appreciated. The basis for this award was a survey among leading managers in Poland.

Piotr Stanisław Alicki

Piotr Alicki (born in 1964) has been the vice-president of the Bank's management board in charge of IT and services since 2 November 2010. Mr Alicki is a graduate of the Mathematics and Physics Department of the Adam Mickiewicz University in Poznan. He has longstanding and extensive experience in management of banking system IT projects.

In the years 1990–98 with the IT Department of Pomorski Bank Kredytowy S.A. in Szczecin, he was its Director from 1997, with responsibilities spanning design, development, implementation and operational supervision over all the bank's transaction systems. In the years 1999 to 2010 he continued his career with Bank Pekao S.A: initially as the Assistant Head and subsequently the Head of the IT Systems Maintenance and Development Department; and ultimately for four years as the Head of the bank's Information Technology Division. His key achievements there included, among others: integration of the IT systems of four banks (Pekao, PBKS, BDK and PBG); implementation of the bank's Integrated Information System and management of its IT based business

analysis; and management of IT systems integration and migration of data from the BPH to the Pekao bank systems, including participation in the working group responsible for the design and preparation of the entire integration process.

In the years 1999–2010 Piotr Alicki took active part in the work of the Polish Banks Association as a member of its Steering Committee for the Development of Bank Infrastructure, Payments System Committee, Issues Committee for Banking and Bank Financial Services, and its Electronic Banking Council. Since the year 2000 he has been a member of the Supervisory Council of the Polish National Clearing Chamber (Krajowa Izba Rozliczeniowa S.A.), and its Chairman in the years 2005-10. He is also a member of the Payments System Council working under the auspices of the National Bank of Poland, where in the years 2002-10 he represented Bank Pekao S.A. and since 2010 represents PKO Bank Polski. He also sat on a number of supervisory boards of the Bank Pekao S.A. Group companies.

He has been awarded the National Bank of Poland President's honorary distinction for Merits to Polish Banking; and won the titles of the IT Sector Leader 1997, IT Sector Leader 2010 and the IT Sector Leader 2012. From 30 May 2011 to 28 November 2014 he was the Deputy Chairman of that body. Also, since 11 October 2011 he has been the Chairman of the Electronic Banking Council of the Polish Banks Association.

Since 1 May 2011 he is a member of the Board of Directors of Visa Europe Limited, where he represents PKO Bank Polski and other Polish banks as well as banks of seven other states of Visa's Subregion 5.

Bartosz Drabikowski

Bartosz Drabikowski (born in 1970) has been Vice President of the Management Board and Chief Financial Officer of PKO Bank Polski since 20 May 2008 and is in charge of Finance and Accounting. Bartosz Drabikowski graduated from the Technical University of Łódź, the Polish National School of Public Administration, Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Programme at the University of Illinois at Urbana - Champaign. He attended numerous academic trainings: at Deutsche Bank, Deutsche Börse AG, Deutsche Ausgleichsbank and Rheinische Hypothekenbank. He received scholarship from the German Marshall Fund of the United States and participated in many trainings organised by the European Commission and the International Monetary Fund among others.

He started his professional career at the Ministry of Finance, where he was responsible among others for regulation of and supervision over financial market institutions, the banking sector and the capital market in particular. He also prepared development strategies for the financial services sector both for Poland and the European Union common market. At the Ministry of Finance he was subsequently employed as Advisor to the Minister, Deputy Director and Financial Institutions Department Director.

In the years 2006-2008 he served as Member of the Management Board of the National Clearing Chamber, where he was responsible for finance, new electronic payment products, security and risk management as well as analysis and administration.

For several years he served as member of the Commission for Banking Supervision, member of the Polish Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union, including the Financial Services Committee (European Council), the European Banking Committee and the European Securities Committee (European Commission).

He has a wealth of experience in managing financial institutions. He served as member of the Supervisory Board of the National Depository for Securities, member of the Bank Guarantee Fund Council and member of the Supervisory Board of the Polish Security Printing Works. Currently he acts as Chairman of the Supervisory Board of the Polish Association of Stock Exchange Issuers.

Piotr Mazur

Piotr Mazur (born in 1966) has been vice-president of the management board of PKO Bank Polski responsible for risk and debt collection since the PFSA granted its consent thereto on 8 January 2013. He graduated from the Academy of Economics in Wrocław, where he attended the Faculty of Management and Computer Science, specializing in Organisation and Management. He has over twenty-years of experience in the banking sector including 14 years in managerial positions – mainly in risk, restructuring and credit area. He gained experience working for international financial groups operating in Europe, USA and South America. Member of supervisory boards, committees of creditors, member and president of crucial credit risk committees. He participated in building the strategy of BZ WBK bank, he was directly responsible for credit risk management, optimisation of debt collection and restructuring, he cooperated with supervision authorities in Poland and abroad.

After studies he started his professional career in the credit area at Bank BPH. Since 1992 associated with Bank Zachodni S.A. and next – after the merger – with the Bank Zachodni WBK S.A. he worked in Capital Investments Department, next as a Director of Credit Quality Controlling Department. In the years 2005–2008

he was the Director of Business Intelligence and Risk Management Area, and in the years 2008–2010 was the Deputy Chief Risk Officer. Since January 2011 he was the Chief Credit Officer and since March 2012 also Deputy Chief Risk Officer. He was the President of the Credit Committee in BZ WBK. He was also the Deputy President of The Credit Risk Forum and Deputy President of The Risk Model Forum. Since January 2014 he is member of supervisory board of The Credit Information Office.

Jarosław Myjak

Jarosław Myjak (born in 1955) has been the vice-president of the Bank's management board in charge of the Corporate Market since 15 December 2008. Mr Myjak earned the degree of Master of Arts at the Faculty of English Philology (American Studies) (1978) and at the Faculty of Law and Administration (1981) at Adam Mickiewicz University in Poznań. Moreover, he studied at the Faculty of Economy at Toronto University (economic programme - 1976-1977).

He is a graduate, among others, of Columbia Business School New York (Leadership for the Future), INSEAD/CEDEP Fontainebleau, France - General Management Programme (1998-1999), Sundridge Park, Great Britain - Management Development Programme.

He completed a judge training programme at the Regional Court in Poznań.

He is barrister and legal adviser, a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers.

He worked as a legal adviser for law offices Altheimer & Gray and Dewey & LeBoeuf, where he participated in privatisation and restructuring proceedings, investment and insurance consulting, while representing both the State Treasury and foreign investors.

Moreover, he was also a lecturer at the Faculty of Law and Administration at Adam Mickiewicz University in Poznań.

Being one of the leaders and strategists of the Polish market of insurance and long-term savings, he was responsible for establishing and developing one of the biggest financial services groups - Commercial Union (now Aviva) in Poland and Lithuania and creating (in 1998-2004) a cooperation model of CU Group with bank WBK S.A., later BZWBK S.A. that included capital and distribution participation of the Bank in CU Insurance Companies and the pension fund company, and bancassurance development.

In order to enhance the offer for customers, being among pioneers who promoted the pension reform in Poland, he was responsible for the strategic vision, founding and market success of PTE Commercial Union BPH WBK, that became the market leader.

His strategy of defending customer portfolio, ensuring appropriate services for customers and attracting new market segments resulted in the establishment of an asset management company, investment fund company, sector of personal - property insurance, a transfer agent and a distribution company.

While managing the financial group, he restructured it through introducing full holding management that used synergy effects.

He participated in the merger of Commercial Union and Norwich Union (CU Europe).

In 2000-2004 the President of Commercial Union Group (now AVIVA) in Poland and Lithuania.

In Commercial Union Polska Ubezpieczenia na Życie he was a member of the Management Board (1995), first Vice President of the Management Board (1996 - 1997) and then the President of the Management Board (1998 - 2004).

He has 20 years of experience in shareholder supervision. In 1998-2004 he was also the chairperson of the Supervisory Councils of Commercial Union companies in Poland and Lithuania, that is CU PTE, CU TFI, CU Ogólne, CU Asset Management, CU sp. z o.o. (Transfer Agent) and CU Lithuania (Lietuvos Draudimas).

Moreover, he served as a member of the Supervisory Council and the Strategic Committee of Citibank Handlowy S.A., the Supervisory Council and the Steering Committee of BGŻ S.A., he was responsible - on behalf of the Ministry of the State Treasury - for the bank's privatisation project and he was a member of the Supervisory Council of Polski Holding Farmaceutyczny S.A., President of the Supervisory Board of PKO BP Finat Sp z o.o. and Vice President of the Supervisory Board of PZU Życie S.A.

At the moment he is the President of the Supervisory Boards of PKO Leasing S.A. and PKO BP Faktoring S.A.

In 2006 and then from 2008 until 30 April 2014 he served as Vice President of the Management Board of PKO BP Bank in charge of corporate banking.

For a few terms of office Mr Jarosław Myjak was a member of the Polish Business Roundtable, the vice president and member of the Management Board of the Polish Chamber of Insurance, the vice president of the Polish Confederation of Private Employers "Lewiatan", president of the Association of Insurance Capital Group in the Polish Confederation of Private Employers "Lewiatan" and a member of the Association of Managers in Poland.

As a member of such industry associations as the Polish Chamber of Insurance and the Polish Confederation of Private Employers "Lewiatan" he participated in the activities of parliamentary committees aimed at amending the insurance law and working out the law on pension funds, investment funds and in the health system reform project teams supporting the Minister of Health, Minister of Labour and Minister of Economy.

Manager of the Year 2002, he was granted the award "For Contribution to the Polish Insurance Market" and "Golden Cross of Merit of the Republic of Poland".

Jacek Obłękowski

Jacek Obłękowski (born in 1965) has been the vice-president of the Bank's management board in charge of the Retail Market since 30 June 2011. Mr Obłękowski is a graduate of the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, speciality - history and diplomacy. He completed a stockbroking course. He also graduated from the University of Navara - AMP. He started his professional career at Powszechny Bank Gospodarczy S.A. in 1991, where he worked until 1998, initially as a trainee and, following several promotions, as director of the Network Management Department.

In September 1998, he started working at PKO Bank Polski as director of the Retail Banking Division, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments and managing director of the Network Division. Between December 2000 and June 2002, he acted as the director responsible for supervision of the business aspects of implementing the central IT platform at the Bank.

Until 2004 he was the president of the supervisory board of Kredyt Bank Ukraina and since 2013 has been vice-president of the supervisory board of Kredobank S.A. From 2002 to 2007 was Vice-President of the Bank's Management Board responsible for the retail market area and marketing. At this time he was Chairman of the Bank's Credit Committee, Member of the Council of Directors of VISA EUROPE and was responsible for the acquisition of Inteligo.

From 2007 was the President of the Management Board of Dominet Bank S.A. and from 2009 to 2011, following a merger, in BNP Paribas/Fortis Bank Polska S.A. held the position of Vice-President of the Management Board responsible for the Division of Servicing Small Enterprises and Individual Clients.

He currently serves as a member of the supervisory boards of: Grupa Azoty SA (since 2010), PKO TFI SA (since 2011) and PKO Bank Hipoteczny SA (since 2014).

Jakub Papierski

Jakub Papierski (born in 1972) has been the Vice-President of the Bank's Management Board in charge of Investment Banking since 22 March 2010. Jakub Papierski is a graduate of Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) licence.

He commenced his professional career in 1993 in Pro-Invest International, a consulting company. Between 1995 and 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started working for Deutsche Morgan Grenfell/Deutsche Bank Research dealing with the banking sector in Central and Eastern Europe.

Between November 2001 and September 2003, he worked for Bank Pekao S.A. as executive Director of the Financial Division, directly supervising financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He accepted the position of the president of the Management Board for Centralny Dom Maklerski Pekao S.A. in October 2003. In September 2006, he also took up the position of deputy-chairman of the Supervisory Board of Pioneer Pekao TFI S.A. From May 2009, Mr. Papierski served as the president of the Management Board of Allianz Bank Polska S.A. and in October 2009 he became the Board's president. Since June 2011 he has been the vice-president of the supervisory board of Bank Pocztowy S.A.

Between 2005 and 2006, Jakub Papierski was deputy chairman in the Programme Council of Akademia Liderów Rynku Kapitałowego established at the Lesław Paga Foundation; and then he was a member of the Programme Council.

Supervisory Board

The Supervisory Board exercises regular supervision over the Bank's operations.

Composition

In accordance with the Bank's Statute, the Supervisory Board consists of five to thirteen members appointed for a joint three-year term. Pursuant to § 11, section 1 of the Bank's Statute, the number of members of the Supervisory Board should be set by the Eligible Shareholder, including when a motion for the election of the Supervisory Board by voting in separate groups is presented, in which case five members of the Supervisory Board should be elected.

On 26 June 2014, the State Treasury, as the Eligible Shareholder, on the basis of § 11 clause 1 of the Bank's Statute, determined the number of the Supervisory Board members to be nine.

Members of the Supervisory Board are appointed and dismissed by the General Meeting. The detailed rules for appointing candidates to the Supervisory Board and the election of the members of the Supervisory Board are set forth in § 11 of the Bank's Statute. The Chairman and the Deputy Chairman of the Supervisory Board shall be appointed by the Eligible Shareholder from among the elected members of the Supervisory Board, including in the case where the Supervisory Board is elected by voting through separate groups. The State Treasury, acting as the Eligible Shareholder, pursuant to paragraph 12 item 1 of the Bank's Statute, appointed: Jerzy Góra as the Chairman of the Bank's Supervisory Board and Tomasz Zganiacz as the Deputy-Chairman of the Bank's Supervisory Board.

The Supervisory Board may elect a Secretary from among its members.

Powers

The Supervisory Board exercises regular supervision over the Bank's operations in all areas of its activity. The responsibilities of the Supervisory Board include an assessment of the Management Board report on the operations of the Bank and an assessment of the financial statements of the Bank for the previous financial year with regard to their compliance with the books of account and other documents, as well as their actual status. The Supervisory Board is also responsible for an assessment of the Management Board motions on the distribution of profit or coverage of loss and the submission to the General Meeting of an annual written report on the results of such assessment. The Supervisory Board represents the Bank in agreements and disputes with members of the Management Board, unless these powers are entrusted to an attorney-in-fact appointed by a resolution of the General Meeting.

Pursuant to the Bank's Statute, the powers of the Supervisory Board also include, in addition to the powers and duties provided for in the applicable laws and the provisions of the Bank's Statute, the adoption of resolutions related in particular to the following matters: (i) approving the strategy of the Bank adopted by the Management Board; (ii) approving the Bank's general risk level; (iii) approving the annual financial plan adopted by the Management Board; (iv) appointing an entity to audit or review the consolidated and stand-alone financial statements of the Bank; (v) adopting the Rules and Regulations of the Supervisory Board; (vi) adopting the regulations that set out the principles of granting credit facilities, loans, bank guarantees and sureties to members of the Management Board or the Supervisory Board and persons holding managerial positions at the Bank, as well as to entities linked by participation or control with members of the Management Board or the Supervisory Board and persons holding managerial positions at the Bank, in accordance with Article 79a of the Polish Banking Law; (vii) adopting the by-laws concerning the use of the reserves; (viii) appointing and dismissing the president of the Management Board by secret vote; (ix) appointing and dismissing by secret vote the vice-presidents and other members of the Management Board upon a motion of the president of the Management Board; (x) suspending, for important reasons, all of or selected members of the Management Board in the performance of their duties, and delegating members of the Supervisory Board, for up to three months, to temporarily perform the duties of the members of the Management Board who were dismissed, resigned or are unable, for other reasons, to perform their duties; (xi) granting consent to opening or closing branches abroad; (xii) approving the rules and regulations adopted by the Management Board and concerning the Management Board, the management of special funds created from net profits, and the organisation of the Bank, as well as resolutions concerning the principles of information policy regarding capital adequacy, the principles of compliance risk management policy, the banking risk management strategy, estimates of the internal capital, management and capital planning and the principles of functioning of the internal audit system; (xiii) approving the periodical reports of the Management Board on risk management, capital adequacy and the internal audit system; and (xiv) applying to the PFSA for its consent to appoint two members of the Management Board, including the president of the Management Board.

In addition, the Supervisory Board grants its consent to: (i) the acquisition and disposal of fixed assets with a value exceeding one-tenth of the equity of the Bank, excluding real property and rights of perpetual usufruct; (ii) except for the acts referred to in § 9 section 1.5 of the Bank's Statute, the acquisition and disposal of real property, an interest in real property or the right of perpetual usufruct, or their encumbrance with a limited property right or making it available for use by a third party, if the value of the real property or the right that is the subject of such act exceeds one- fiftieth of the share capital of the Bank; such consent is not required if the

acquisition of real property, an interest in real property or a right of perpetual usufruct takes place as a part of enforcement, bankruptcy or arrangement proceedings or any other agreement with a debtor of the Bank, as well as in the event of legal transactions concerning the real property or rights acquired by the Bank in the manner described above; in such cases the Management Board shall only be required to notify the Supervisory Board of the performed act; (iii) the establishment of a company, the subscription for or the acquisition of shares, bonds convertible into shares or other instruments entitling it to acquire or subscribe for shares if the financial commitment of the Bank resulting from such act exceeds one-tenth of the equity of the Bank; (iv) any transaction to be entered into between the Bank and an affiliated entity if the value of such transaction exceeds one-tenth of the share capital, except for typical and routine transactions concluded on an arm's length basis between affiliated entities when the nature and terms of such transactions are determined by the current operations of the Bank; (v) the performance of any act by the Bank as a result of which the sum of receivables of the Bank and the off-balance sheet commitments exposed to the risk of a state-owned legal person or a company with the State Treasury as the majority shareholder and entities linked by participation or control with such legal person or company would exceed 5% of the equity of the Bank.

Functioning

The Supervisory Board operates under the Rules and Regulations of the Supervisory Board which have been approved by the General Meeting.

Meetings are convened when necessary, however at least once a quarter. The Supervisory Board shall adopt resolutions in an open vote. A secret vote shall be ordered in personnel matters and at the request of at least one member of the Supervisory Board. The Supervisory Board takes resolutions by an absolute majority of votes when at least half of the members of the Supervisory Board are present, including the Chairman or the Deputy Chairman of the Supervisory Board, except for resolutions on the matters referred to in § 15 section 1 items 1-3, 5, 7-9 and 12 of the Bank's Statute, for which, except for the above quorum, a qualified majority of votes of two thirds is required. The members of the Supervisory Board who are concerned by the matter that is subject to the vote shall be excluded from the vote.

Committees of the Supervisory Board

In accordance with the Rules and Regulations of the Supervisory Board, the Supervisory Board establishes the Supervisory Board Audit Committee and may establish other permanent committees, the members of which shall perform their functions as members of the Supervisory Board delegated to perform the specific supervisory functions at the Bank. The detailed scope of activity of the given committee shall be set forth in the rules adopted by the Supervisory Board.

Audit Committee

Ordinary Audit Committee meetings are convened by the chairman of the Audit Committee either on his own initiative or at the request of an Audit Committee member or the Chairman of the Supervisory Board. Extraordinary Audit Committee meetings are convened by the Chairman of the Supervisory Board either on his own initiative or at the request of a member of the Supervisory Board or a member of the Management Board.

As of the date of the Base Prospectus, the Supervisory Board Audit Committee operated within the scope of the Supervisory Board.

The Supervisory Board Audit Committee was established on 30 November 2006 under resolutions of the Supervisory Board in order to perform regular supervision over the financial audit of the Bank and the Group. The duties of the Audit Committee include, in particular:

- monitoring the process of financial reporting, including the review of interim and annual financial statements of the Bank and the Group (stand-alone and consolidated);
- monitoring the remuneration level of the director and employees of the Internal Audit Department;
- monitoring the efficiency of the systems of internal control, internal audit and risk management, in particular:
    - assessment of the Bank's activities related to the implementation of the management system, including risk management and internal control and assessment of its adequacy and efficiency, among others, by means of:
        - opining on resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the Bank's operations;
        - opining on resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system;

- opining on periodic reports on risk management, capital adequacy and the internal control system submitted to the Supervisory Board;
- assessing the Bank's activities aimed at risk mitigation through property insurance and civil liability insurance for members of the Bank's governing bodies and its proxies;

▪ cooperation with an internal auditor, including:

- opining on plans related to internal audits in the Bank and the internal regulations of the Internal Audit Department;
- performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department in light of the resources at its disposal;
- opining, for the benefit of the Supervisory Board, on motions for the appointment and dismissal of the head of the Internal Audit Department;

- monitoring the execution of financial audit activities, in particular by means of:

▪ recommending to the Supervisory Board a registered audit company to perform a financial audit of the Bank, proposing the remuneration for such audit company, and supervising and evaluating the work performed by the audit company;

▪ examining written information submitted by the registered audit company concerning relevant issues regarding the financial audit, including, in particular, information concerning material irregularities in the Bank's internal control system as regards financial reporting;

- monitoring the independence of a registered auditor and a registered audit company with respect to the services referred to in par. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (the "Auditors Act"), in particular through obtaining:

▪ statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities; and

▪ information on the services referred to in par. 48, clause 2 of the Auditors Act provided to the Bank.

As of the date of the Base Prospectus, the composition of the Supervisory Board Audit Committee was as follows: Mirosław Czekaj (Chairman of the Committee); Zofia Dzik (Vice-Chairperson of the Committee); Mirosława Boryczka (Member of the Committee); Piotr Marczak (Member of the Committee); and Tomasz Zganiacz (Member of the Committee).

As of the date of the Base Prospectus, there are five members of the Supervisory Board Audit Committee, all of whom satisfy the independence criteria set forth in Art. 86 clause 4 of the Auditor Act. The Chairman of the Audit Committee, Mirosław Czekaj, in accordance with the relevant declaration, also holds qualifications in accounting and auditing.

Remuneration Committee

The Supervisory Board established the Supervisory Board Remuneration Committee on 2 November 2011.

As of the date of the Base Prospectus, the composition of the Supervisory Board Remuneration Committee was as follows: Tomasz Zganiacz (Chairman of the Committee); Jerzy Góra (Vice-chairman of the Committee); Jarosław Klimont (Member of the Committee); Elżbieta Mączyńska-Ziemacka (Member of the Committee); and Marek Mroczkowski (Member of the Committee).

Meetings of the Remuneration Committee are convened on a regular basis by the Chairman of the Remuneration Committee not less than twice a year.

The duties of the Remuneration Committee include, in particular:

- Opining on the general rules of policy regarding variable elements of the remuneration of persons in management positions, which are subject to approval by the Supervisory Board;
- Performing periodic reviews of the general policy rules regarding variable elements of the remuneration of persons performing management duties in the Bank and presenting the results to the Supervisory Board;
- Presenting proposals to the Supervisory Board regarding the respective forms of agreements with the Members of the Management Board;

- Opining on motions regarding the approval for a member of the Management Board to perform competitive activities or to act on behalf of a competitive commercial company or other entity as a member of its governing bodies;
- Opining on the report conducted by the Internal Audit Department regarding the review of the implementation of the policy of variable elements of remuneration.

As of the date of the Base Prospectus, there are five members of the Supervisory Board Remuneration Committee.

Members of the Supervisory Board

As of the date of the Base Prospectus, the Supervisory Board consists of nine members.

The current term of office of the Supervisory Board members commenced on 26 June 2014. Their appointments (terms of office) expire at the latest on the date of the General Meeting that approves the financial statements for the financial year ended 31 December 2016.

The table below presents a list of the current members of the Supervisory Board, their age and position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date the current term began	Expiration of term of office
Jerzy Góra	59	Chairman of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Tomasz Zganiacz	50	Deputy Chairman of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Mirosław Czekaj	51	Secretary of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Mirosława Boryczka	46	Member of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Zofia Dzik	44	Member of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Jarosław Klimont	49	Member of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Piotr Marczak	50	Member of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Elżbieta Mączyńska-Ziemacka	70	Member of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017
Marek Mroczkowski	59	Member of the Supervisory Board	26 June 2014	On the date of the general meeting of the shareholders in 2017

A brief description of the qualifications and professional experience of the current members of the Supervisory Board is presented below.

Jerzy Góra

Mr Góra has been the acting president of the management board of Agencja Rozwoju Przemysłu S.A. (Industrial Development Agency) since 27 June 2014 and a member of the management board thereof since 4 January 2010. Since 1 January 2015, Mr Góra has been the president of the management board of Polskie Inwestycje Rozwojowe S.A.

He gathered his work experience holding managerial positions at, among others, Bank Gospodarstwa Krajowego as a director of the department for financing investment projects. He was a vice-president of the management board of Stocznia Szczecińska Porta Holding S.A., deputy director of GK Polska Żegluga Morska w Szczecinie and a department director in Bank Morski S.A.

He also worked in the Ministry of the Treasury as a director in the department of ownership supervision and privatisation II.

Earlier he served as a member of the supervisory boards of: Polimex-Mostostal S.A., LZPS Protektor S.A., Elektrociepłowania Będzin S.A., Euroafrica sp. z o.o., Polska Agencja Informacji i Inwestycji Zagranicznych S.A., Grupa Azoty Zakłady Chemiczne "Police" S.A. and Polskie Inwestycje Rozwojowe S.A. as well as of banks, including Bank Morski S.A. and BIG Bank S.A.

Mr Góra holds a Ph.D. in Economics from the University of Szczecin and was a scholarship recipient of the Saint Ignatius University Faculties of Antwerp (UFSIA).

The business address of Jerzy Góra is Polskie Inwestycje Rozwojowe SA, ul. Książęca 4, 00-498 Warsaw, Poland.

Tomasz Zganiacz

Mr Zganiacz has been the deputy chairman of the Supervisory Board of PKO BP S.A. since August 2009.

An experienced manager, Mr Zganiacz serves as a director at the Ministry of the Treasury, where his main duties pertain to the capital market and financial institutions.

Until June 2009, Mr Zganiacz was the president of TRITON DEVELOPMENT S.A., a development company listed on the Warsaw Stock Exchange. Prior to that, his positions included that of vice-president and financial director of ARKSTEEL S.A. (also listed), credit department manager at SOCIETE GENERALE, and a member of the academic and teaching staff of the Institute of Production Systems Organisation of the Warsaw University of Technology. He also took part in the National Investment Funds programme.

Mr Zganiacz has taken part in numerous projects implemented by business entities operating in various sectors by cooperating with commercial and investment banks, brokerage houses and other players in the capital markets sector.

He has been responsible for managing finances and preparing and implementing investment projects, and has also co-created development strategies. He has a wealth of experience in supervising commercial law companies, and was a member of the supervisory board of the Warsaw Stock Exchange. He is currently a member of the supervisory board of PZU S.A.

Mr Zganiacz graduated as an engineer and also completed MBA postgraduate studies.

The business address of Tomasz Zganiacz is Ministerstwo Skarbu Państwa, ul. Krucza 36/Wspólna 6, 00-522 Warsaw, Poland.

Mirosława Boryczka

Ms Boryczka is a director general in the Ministry of Finance and serves as a public sector manager and expert on public finance. For many years already she has been managing financial affairs and leading public sector institutions, starting her career with a civil service position in the Chancellery of the Prime Minister. Subsequently, she held advisory, managerial and supervisory posts in institutions both in the public and private sectors, including the Government Office for Legislation, the Municipal Office of the Capital City of Warsaw, the Polish Agency for Enterprise Development, the Industrial Development Agency, the Polish Information and Foreign Investment Agency and Bank Gospodarstwa Krajowego. She has also held the position of director general in the Ministry of the Economy and the Ministry of Science and Higher Education. In the years 2007-2008 and 2009-2013 Mirosława Boryczka was a member of the management board of the Polish Social Insurance Institution (ZUS), being responsible, among others, for the daily operations of the pension fund and investments of the pension reserve fund.

Mirosława Boryczka is a graduate of Jagiellonian University, the National School of Public Administration and the Advanced Management Programme at IESE Business School.

Mirosław Czekaj

Mr Czekaj has been a member of the Supervisory Board since August 2009.

Mr Czekaj has a PhD in Economics, is a graduate of the Nicolaus Copernicus University in Toruń and a Certified Auditor.

In January 2007, he was elected by the City Council of the Capital City of Warsaw to the position of City Treasurer.

Between 2004 and 2006, he served as vice-president of Bank Gospodarstwa Krajowego, where he was responsible for the commercial activities of the bank and for supervising its branches.

Previously, he was responsible for public sector and corporate finances.

From 1992 to 2009, he held positions on the supervisory boards of numerous companies, including as chairman of the supervisory board of Remondis - Szczecin sp. z o.o., chairman of the supervisory board of Fundusz Wspierania Rozwoju Gospodarczego Miasta Szczecina, chairman of the supervisory board of Szczecińskie Centrum Renowacji sp. z o.o. and chairman of the supervisory board of MPT sp. z o.o. in Warsaw.

He was also a supervisory board member of Pomorski Bank Kredytowy S.A. in Szczecin.

Mr Czekaj is the author and co-author of several finance-related publications.

The business address of Mirosław Czekaj is Urząd Miasta st. Warszawy, ul. Kredytowa 3, 00-056 Warsaw, Poland.

Zofia Dzik

Ms Dzik is a graduate of the Krakow University of Economics, the University of Illinois in Chicago, the University of Social Sciences and Humanities in Warsaw and executive programs at the INSEAD Business School, she also holds an MBA from the Manchester Business School and is a certified member of the Association for Project Management (APMP).

In the years 1995–2003 she worked as a consultant in Andersen Business Consulting. From 2003 she was engaged in work for Intouch Insurance Group (at present: RSA), where in the years 2004–2007 she performed the function of the president of the board of directors of TU LINK4 S.A., whereas in the years 2007–2009 she held the functions of a member of the board of directors of Intouch Insurance B.V. in the Netherlands and CEO for East-Central Europe of Intouch Insurance Group.

During her time with Intouch Insurance Group, Ms Dzik was in charge of the development of new markets – she was the chairman of the supervisory boards of the following companies: TU Link4 S.A. and Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia and Direct Pojistovna in the Czech Republic, as well as the vice-chairman of the supervisory board of TU na Życie Link4 Life S.A.

In the years 2006–2008, she served as a member of the board of directors of the Polish Insurance Association. In the years 2007–2010, Ms Dzik was a member of the supervisory board of the Insurance Guarantee Fund.

At present, she is the president of the management board of the 'Humanities – The Art of Education' Foundation, which supports the process of social transformation in Poland; the author of the 'Cohesive Leadership in support of sustainable human development' model; the director of the Leadership Academy for the Education Sector Leaders, which works towards the development of leadership in the education sector; and a supervisory board member of the following companies: TU Link4 S.A., ERBUD S.A., and PKO Bank Polski.

The business address of Zofia Dzik is Fundacja Humanites – Sztuka Wychowania, ul. Nowogrodzka 56/7, 00 695 Warsaw, Poland.

Jarosław Klimont

Mr Klimont holds a master's degree in Law and a master's in Administration. He graduated from Maria Curie Skłodowska University in Lublin. Since 1995 he has been practicing as a legal counsel (*radca prawny*), since 1999 he has been a counsellor (*adwokat*). Between 1996 and 1999 he was an assignee. He is a specialist in economic affairs, and civil and administrative proceedings. He has long-term experience in legal services for businesses and government entities. He is a member of the supervisory boards of several commercial companies (inter alia: Totalizator Sportowy Ltd. in Warsaw, Echo-Son joint-stock company in Pulawy and the Machinery and Valve Repair and Overhaul Company Masz-ZAP Ltd. in Pulawy).

Piotr Marczak

Mr Marczak has been a member of the Supervisory Board since June 2010.

He graduated from the Warsaw School of Economics (previously known as the Main School of Planning and Statistics). He has worked for the Ministry of Finance since 1992 and is currently the director of the Public Debt Department the main tasks of which include, for instance, the preparation of public debt management strategies, risk and debt management for the State Treasury, the management of the liquidity of the state budget and the consolidation of the liquidity of entities in the public finance sector.

He is the author of several papers and articles on public debt and the treasury securities market in Poland, and he was also a lecturer in Dolnośląska Szkoła Bankowa (the Banking School of Lower Silesia). At the moment, he is a member of the supervisory board of PKP INTERCITY S.A. and previously he was a member of the supervisory boards of, for instance, Bank Gospodarstwa Krajowego, Huta Będzin S.A., Huta Stalowa Wola S.A., Stomil Poznań S.A. and Polskie Koleje Linowe S.A.

The business address of Piotr Marczak is Ministerstwo Finansów, ul. Świętokrzyska 12, 00-916 Warsaw, Poland.

Elżbieta Mączyńska-Ziemacka

Elżbieta Mączyńska-Ziemacka is a professor of economics and has been employed by the Institute of Economics of the Polish Academy of Sciences since 1990, and since 1998 at the Warsaw School of Economics, where, since 2008, she has been the head of the Faculty for Business Bankruptcy Studies in the Department of Corporate Finance and Investment of the Business Administration College, the Warsaw School of Economics and the head of the post-graduate studies programme in real property appraisal.

Since 14 June 2013, Ms Mączyńska-Ziemacka has been the chairperson of the Economic Strategic Thinking Committee (Komitet Gospodarczej Myśli Strategicznej) at the Polish Ministry of the Economy, the president of the Polish Economics Society (Polskie Towarzystwo Ekonomiczne) since 2005 and, since 2011, a member of the Presidium of the "Poland 2000 Plus" Forecast Committee and the Committee of Economic Sciences of the

Polish Academy of Sciences. Between 1994 and 2005 she was the scientific secretary and a member of the Presidium of the Social and Economic Strategy Council of the Council of Ministers.

Between 2005 and 2007, Ms Mączyńska-Ziemacka was an independent member of the supervisory board of Bank Gospodarki Żywnościowej S.A., served as an independent member of the supervisory board of Polski Bank Rozwoju between 1996 and 1998 and, between 1990 and 1991, was an advisor and consultant to the Polish-Swedish limited liability company SWEA SYSTEM.

Elżbieta Mączyńska-Ziemacka graduated from the Department of Political Economics of the University of Warsaw and specialised in econometrics. She has also completed scientific and research internships in Germany (at the University of Mannheim) and in Austria (Wirtschaftsuniversität Wien). She received the DAAD scholarship on three occasions. She is the author, co-author and editor of around 200 publications and expert opinions connected with economic analysis, finance and enterprise appraisal, as well as economic systems and social and economic development strategies.

She is a member of the editorial board of the Ekonomista, a bi-monthly scientific journal published by the Polish Economic Society and the Committee of Economic Sciences of the Polish Academy of Sciences, a member of the editorial board of the Kwartalnik Nauk o Przedsiębiorstwie, a quarterly scientific journal published by the Collegium of Business Administration of the Warsaw School of Economics, and a member of the editorial team of the International Journal of Sustainable Economy (IJSE), a quarterly scientific journal published by the Inderscience Publishers Editorial Office in the UK.

Marek Mroczkowski

Mr Mroczkowski graduated from the Warsaw School of Economics. He completed postgraduate studies in the Faculty of Law and Administration at the University of Wrocław, as well as postgraduate studies in the Advanced Management Programme at INSEAD in Fontainebleau, France. Since 2009, he has been providing services in the field of consultancy and management in MRM Finance.

In the years 2007-2009, he was president of the management board and general director of MAŻEIKIU NAFTA AB in Lithuania. In the years 2005-2006 he was a vice-president of the management board and financial director of UNIPETROL A.S. in the Czech Republic (from September 2005 to April 2006 he was also the president of the management board and general director).

In the years 2003-2004 he was President of the management board and general director of ELANA S.A. in Toruń, Poland. In the years 2001-2002 he was president of the management board and general director of POLKOMTEL S.A., and from 1994 to 2001 he was vice-president of the management board and financial director of PKN ORLEN S.A. Also, he was a member of the management board and financial director of Eda Poniatowa S.A. (1986-1994).

He has experience in the field of supervisory body activities and has served as a member of the supervisory boards of the following companies: ZCH POLICE S.A., IMPEXMETAL S.A., ENERGOMONTAŻ PÓŁNOC S.A., POLKOMTEL S.A., ANWIL S.A. and MOSTOSTAL Kraków S.A. He is currently a member of the supervisory board of Grupa AZOTY.

The business address of Marek Mroczkowski is "Marek Mroczkowski MRM Finance", ul. Bielawska 6/40, 02-511 Warsaw, Poland.

Shares in the Bank or Stock Options Owned by Members of the Management Board and the Supervisory Board

As of 31 December 2014, from among the members of the Management Board or the Supervisory Board, shares in the Bank are held by Zbigniew Jagiełło, who held 10,000 shares, Piotr Mazur, who held 4,500 shares, Piotr Alicki, who held 2,627 shares, Jacek Obłękowski, who held 512 shares, Jakub Papierski, who held 3,000 shares.

As of 31 December 2014, except for Zbigniew Jagiełło, Piotr Mazur, Piotr Alicki, Jacek Obłękowski and Jakub Papierski, no other member of the Management Board or the Supervisory Board owned any shares in the Bank or the Bank's stock options.

As of the date of the Base Prospectus, there are no restrictions on the disposal of the shares in the Bank held by members of the Management Board and the Supervisory Board.

Conflicts of Interest

The Vice-President of the Management Board, Jacek Obłękowski, is a member of the supervisory board of Grupa Azoty S.A. and Vice-President of the Management Board. Also, Supervisory Board member Marek Mroczkowski is a member of the supervisory board of Grupa Azoty S.A. Supervisory Board member Zofia Dzik is a member of the supervisory boards of ERBUD S.A. and Link4 TU. T. Zganiacz is a member of supervisory board of PZU. P. Marczak is a member of the supervisory board of PKP Intercity.

In accordance with the representations made by Jacek Obłękowski, Marek Mroczkowski and Zofia Dzik, there is a risk of there being a potential conflict of interest if future decisions regarding cooperation between the above-mentioned entities and the Bank are the subject of the Supervisory Board's decisions and deliberations or as such entities are clients of the Bank.

Other than the conflicts of interest described above, with respect to all the members of the Management Board and the Supervisory Board, there are no actual or potential conflicts of interest arising from their personal interests or duties and obligations towards the Bank.

Independence of the members of the Supervisory Board

As stated in the representations submitted by the Supervisory Board members Elżbieta Mączyńska-Ziemacka, Mirosław Czekaj, Zofia Dzik, Jarosław Klimont and Marek Mroczkowski meet the criteria required of independent members listed in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board.

On 17 December 2014, the Supervisory Board adopted an amendment to the Regulations of the Supervisory Board by adding a provision that its members will ensure that their activities comply with the requirements adopted for use by the Bank of the Best Practices of WSE Listed Companies and the Principles of Corporate Governance for supervised institutions issued by the PFSA. The aforementioned change of the Regulations will come into force after it has been approved by the General Meeting of the Shareholders.

According to statements made by the members of the Supervisory Board, Mirosław Czekaj, Zofia Dzik, Jarosław Klimont, Elżbieta Mączyńska-Ziemacka and Marek Mroczkowski meet the criteria of independent members of the Supervisory Board set out in the Best Practices of WSE Listed Companies. The other newly appointed members of the Supervisory Board made statements that they do not meet the criteria of independence from the Bank and entities remaining in a significant relation with the Bank.

DESCRIPTION OF THE ISSUER

Establishment, Duration and Domicile

The Issuer's legal and commercial name is PKO Finance AB (publ). The Issuer changed its name from Aktiebolaget Grundstenen 108756 to PKO Finance AB (publ) on 17 July 2008.

The Issuer was incorporated in the Kingdom of Sweden as a public limited liability company registered in the Swedish Companies Register under number 556693-7461 on 14 December 2005 for indefinite time. The Issuer was registered, pursuant to the Act on notification regarding certain financial activities (*Sw*: *Lag* (*1996*:*1006*) *om anmälningsplikt avseende viss finansiell verksamhet*), with the Swedish Financial Supervisory Authority (*Sw: Finansinspektionen*) on 5 December 2008.

Business of the Issuer

The Issuer's registered office is c/o AB 1909 Corporate Services, Norrlandsgatan 18, 111 43 Stockholm, Sweden and the telephone number of its registered office is +46-8-545 322 70.

The main object of the Issuer is to carry out, directly or indirectly either on its own account or for the account of third parties or in agreement with third parties, the activity of financing for the purposes of the development, and the needs, of the Bank and the Group in accordance with applicable laws. Consequently, the Issuer is a special purpose vehicle existing for the sole purpose of issuing the Notes and other notes provided that such other notes are issued in compliance with the relevant limitations as provided in the Terms and Conditions of the Notes. The Issuer has no subsidiaries and no employees.

Since its incorporation the Issuer has not engaged in any material activities except for issuing:

- EUR 800,000,000 3.733%. Notes due 2015 under the Programme in October 2010;
- CHF 250,000,000 3.538% Notes due 2016 under the Programme in July 2011;
- EUR 50,000,000 4.00% Notes due 2022 under the Programme in July 2012;
- CHF 500,000,000 2.536% Notes due 2015 under the Programme in September 2012;
- USD 1,000,000,000 4.630% Notes due 2022 in September 2012; and
- EUR 500,000,000 2.324% Notes due 2019 in January 2014.

Recent Events

There has been no material adverse change in the financial position or prospects of the Issuer since the date of its last financial statements, that is, 31 December 2014. The financial statements for the year ended 31 December 2014 have been audited and approved by the board of directors of the Issuer but have yet to be formally adopted by the annual general meeting of the shareholders for 2015. In addition, there has been no significant change in the capitalisation of the Issuer since its incorporation.

Management of the Issuer

The Issuer has a board of directors consisting of three directors:

Name	Position	Date on which the current term began	Expiration of the term of office
Artur Osytek	Chairman of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders on 13 June 2014)	On the date of the annual general meeting of the shareholders in 2015 (unless re-elected)
Magnus Sundström	Member of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders on 13 June 2014)	On the date of the annual general meeting of the shareholders in 2015 (unless re-elected)
Iwona Jankowska	Member of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders on 13 June 2014)	On the date of the annual general meeting of the shareholders in 2015 (unless re-elected)

The business address for all the members of the board of directors is c/o AB 1909 Corporate Services, Norrlandsgatan 18, 111 43 Stockholm, Sweden.

There are no conflicts of interest between the duties of the persons listed above to the Issuer and their private interests or other duties.

Share Capital and Shareholders Structure

The Issuer has fully paid up share capital of EUR 55,473.58 made up of 5,000 shares, each with a quota of EUR 11.0947 per one share.

All shares are owned by the Bank. As a sole shareholder, the Bank may exercise control over the Issuer, in particular, to adopt resolutions as to the appointment of the members of the board of directors of the Issuer.

SENIOR FACILITY AGREEMENT

The following is the text of the Senior Facility Agreement

THIS SENIOR FACILITY AGREEMENT originally made on 31 July 2008 and amended and restated on 23 April 2010 between:

(1) **POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA**, a company established under the laws of the Republic of Poland whose registered office is at Puławska 15, Warsaw, Poland (the "**Borrower**"); and

(2) **PKO FINANCE AB (PUBL)**, a public company with limited liability incorporated in Sweden whose registered office is at c/o, AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden (the "**Lender**").

WHEREAS:

(A) The Lender and the Borrower entered into a Senior Facility Agreement dated 31 July 2008 (the "**Original Senior Facility Agreement**"). The Lender and the Borrower wish to amend and restate the Original Senior Facility Agreement on the terms of this Agreement.

(B) The Lender has, at the request of the Borrower, agreed to make available to the Borrower senior and subordinated loan facilities in the maximum amount of the Programme Limit (as defined below). The senior loan facility is to be made available on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Senior Loan (as defined below) by a senior loan supplement dated the relevant Closing Date substantially in the form set out in Schedule 1 hereto (each, a "**Senior Loan Supplement**").

(C) It is intended that, concurrently with the extension of any Senior Loan under this senior loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Senior Loan.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

"**Account**" means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Senior Loan Supplement;

"**Account Bank Agreement**" means the amended and restated account bank agreement dated 23 April 2010 relating to the Programme as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Trustee and the account bank named therein;

"**Agency**" means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

"**Agency Agreement**" means the amended and restated paying agency agreement dated 23 April 2010 relating to the Programme as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Trustee and the agents named therein;

"**Agreement**" means this Agreement as originally executed or as it may be amended from time to time;

"**Auditors**" means the auditors of the Borrower's IFRS financial statements (consolidated if the same are then prepared) or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be nominated by the Borrower;

"**Base Prospectus**" means (unless otherwise specified) the most recently published Base Prospectus as approved by the Luxembourg *Commission de Surveillance du Secteur Financier* prepared in connection with the Programme;

"**Borrower Account**" means an account in the name of the Borrower as specified in the relevant Senior Loan Supplement for receipt of Senior Loan funds;

"**Borrower Agreements**" means this Agreement, the Subordinated Facility Agreement, the Agency Agreement, the Account Bank Agreement and the Dealer Agreement and, in relation to each Senior Loan, the foregoing agreements together with the relevant Subscription Agreement and Senior Loan Supplement;

"**Business Day**" means (save in relation to Clause 4 (*Interest*)) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and either (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, a day on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency or (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating;

"**Calculation Agent**" means, in relation to a Senior Loan, Citibank, N.A., or any person named as such in the relevant Senior Loan Supplement or any successor thereto;

"**Call Option**", if applicable, means the call option granted to the Borrower pursuant to the relevant Senior Loan Supplement and the Conditions of the relevant Series of Notes;

"**Call Option Commencement Date**", if applicable, has the meaning given to it in the relevant Senior Loan Supplement;

"**Closing Date**" means the date specified as such in the relevant Senior Loan Supplement;

"**Conditions**" has the meaning ascribed to it in the Trust Deed;

"**Day Count Fraction**" has the meaning specified as such in the relevant Senior Loan Supplement;

"**Dealer Agreement**" means the amended and restated dealer agreement relating to the Programme dated 23 April 2011 as may be amended, modified, supplement and/or restated from time to time between the Lender, the Borrower, the Arranger and the other dealers appointed pursuant to it;

"**Definitive Notes**" means the definitive notes in fully registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed;

"**Dollars**", "**$**", "**US dollars**" and "**US$**" means the lawful currency of the United States of America;

"**Early Redemption Amount**" has the meaning ascribed to it in the relevant Senior Loan Supplement;

"**euro**" or "**€**" means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended;

"**Event of Default**" has the meaning assigned to such term in Clause 10.1 (*Events of Default*) hereof;

"**Fee Side Letter**" has the meaning assigned to such term in Clause 13.2 (*Payment of Ongoing Expenses*) hereof;

"**Fiscal Period**" means any fiscal period for which the Borrower or the Group (if consolidated accounts are prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

"**Fixed Rate Senior Loan**" means a Senior Loan specified as such in the relevant Senior Loan Supplement;

"**Floating Rate Senior Loan**" means a Senior Loan specified as such in the relevant Senior Loan Supplement;

"**GAAP**" means generally accepted accounting principles in the Kingdom of Sweden (as amended, supplemented or re-issued from time to time);

"**Global Notes**" has the meaning assigned to it in the Trust Deed;

"**Group**" means the Borrower and its Subsidiaries taken as a whole at any given time;

"**Guarantee**" means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness or other obligation of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep- well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the

payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however, that* the term "**Guarantee**" will not include endorsements for collection or deposit in the ordinary course of business. The term "**Guarantee**" used as a verb has a corresponding meaning;

"**IFRS**" means International Financial Reporting Standards as adopted by the European Union (as amended, supplemented or re-issued from time to time);

"**Incur**" means issue, assume, guarantee, incur or otherwise become liable for; *provided, however, that* any Indebtedness or Capital Stock of a person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

"**Indebtedness**" means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; and

(e) amounts raised under any other transaction (including, without limitation, any Repo, forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Interest Payment Date**" means the date(s) specified as such in the relevant Senior Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 (*Prepayment in the event of Taxes or Increased Costs*) or 5.3 (*Prepayment in the event of Illegality*), the date set for such redemption in respect of the Senior Loan;

"**Interest Period**" means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date;

"**Arranger**" means Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna or any successor appointed pursuant to the terms of the Dealer Agreement from time to time;

"**Lead Manager(s)**" means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement;

"**Lender Agreements**" means the Dealer Agreement, this Agreement, the Subordinated Facility Agreement, the Agency Agreement, the Account Bank Agreement, the Principal Trust Deed and together with, in relation to each Senior Loan, the relevant Subscription Agreement, Senior Loan Supplement and Supplemental Trust Deed;

"**Material Adverse Effect**" means a material adverse effect on (a) the condition (financial or otherwise), prospects or general affairs of the Borrower or the Group; or (b) the Borrower's ability to perform or comply with its obligations under the Borrower Agreements; or (c) the validity or enforceability of the Borrower Agreements or the rights or remedies of the Lender thereunder;

"**Material Subsidiary**" means, at any given time, a Subsidiary of the Borrower, which:

(a) has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or

(b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group,

in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of that Subsidiary and the latest audited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group, but if a Subsidiary has been acquired since the date as at which the latest audited consolidated financial statements of the Group were prepared, the financial statements shall be adjusted in order to take into account the

acquisition of that Subsidiary (that adjustment being certified by the Group's auditors as representing an accurate reflection of the revised consolidated gross income or consolidated total assets (as the case may be) of the Group), *provided, however, that* if there is a dispute, unresolved for a period of at least 30 days, as to whether or not a member of the Group is a Material Subsidiary, a certificate of the Auditors as to whether a Subsidiary is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Noteholder**" means, in relation to a Note, the person in whose name such Note is registered from time to time in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

"**Notes**" means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Senior Loan or a Subordinated Loan and, in relation to a Senior Loan, as defined in the relevant Senior Loan Supplement and, in relation to a Subordinated Loan, as defined in the relevant Subordinated Loan Supplement;

"**Officers' Certificate**" means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower substantially, in the form set out in Schedule 2 hereto;

"**Opinion of Counsel**" means a written opinion from international legal counsel who is reasonably acceptable to the Lender;

"**Permitted Security Interest**" means:

(a) any Security Interest created by the Lender, either in favour of the Trustee for the benefit of the Noteholders pursuant to a Supplemental Trust Deed or in connection with any limited recourse financing arrangements that are permitted pursuant to clause 14.20.1(ii) of the Principal Trust Deed;

(b) any Security Interest created by any other Subsidiary to secure Securities Indebtedness, provided that (i) any such Securities Indebtedness is incurred on a limited recourse basis for the sole purpose of financing loans to the Borrower or any other member of the Group pursuant to a loan participation notes arrangement or programme, the related prospectus or other offering document for which has been approved by a competent authority or by, or on behalf of, a stock exchange (as the case may be); (ii) the business activities of such other Subsidiary are contractually limited to incurring Indebtedness for the sole purpose of financing on-lending to the Borrower or any other member of the Group (and matters incidental thereto); and (iii) such Security Interest is created only over the relevant Subsidiary's benefit of the related on-lending arrangements and any bank accounts established specifically for the purposes of that incurrence of Securities Indebtedness or the related on-loan;

(c) any Security Interest upon, or with respect to, any securitisation of property or assets or similar financing structure in relation to property or assets where the primary source of payment of any obligations secured by property or assets is linked to the proceeds of such property or assets (or where payment of such obligations is otherwise supported by such property or assets), but may make provision for rights of recourse on an unsecured basis (apart from the property or assets subject to the securitisation or financing structure) which may arise upon any failure to perform or default by the obligors in relation to such property or assets; provided that the aggregate outstanding amount of such obligations secured, does not, at any time, exceed 10 per cent. of the total consolidated assets of the Group, as determined at any time by reference to the most recent consolidated statement of financial position of the Group prepared in accordance with IFRS; and

(d) any other Security Interests securing Relevant Indebtedness (not falling within any of paragraphs (a) to (c) above), provided that the aggregate amount of Relevant Indebtedness secured by all such Security Interests does not exceed five per cent. of the value of the consolidated total assets of the Group as calculated on a consolidated basis from the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group prepared in accordance with IFRS consistently applied, as delivered by the Borrower in accordance with this Agreement;

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

"**PLN**" denotes Polish Zloty, the lawful currency of the Republic of Poland;

"**Polish National Bank**" means Narodowy Bank Polski;

"**Potential Event of Default**" means any event which is, or after notice or passage of time or after making any determinations under this Agreement (or any combination of the foregoing) would be, an Event of Default;

"**Principal Trust Deed**" means the amended and restated principal trust deed dated 23 April 2011 as may be amended, modified, supplemented and/or restated from time to time between the Lender and the Trustee;

"**Programme**" means the programme for the issuance of loan participation notes of the Lender;

"**Programme Limit**" means €3,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement;

"**Put Option**", if applicable, means the put option granted to the Borrower pursuant to the relevant Senior Loan Supplement and the Conditions of the relevant Series of Notes;

"**Put Option Commencement Date**", if applicable, has the meaning given to it in the relevant Senior Loan Supplement;

"**Rate of Interest**" has the meaning assigned to such term in the relevant Senior Loan Supplement;

"**Registrar**" has the meaning assigned to it in the Trust Deed;

"**Relevant Event**" has the meaning assigned to it in the Trust Deed;

"**Relevant Indebtedness**" means any present or future Indebtedness, having an original maturity of more than one year, in the form of or represented by:

(a) bonds, notes, debentures, loan stock or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in or on any stock exchange, over-the-counter or other securities market, whether issued by private placement or otherwise (collectively, "**Securities Indebtedness**"); or

(b) any other Indebtedness that is funded or financed by Securities Indebtedness or which is intended to be the principal source of payment for any principal or interest payable in respect of any Securities Indebtedness;

"**Relevant Time**" means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time;

"**Repayment Date**" has the meaning assigned to such term in the relevant Senior Loan Supplement;

"**Repo**" means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term "**securities**" means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

"**Reserved Rights**" has the meaning assigned to such term in the Trust Deed;

"**Same-Day Funds**" means such funds for payment in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby;

"**Securities Act**" means the US Securities Act of 1933;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**SEK**" denotes Swedish Kroner, the lawful currency of the Kingdom of Sweden;

"**Senior Loan**" means each senior loan to be made pursuant to, and on the terms specified in, this Agreement and the relevant Senior Loan Supplement, and includes each Fixed Rate Senior Loan and Floating Rate Senior Loan;

"**Senior Loan Agreement**" means this Agreement and (unless the context requires otherwise), in relation to a Senior Loan, means this Agreement as amended and supplemented by the relevant Senior Loan Supplement;

"**Series**" means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

"**Specified Currency**" means the currency specified as such in the relevant Senior Loan Supplement;

"**Subordinated Facility Agreement**" means the subordinated facility agreement relating to the Programme to be dated on or before the Issue Date (as defined in the Dealer Agreement) of a relevant Series of Notes between the Lender and the Borrower, as may be amended or supplemented from time to time;

"**Subordinated Loan**" means each subordinated loan to be made pursuant to, and on the terms specified in, the Subordinated Facility Agreement and the relevant subordinated loan supplement;

"**Subscription Agreement**" means the agreement specified as such in the relevant Senior Loan Supplement;

"**Subsidiary**" means, in relation to any Person (the "**first person**") at any particular time, any other person (the "**second person**"):

(a) whose affairs and policies the first person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person;

"**Supplemental Trust Deed**" means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed);

"**Tangible Net Worth**" means, as of any date, the sum of the aggregate of the amounts paid up or credited as paid up on the issued ordinary share capital of the Lender, the aggregate amount of the reserves of the Lender and any balance standing to the credit of the profit and loss account of the Lender, less any debit balance on the profit and loss account of the Lender, any amount shown in respect of goodwill or other intangible assets of the Lender, any amount set aside for taxation, deferred taxation or bad debts and any amount in respect of any dividend or distribution declared, recommended or made by the Lender to the extent payable to a person who is not a member of the Group and to such extent such distribution is not provided for in the most recent financial statements, all amounts determined in accordance with GAAP;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET System**" means TARGET2 or any successor thereof;

"**Taxes**" means any present or future taxes, levies, duties, assessments or other governmental charges of whatever nature (including interest and penalties or addition thereon), no matter how they are levied or determined, and the terms "**Tax**" and "**taxation**" shall be construed accordingly;

"**Taxing Authority**" means any body having authority to levy Taxes;

"**Trust Deed**" means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Senior Loan Supplement;

"**Trustee**" means Citicorp Trustee Company Limited, as trustee under the Trust Deed and any other trustee or trustees thereunder; and

"**Warranty Date**" means the date hereof, the date of each Senior Loan Supplement, each Closing Date, each date on which the Base Prospectus is amended, supplemented or replaced, each date any of the Lender Agreements are amended or supplemented and each date on which the Programme Limit is increased.

1.2 **Other Definitions**

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the relevant Notes, the Agency Agreement,

the Dealer Agreement or the relevant Senior Loan Supplement shall have the meanings assigned to such terms therein.

1.3 **Interpretation**

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to a "**Clause**" or "**sub-clause**" are references to a Clause or sub-clause of this Agreement;

1.3.2 save as provided in the definition of "**Base Prospectus**" above, all references in this Agreement to an agreement, instrument or other document shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.

1.3.3 the terms "**hereof**", "**herein**" and "**hereunder**" and other words of similar import shall mean the relevant Senior Loan Agreement as a whole and not any particular part hereof;

1.3.4 words importing the singular number include the plural and vice versa;

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof; and

1.3.6 any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such statute, provision, statutory instrument, order or regulation as the same may have been, or may from time to time be, amended or re-enacted.

1.4 **Amendment and Restatement**

The Original Senior Facility Agreement shall be amended and restated on the terms of this Agreement *provided that* such amendment and restatement shall not take effect in relation to or for any purposes of any Notes issued prior to the date of this Agreement. Any Senior Loan made available on or after the date of this Agreement shall be issued pursuant to this Agreement. Subject to such amendment and restatement, the Original Senior Facility Agreement shall continue in full force and effect.

2. **SENIOR LOANS**

2.1 **Senior Loans**

On the terms and subject to the conditions set forth herein and, as the case may be, in each Senior Loan Supplement, the Lender hereby agrees to make available to the Borrower Senior Loans up to, together with any Subordinated Loans the Lender agrees to make available to the Borrower under the Subordinated Facility Agreement, a total aggregate amount equal to the Programme Limit.

2.2 **Purpose**

The proceeds of each Senior Loan will be used to fund the Borrower's lending activities and for general banking purposes (unless otherwise specified in the relevant Senior Loan Supplement) and, accordingly, the Borrower shall apply all amounts raised by it hereunder to fund such activities and purposes, but the Lender shall not be concerned with the application thereof.

2.3 **Separate Senior Loans**

It is agreed that, with respect to each Senior Loan, all the provisions of this Agreement and the Senior Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Senior Loan and the expressions "**Account**", "**Arrangement Fee**", "**Closing Date**", "**Day Count Fraction**", "**Interest Payment Date**", "**Senior Loan Agreement**", "**Notes**", "**Rate of Interest**", "**Repayment Date**", "**Specified Currency**", "**Subscription Agreement**" and "**Trust Deed**", together with all other terms that relate to such a Senior Loan shall be construed as referring to those of the particular Senior Loan in question and not of all Senior Loans unless expressly so provided, so that each such Senior Loan shall be made pursuant to this Agreement and the relevant Senior Loan Supplement, together comprising the Senior Loan Agreement in respect of such Senior Loan, and that events affecting one Senior Loan shall not affect any other.

3. **DRAWDOWN**

3.1 **Drawdown**

On the terms and subject to the conditions set forth herein and, as the case may be, in each Senior Loan Supplement, on the Closing Date thereof the Lender shall make a Senior Loan to the Borrower and the Borrower shall make a single drawing in the full amount of such Senior Loan.

3.2 **Senior Loan Arrangement Fee**

In consideration of the Lender's undertaking to make a Senior Loan available to the Borrower, the Borrower hereby agrees that it shall, no later than one Business Day before each Closing Date, pay to or to the order of the Lender, in Same-Day Funds by 10 a.m. (Relevant Time) an Arrangement Fee (as defined in the relevant Senior Loan Supplement) in connection with the financing of such Senior Loan. The total amount of the Arrangement Fee will be as specified in the relevant Senior Loan Supplement.

3.3 **Disbursement**

Subject to the conditions set forth herein and, as the case may be, in each Senior Loan Supplement, on each Closing Date the Lender shall transfer the full amount of the relevant Senior Loan to the Borrower Account specified in the relevant Senior Loan Supplement.

3.4 **Ongoing Fees and Expenses**

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Senior Loans to the Borrower, the Borrower shall pay on demand to the Lender as and when such payments are due an amount or amounts to reimburse the Lender for its expenses relating to its management and operation in servicing the Senior Loans as set forth to the Borrower in an invoice from the Lender (including, for the avoidance of doubt and without limitation, the fees and expenses of the Lender's counsel, auditors, corporate services providers, trustees and agents and any other expenses of the Lender).

4. **INTEREST**

4.1 **Rate of Interest for Fixed Rate Senior Loans**

Each Fixed Rate Senior Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Senior Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Senior Loan Supplement.

4.2 **Payment of Interest for Fixed Rate Senior Loans**

Interest at the Rate of Interest shall accrue on each Fixed Rate Senior Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrears by the Borrower to the Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 **Interest for Floating Rate Senior Loans**

4.3.1 *Interest Payment Dates*: Each Floating Rate Senior Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrears by the Borrower to the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Senior Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Senior Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Senior Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention*: If any date referred to in the relevant Senior Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is

(A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Senior Loans*: The Rate of Interest in respect of Floating Rate Senior Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Senior Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Senior Loan Supplement.

(a) *ISDA Determination for Floating Rate Senior Loans*

Where ISDA Determination is specified in the relevant Senior Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option is as specified in the relevant Senior Loan Supplement;

(ii) the Designated Maturity is a period specified in the relevant Senior Loan Supplement; and

(iii) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Senior Loan Supplement.

For the purposes of this sub-paragraph (a), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(b) *Screen Rate Determination for Floating Rate Senior Loans*

Where Screen Rate Determination is specified in the relevant Senior Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

(i) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:

(1) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or

(2) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,

in each case appearing on such Page at the Relevant Time on the Interest Determination Date;

(ii) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph 4.3.3(b)(i)(1) above applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph 4.3.3(b)(i)(2) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to

leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

(iii) if paragraph 4.3.3(b)(ii) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Relevant Financial Centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Relevant Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Relevant Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

4.4 **Accrual of Interest**

Interest shall cease to accrue on each Senior Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (before or after any judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 **Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding**

4.5.1 If any Margin or Rate Multiplier is specified in the relevant Senior Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 (*Interest for Floating Rate Senior Loans*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Senior Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Senior Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 **Calculations**

The amount of interest payable in respect of any Senior Loan for any period shall be calculated by applying the Rate of Interest for such Interest Accrual Period to the Calculation Amount and multiplying the product by the Day Count Fraction, rounding the resulting figure to the nearest sub- unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Senior Loan divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent, provided that if an Interest Amount (or a formula for its calculation) is specified in the relevant Senior Loan Supplement in respect of such period, the amount of interest payable in respect of such Senior Loan for such period shall equal such Interest Amount (or be calculated in accordance with

such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation in accordance with the Senior Loan Agreement, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Senior Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Borrower, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Senior Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-clause 4.3.2 of Clause 4.3 (*Interest for Floating Rate Senior Loans*), the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Borrower and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Senior Loan becomes due and payable under Clause 10.3 (*Default Remedies*), the accrued interest and the Rate of Interest payable in respect of such Floating Rate Senior Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Senior Loan, the Lender requests that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability to any person in respect of any such determination or calculation it chooses (in its absolute discretion) to make.

4.9 **Definitions**

In this Clause 4 (*Interest*), unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Benchmark**" has the meaning specified in the relevant Senior Loan Supplement;

"**Business Day**" means:

(a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or

(b) in the case of euro, a day on which the TARGET System is operating (a "**TARGET Business Day**"); and/or

(c) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

"**Calculation Amount**" has the meaning specified in the relevant Senior Loan Supplement;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Senior Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "**Calculation Period**");

(a) if "Actual/Actual – ISDA" is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(b) if "Actual/365 (Fixed)" is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 365;

(c) if "Actual/360" is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 360;

(d) if "30/360", "360/360" or "Bond Basis" is so specified in the Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(e) if "**30E/360**" or "**Eurobond Basis**" is specified in the relevant Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30; and

(f) if "**30E/360 (ISDA)**" is specified in the Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D2 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30; and

(g) if "**Actual/Actual-ICMA**" is specified in the relevant Senior Loan Supplement:

(a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date;

"**Determination Date**" means the date specified in the relevant Senior Loan Supplement or, if none is so specified, the Interest Payment Date;

"**Effective Date**" means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Senior Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

"**Interest Amount**" means the amount of interest payable, and in the case of Fixed Rate Senior Loans, means the Fixed Amount or Broken Amount, as the case may be;

"**Interest Commencement Date**" means the Closing Date or such other date as may be specified in the relevant Senior Loan Supplement;

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Senior Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning

on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified herein;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of the first Senior Loan Supplement), as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Senior Loan Supplement;

"**Page**" means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuters service ("**Reuters**")) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

"**Reference Banks**" means the institutions specified as such in the relevant Senior Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

"**Relevant Financial Centre**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Senior Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London;

"**Relevant Rate**" means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

"**Relevant Time**" means, with respect to any Interest Determination Date or Repayment Date, the local time in the Relevant Financial Centre specified in the relevant Senior Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose "**local time**" means, with respect to Europe as a Relevant Financial Centre, 11.00 hours, Brussels time;

"**Representative Amount**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Senior Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

"**Specified Denomination**" has the meaning given in the relevant Senior Loan Supplement; and

"**Specified Duration**" means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Senior Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to sub-clause 4.3.2 of Clause 4.3 (*Interest for Floating Rate Senior Loans*).

4.10 **Calculation Agent and Reference Banks**

The Lender shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them in a Senior Loan Supplement and for so long as any amount remains outstanding under a Senior Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of the Borrower) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Senior Loan, references in the relevant Senior Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Senior Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement pursuant to the Senior Loan Agreement, the

Lender shall (with the prior approval of the Borrower) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. The Lender agrees that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to the relevant Senior Loan Agreement.

4.11 **Dual Currency Provisions**

This Clause 4.11 is applicable only if the Dual Currency Provisions are specified in the relevant Senior Loan Supplement as being applicable. If the rate or amount of interest applicable to any Senior Loan falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Senior Loan Supplement.

5. **REPAYMENT AND PREPAYMENT**

5.1 **Repayment**

Except as otherwise provided herein and in the applicable Senior Loan Supplement, the Borrower shall repay each Senior Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 **Prepayment in the event of Taxes or Increased Costs**

If, (a) as a result of the application of or any amendments or clarification of a decision by a court of competent jurisdiction, or change (including a change in interpretation or application) in the double tax treaty between the Republic of Poland and the Kingdom of Sweden or the laws or regulations of the Republic of Poland or the Kingdom of Sweden or of any political sub-division thereof or any Taxing Authority therein, or (b) the enforcement of the security provided for in any Trust Deed, the Borrower would thereby be required to make or increase any payment due pursuant to a Senior Loan Agreement as provided in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*) and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Senior Loan relating to such Senior Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Senior Loan, or at any time, in the case of a Fixed Rate Senior Loan.

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which the Borrower would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Senior Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up)*, the Borrower shall deliver to the Lender (copied to the Trustee) an Officers' Certificate confirming that it would be required to increase the amount payable and that the obligation to make such payment cannot be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser addressed to the Lender (copied to the Trustee).

5.3 **Prepayment in the event of Illegality**

If, at any time after the date of the relevant Senior Loan Supplement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any Agency, the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency of any state or otherwise for the Lender to make, fund or allow all or part of the Senior Loan relating to such Senior Loan Supplement or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Senior Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Senior Loan (an "**Event of Illegality**"), then the Lender shall, after becoming aware of the same, deliver to the Borrower (with a copy to the Trustee) a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

5.3.1 if any amount of such Senior Loan has not then been made, the Lender shall not thereafter be obliged to make such amount of such Senior Loan; and

5.3.2 if such Senior Loan is then outstanding, then upon notice by the Lender to the Borrower in writing, the Borrower and the Lender shall consult in good faith as to a basis that eliminates the application of such Event of Illegality. If a basis has not been agreed between the Borrower and the Lender by the earlier of the latest date permitted by the relevant law or 30 days after the date on which the Lender notified the Borrower of such illegality, then upon written notice by the Lender to the Borrower and the Trustee, the Borrower shall prepay (without premium or penalty) such Senior Loan in whole (but not in part), on the next Interest Payment Date therefor, in the case of a Floating Rate Senior Loan, or in the case of a Fixed Note Senior Loan, on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify to be necessary to comply with such requirements.

5.4 **Optional Prepayment under Call Option**

If a Call Option is specified in the relevant Senior Loan Supplement, the Borrower may, at its option at any time from the Call Option Commencement Date but prior to the Repayment Date, on giving not less than 30 nor more than 60 days' irrevocable notice to the Lender, prepay the Senior Loan at the Early Redemption Amount. The notice to be given shall specify the date for repayment of the relevant Senior Loan. The Senior Loan shall be repaid on the date specified in such notice. Immediately on receipt of such notice, the Lender shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The date for the redemption of the Notes (the "**Call Redemption Date**") shall be the next following Business Day after the date for repayment of the relevant Senior Loan.

5.5 **Optional Prepayment under Put Option**

If a Put Option is specified in the relevant Senior Loan Supplement, following notification from the Issuer, the Borrower shall prepay the Senior Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 5 of the Conditions of the Notes, two Business Days prior to the Put Settlement Date (as defined in the relevant Senior Loan Supplement).

5.6 **Reduction of a Senior Loan Upon Cancellation of Corresponding Notes**

The Borrower may from time to time deliver to the Lender Definitive Notes or Individual Note Certificates (as the case may be) held by it, having an aggregate principal value of at least €1,000,000 (or its equivalent in a Specified Currency), together with a request for the Lender to present such Definitive Notes or Individual Note Certificates (as the case may be) to the Principal Paying Agent or the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Notes with instructions to cancel a specified aggregate principal amount of Notes (being at least €1,000,000 or its equivalent in a Specified Currency) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to clause 8.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the relevant Global Notes). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Senior Loan corresponding to the principal amount of such Notes together with accrued interest and other amounts (if any) thereon shall be extinguished for all purposes as of the date of such cancellation.

5.7 **Payment of Other Amounts**

If a Senior Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clauses 5.2 (*Prepayment in the event of Taxes or Increased Costs*), 5.3 (*Prepayment in the event of Illegality*) or pursuant to the terms of the relevant Senior Loan Agreement, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to the relevant Senior Loan Agreement. For the avoidance of doubt, if the principal amount of such Senior Loan is reduced pursuant to the provisions of Clause 5.4 (*Reduction of a Senior Loan Upon Cancellation of Corresponding Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Senior Loan is so reduced and the Borrower shall not be entitled to any interest in respect of the cancelled Notes. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 5 (*Repayment and Prepayment*).

5.8 **Provisions Exclusive**

The Borrower shall not prepay or repay all or any part of any Senior Loan except at the times and in the manner expressly provided for in accordance with the relevant Senior Loan Agreement. Any amount prepaid or repaid may not be reborrowed under such Senior Loan Agreement.

6. **PAYMENTS**

6.1 **Making of Payments**

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under each Senior Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date, the Repayment Date or on the relevant prepayment date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of a Relevant Event. The Borrower shall, before 10.00 a.m. (Relevant Time) on the second Business Day prior to each Interest Payment Date, the Repayment Date or on the relevant prepayment date or (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant Trust Deed, the Account Bank Agreement and the Agency Agreement.

6.2 **No Set-Off, Counterclaim or Withholding; Gross-Up**

All payments to be made by the Borrower under each Senior Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes imposed by any Taxing Authority. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under a Senior Loan Agreement for or on account of any such Taxes, it shall, on the due date for such payment, increase any payment of principal, interest or any other payment due under such Senior Loan Agreement to such amount as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such deduction, withholding or additional amount received) a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes. The Borrower shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence reasonably satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in the Specified Currency for such payment on demand, subject to the receipt of relevant supporting documentation.

6.3 **Withholding on Notes**

Without prejudice to the provisions of Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), if the Lender notifies the Borrower that it has become obliged to make any withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland, the Kingdom of Sweden or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of a Series of Notes, the Borrower agrees to pay to the Lender, not later than 10.00 a.m. (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series, in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; *provided, however, that* the Lender shall procure that immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders of such Series, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, pay such amounts received by way of such reimbursement to the Borrower (it being understood that neither the Lender, the Trustee, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other Party is entitled to any such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 (*Withholding on Notes*) shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 **Mitigation**

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower or the Lender to make any deduction, withholding or payment as described in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall, upon becoming aware of the same, notify the other party thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, the Lender shall take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; *provided that* the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the Trust Deed, the Agency Agreement or the Notes.

6.5 **Tax Treaty Relief**

The Lender shall, provided that in each case a corresponding request from the Borrower is received by the Lender no earlier than 65 Business Days but no later than 30 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at the Borrower's cost, to the extent it is able to do so under applicable law including, without limitation, Polish laws, use commercially reasonable efforts to obtain and to deliver to the Borrower no later than 10 Business Days before the first Interest Payment Date or, as applicable, the beginning of each calendar year a certificate issued and certified (as applicable) by the competent Taxing Authority in the Kingdom of Sweden confirming that the Lender is tax resident in the Kingdom of Sweden in the calendar year of such Interest Payment Date and such other information or forms (including application forms) as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Polish Taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Polish Taxes has not been obtained.

The certificate or such other information or forms referred to in this Clause 6.5 (*Tax Treaty Relief*) shall be duly signed by the Lender (if applicable), stamped or otherwise approved by the competent Taxing Authority in the Kingdom of Sweden and apostilled or legalised (as applicable) with a notarised Polish translation attached thereto (an "**Authenticated Certificate**").

If a relief from deduction or withholding of Polish taxes under this Clause 6.5 (*Tax Treaty Relief*) has not been obtained and further to an application of the Borrower to the relevant Polish taxing authorities the latter requests the Lender's PLN bank account details, the Lender shall at the request of the Borrower (a) use its commercially reasonable efforts, at the Borrower's cost, to procure that such PLN bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such PLN bank account.

7. **CONDITIONS PRECEDENT**

The obligation of the Lender to make each Senior Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the representations and warranties made and given by the Borrower in Clause 8 (*Representations and Warranties*) shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing, (b) there shall be no Event of Default or Potential Event of Default, (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of the relevant Senior Loan Agreement, (d) the relevant Subscription Agreement, Trust Deed, Fee Side Letter and the Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (e) the Lender shall have received in full the amount referred to in Clause 3.2 (*Senior Loan Arrangement Fee*), if due and payable, above, as specified in the relevant Senior Loan Supplement.

8. **REPRESENTATIONS AND WARRANTIES**

8.1 **The Borrower's Representations and Warranties**

The Borrower does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender, with the intent that such shall form the basis of each Senior Loan Agreement, that:

8.1.1 the Borrower is duly organised and incorporated and validly existing under the laws of the Republic of Poland, is not in liquidation or receivership and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to perform its obligations under

each Senior Loan Agreement and to borrow Senior Loans; the Borrower has (or, where applicable, will have prior to the date of the relevant Senior Loan Supplement) taken all necessary corporate, legal and other action required to authorise the borrowing of Senior Loans on the terms and subject to the conditions of each Senior Loan Agreement and to authorise the execution and delivery of each Senior Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Senior Loan Agreement, and the performance of each Senior Loan Agreement in accordance with its respective terms;

8.1.2 the Senior Loan Agreement, including each Senior Loan Supplement in relation thereto, has been (or, where applicable, will have been prior to the date of the relevant Senior Loan Supplement) duly executed by the Borrower and constitutes (or, where applicable, will upon execution constitute) a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity, and (ii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;

8.1.3 the execution and performance of each Senior Loan Agreement, including each Senior Loan Supplement in relation thereto, by the Borrower will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Republic of Poland, (ii) the constitutive documents, rules and regulations of the Borrower or the terms of the general banking licence granted to the Borrower by the Polish National Bank or (iii) any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its respective assets, nor result in the creation or imposition of any Security Interests on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument;

8.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Republic of Poland (including, without limitation, the Polish National Bank), if any, required in order to ensure (i) the due execution, delivery and performance by the Borrower of each Senior Loan Agreement and (ii) the legality, validity, enforceability, and admissibility in evidence of each Senior Loan Agreement have been obtained or effected and are and shall remain in full force and effect;

8.1.5 (i) no Potential Event of Default or Event of Default has occurred and is continuing; (ii) no default under any agreement or instrument evidencing any Indebtedness of the Borrower which might have a Material Adverse Effect has occurred and is continuing; and (iii) no such Potential Event of Default, Event of Default or default under any agreement or instrument evidencing any Indebtedness of the Borrower will occur upon the making of the relevant Senior Loan;

8.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Subsidiaries, the adverse determination of which would have a Material Adverse Effect;

8.1.7 except for Security Interests of the types referred to in the definition of Permitted Security Interests in Clause 1.1 (Definitions), the Borrower's obligations under the Senior Loan Agreement will rank at least pari passu with all its other unsecured and unsubordinated Indebtedness except as otherwise provided by mandatory provisions of applicable law;

8.1.8 the latest audited consolidated IFRS financial statements and unaudited interim consolidated financial statements of the Borrower:

(a) were prepared in accordance with IFRS, as consistently applied;

(b) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and

(c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year or financial period covered by such financial statements;

8.1.9 there has been no material adverse change since the date of the latest audited consolidated IFRS financial statements of the Borrower in the condition (financial or otherwise), results of business,

operations or immediate prospects of the Group or on the Borrower's ability to perform its obligations under any Senior Loan Agreement;

8.1.10 the execution, delivery and enforceability of each Senior Loan Agreement is not subject to any tax, duty, fee or other charge of a material amount, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Republic of Poland or any political subdivision or taxing authority thereof or therein;

8.1.11 neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Senior Loan Agreement;

8.1.12 the Borrower and its Subsidiaries are in compliance in all respects with all applicable provisions of law and all applicable rules, regulations and guidelines of the Polish National Bank, except where the failure to be in so compliance would not have a Material Adverse Effect;

8.1.13 neither the Borrower, nor any of its Material Subsidiaries, has taken any corporate action nor, have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Material Subsidiaries, for its or their bankruptcy, winding- up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues;

8.1.14 there are no strikes or other employment disputes against the Borrower which have been started or are pending or, to its knowledge, threatened which would have a Material Adverse Effect;

8.1.15 save as disclosed in the Base Prospectus, in any proceedings taken in the Republic of Poland in relation to each Senior Loan Agreement, the choice of English law as the governing law of each Senior Loan Agreement and any judgement obtained in England in relation to each Senior Loan Agreement will be recognised and enforced in the Republic of Poland after compliance with the applicable procedures and rules and all other legal requirements in Republic of Poland;

8.1.16 no withholding in respect of any Taxes is required to be made from any payment by the Borrower under each Senior Loan Agreement;

8.1.17 except where the absence of which or (as the case may be), the non-compliance with which, would not be likely to have a Material Adverse Effect, each of the Borrower and its Subsidiaries has all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable each of the them, respectively, to own its assets and carry on its business, which are in full force and effect, and the Borrower is conducting such business in accordance with such licences, consents, examinations, clearances, filings registrations and authorisations; and

8.1.18 the Borrower has no overdue tax liabilities, other than those that would not have a Material Adverse Effect.

8.2 **Lender's Representations and Warranties**

The Lender represents and warrants to the Borrower as follows:

8.2.1 the Lender is duly incorporated under the laws of the Kingdom of Sweden and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

8.2.2 the execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Kingdom of Sweden or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;

8.2.3 the Lender Agreements have been duly executed by and constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws

affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;

8.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect; and

8.2.5 the Lender is a resident of the Kingdom of Sweden for taxation purposes. The Lender will be liable for Swedish Taxes on its Swedish source income as well as on its foreign source income. The Lender may also benefit from tax treaties signed by the Kingdom of Sweden, including the double tax treaty concluded on 19 November 2004 between the Kingdom of Sweden and the Republic of Poland. At the date hereof, the Lender reasonably believes that it does not have a permanent establishment in the Republic of Poland save for that which may be created solely as a result of the Lender entering into this Agreement.

9. COVENANTS

So long as any amount remains outstanding under a Senior Loan Agreement:

9.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Security Interests, other than Permitted Security Interests, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Relevant Indebtedness or any Guarantee of or indemnity in respect of any Relevant Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations hereunder are to the satisfaction of the Trustee (i) secured equally and rateably with such other Relevant Indebtedness or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to any such Security Interest and which is approved by the Trustee.

9.2 Keep-well agreement

The Borrower shall cause the Lender to have a positive Tangible Net Worth of at least SEK 500,000 at all times and, if at any time the Lender requires funds to meet its obligations from time to time as they fall due, the Borrower shall provide to the Lender, on a timely basis, the funds required by the Lender in order to meet such obligations.

9.3 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Poland for the execution, delivery or performance of the Senior Loan Agreements or for the validity or enforceability thereof, *provided that*, in any case if the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 9.3 (*Maintenance of Authorisations*) within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

9.4 Withholding Tax Exemption

The Borrower shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year the Lender can provide the Borrower with the documents required under Polish laws for the relief of the Lender from Polish withholding tax in respect of payments hereunder.

9.5 Financial Information

9.5.1 The Borrower shall, within 10 days of their being made available to the Warsaw Stock Exchange, deliver to the Lender and the Trustee the consolidated financial statements of the Group for such financial year, audited by the Auditors and accompanied by a report thereon of the Auditors.

9.5.2 The Borrower shall, within 10 days as their being made available to the Warsaw Stock Exchange, deliver to the Lender and the Trustee, unaudited consolidated financial statements of the Group for such period.

9.5.3 The Borrower shall, so long as any amount remains outstanding under any Senior Loan Agreement, deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.

9.5.4 The Borrower shall ensure that each set of consolidated financial statements of the Group delivered by it pursuant to this Clause 9.5 (*Financial Information*) is:

(a) prepared in accordance with IFRS and consistently applied; and

(b) in the case of the statements provided pursuant to sub-clause 9.5.2, certified by an Authorised Signatory of the Borrower as giving a true and fair view, in all material respects, of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of its or, as the case may be, the Group's operations during such period.

9.6 **Ranking of Claims**

The Borrower shall ensure that at all times the claims of the Lender against it under each Senior Loan Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

9.7 **Officers' Certificates**

At the time of the despatch to the Trustee of the consolidated financial statements of the Group pursuant to sub-clauses 9.5.1 and 9.5.2, or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender and the Trustee, written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

At the time of the despatch to the Trustee of the consolidated financial statements of the Group pursuant to sub-clauses 9.5.1 and 9.5.2, or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate listing its Material Subsidiaries, accompanied by a report by the Auditors addressed to the directors of the Borrower as to the proper extraction of the figures used in the Officers' Certificate, as described in the definition of "Officers' Certificate" in Clause 1.1 (*Definitions*).

9.8 **Notes Held by the Borrower**

Upon being so requested in writing by the Lender or the Trustee, the Borrower shall deliver to the Lender and the Trustee an Officers' Certificate of the Borrower setting out the total number of Notes which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

10. **EVENTS OF DEFAULT**

10.1 **Events of Default**

If one or more of the following events of default (each an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 10.3 (*Default Remedies*).

10.1.1 The Borrower fails to pay any amount payable under a Senior Loan Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than five days in the case of principal and seven days in the case of interest.

10.1.2 The Borrower fails to perform or observe any of its obligations under a Senior Loan Agreement (other than as referred to in paragraph 10.1.1 above) and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may agree) next following service by the Trustee on the Borrower of notice requiring the same to be remedied.

10.1.3

(a) Any present or future Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or

(b) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(c) the Borrower or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above, individually or in the aggregate, exceeds €10,000,000 (or its equivalent amount in any other currency or currencies).

10.1.4 The occurrence of any of the following events: (i) any of the Borrower, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation; or (ii) the presentation or filing of a petition in respect of any of the Borrower or its Material Subsidiaries in any court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Material Subsidiaries, unless the petition is withdrawn or dismissed within 30 days of such presentation or filing; or (iii) the announcement by an appropriate court in the Republic of Poland of the insolvency (upadłość) of any of the Borrower or any of its Material Subsidiaries pursuant to the Polish Bankruptcy and Recovery Law dated 28 February 2003 or any other laws or regulations that may replace the above; and/or (iv) any declaration of liquidation of the Borrower or any of its Material Subsidiaries pursuant to the Polish Banking Law dated 29 August 1997, or any other laws or regulations which may replace the above.

10.1.5 (i) The Borrower or any of its Material Subsidiaries is unable or admits its inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling a material part of its Indebtedness; (ii) the value of the assets of any of the Borrower or its Material Subsidiaries is less than its liabilities; and/or (iii) a moratorium is declared in respect of any Indebtedness of any of the Borrower or its Material Subsidiaries.

10.1.6 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries unless the levy against such undertaking, revenues or assets is discharged or dismissed within 30 days.

10.1.7 Any governmental authorisation necessary for the performance of any obligation of the Borrower under the Senior Loan Agreement fails to be in full force and effect, if such failure is not remedied within 30 days of its occurrence.

10.1.8 All or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 10 per cent. or more the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired, if, in the case of a member of the Group other than the Borrower or the Lender, such occurrence has a Material Adverse Effect.

10.1.9 The Borrower's general banking licence is revoked or the Borrower is prohibited from conducting any substantial part of its banking operations envisaged in its banking licence.

10.1.10 The aggregate amount of unsatisfied judgements, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower or any of its Subsidiaries exceeds €10,000,000 in aggregate, or the equivalent thereof in any other currency or currencies, and there is a period, being the later of, 60 days or such period as may be specified in the relevant judgment, decree or order following the entry thereof during which such judgment, decree or order is not appealed or within the period of time prescribed by Polish law, satisfied, discharged, waived or the execution thereof stayed and such default continues for 10 Business Days after the notice specified in Clause 10.2 (Notice of Default).

10.1.11 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under the Senior Loan Agreement or any of such obligations (subject as provided in sub-clause 8.1.2 of Clause 8.1 (The Borrower's Representations and Warranties)) are not, or cease to be, legal, valid, binding and enforceable and such unlawfulness or cessation has a Material Adverse Effect.

10.1.12 The Borrower ceases to carry on the business of banking and deposit-taking in Poland.

10.1.13 The Borrower repudiates or communicates in writing to any other person an intention to repudiate any of the Borrower Agreements.

10.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-clauses.

10.2 **Notice of Default**

The Borrower shall deliver to the Lender and the Trustee within (i) 10 days of any written request by the Lender or the Trustee, or (ii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 2, stating whether any Potential Event of Default or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

10.3 **Default Remedies**

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender under the relevant Senior Loan Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Senior Loan Agreement by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

10.4 **Right of Set-Off**

If any amount payable by the Borrower hereunder is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender hereunder.

10.5 **Rights Not Exclusive**

The rights provided for in the Senior Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11. **INDEMNITY**

11.1 **Indemnification**

The Borrower undertakes to the Lender, that if the Lender, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "**indemnified party**") incurs any loss, liability, cost, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "**Loss**") as a result of or in connection with the Senior Loan, the Senior Loan Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes corresponding to such Senior Loan or Senior Loan Agreement being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

11.2 **Independent Obligation**

Clause 11.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with each Senior Loan Agreement or any other obligations of the

Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of any Senior Loan Agreement or any such other obligations.

11.3 **Evidence of Loss**

If requested by the Borrower, the Lender shall use its reasonable endeavours to provide the Borrower with a certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 11.1 (*Indemnification*) and specifying in full detail the basis therefore. Any such certificate shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

11.4 **Currency Indemnity**

To the fullest extent permitted by law, the obligation of the Borrower under this Agreement, each Senior Loan Supplement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender, in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, notwithstanding any payment in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement and any Senior Loan Supplement, shall continue in full force and effect.

12. **SURVIVAL**

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Withholding on Notes*), 11 (*Indemnity*), 14.2 (*Stamp Duties*) and 24 (*Limited Recourse and Non-Petition*) shall survive the execution and delivery of each Senior Loan Agreement and the drawdown and repayment of the relevant Senior Loan, in each case by the Borrower.

13. **EXPENSES**

13.1 **Reimbursement of Front-end Expenses for the Extension of the Senior Loan by the Lender**

The Borrower shall reimburse the Lender in the Specified Currency for all reasonable costs and expenses incurred by the Lender in connection with the negotiation, preparation and execution of each Senior Loan Agreement and all related documents and other expenses connected with the extension of each Senior Loan, including, without limitation, the reasonable fees and expense of its counsel.

13.2 **Payment of Ongoing Expenses**

In addition, the Borrower hereby agrees to pay to or to the order of the Lender on demand in the Specified Currency the upfront acceptance fee of the Trustee and all ongoing commissions, costs, fees and expenses and taxes (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements and the letter entered into between the Borrower, the Lender, the Trustee, the Account Bank and the Agents dated 31 July 2008 in respect of the Programme (as amended, modified, supplemented and/or restated from time to time, the "**Fee Side Letter**"). The Borrower shall also pay the Lender for, or pay to the order of the Lender for, any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, the Account Bank Agreement, Trust Deed and/or the Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or additional amounts in respect of the corresponding Series of Notes). Payments to the Lender or to the order of the Lender referred to in this Clause 13.2 (*Payment of Ongoing Expenses*) shall be made by the Borrower at least one Business Day before the relevant payment is to be made or expense incurred.

13.3 **Invoices**

All payments, costs, commissions, fees and expenses to be paid or reimbursed by the Borrower or agreed to be paid by, or to the order of, the Lender, shall be paid or reimbursed upon receipt of an appropriate invoice (including value added taxes if applicable) submitted to the Borrower or to the Lender (as applicable).

14. **GENERAL**

14.1 **Evidence of Debt**

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of the Borrower's obligations recorded therein.

14.2 **Stamp Duties**

14.2.1 The Borrower shall pay all stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Senior Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such Taxes or similar charges.

14.2.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Senior Loan Agreement and any documents related thereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such Taxes or similar charges.

14.3 **Waivers**

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power to privilege under any Senior Loan Agreement, and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Senior Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 **Prescription**

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes.

15. **NOTICES**

All notices, requests, demands or other communications to or upon the respective parties to each Senior Loan Agreement shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Senior Loan Agreement addressed as follows:

15.1 if to the Borrower:

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
ul. Puławska 15
02-515 Warsaw
Poland

Tel: +48 22 521 81 41

Fax: +48 22 521 88 62

Attention: Ms Ilona Wolyniec, Managing Director – Investment Banking Division

15.2 if to the Lender:

PKO Finance AB (publ)
Stockholm
Sweden

Fax: +46 8611 34 34

Attention: The Directors – PKO Finance AB (publ)

15.3 if to the Trustee:

Citicorp Trustee Company Limited
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Fax: +44 (0) 207 500 5877

Attention: Agency and Trust

or to such other address or fax number as any party may hereafter specify in writing to the other.

16. ASSIGNMENT

16.1 General

Each Senior Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Senior Loan Agreement. Any reference in a Senior Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 16.3 (*By the Lender*) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

16.2 By the Borrower

The Borrower shall not to be entitled to assign, charge, transfer, declare a trust over or otherwise encumber or dispose of all or any part of its rights or obligations hereunder to any other person.

16.3 By the Lender

Subject to clause 23 of the Trust Deed, the Lender may not assign, charge, transfer, declare a trust over or otherwise encumber or dispose of, in whole or in part, any of its rights and benefits or obligations under any Senior Loan Agreement (other than the Reserved Rights) except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under each Senior Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under each Senior Loan Agreement, in each case, pursuant to clause 6.2 of the relevant Supplemental Trust Deed.

17. LAW AND JURISDICTION

17.1 Governing Law

Each Senior Loan Agreement and any non-contractual obligations arising out of or in connection with each Senior Loan Agreement are governed by English law.

17.2 Jurisdiction

The courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with any Senior Loan Agreement (including a dispute relating to the existence, validity or termination of any Senior Loan Agreement or any non-contractual obligation arising out of or in connection with any Senior Loan Agreement) or the consequences of its nullity.

17.3 Appropriate Forum

The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes between them and, accordingly, that they will not argue to the contrary.

17.4 Right of Lender to Take Proceedings Outside England

Clause 17.2 (*Jurisdiction*) is for the benefit of the Lender only. As a result, nothing in Clause 17.2 (*Jurisdiction*) prevents the Lender from taking Proceedings in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent Proceedings in any number of jurisdictions.

17.5 **Lender's and Borrower's Process Agent**

Each of the Lender and the Borrower irrevocably appoints the Borrower at its London branch, being at the date of this Agreement at Shaftesbury House, 151 Shaftesbury Avenue, London WC2H 8AL, United Kingdom to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Lender). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Borrower, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice to the Lender, at the Borrower's cost. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

18. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

Other than the Trustee, a person who is not a party to a Senior Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Senior Loan Agreement.

19. **COUNTERPARTS**

Each Senior Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

20. **LANGUAGE**

The language which governs the interpretation of each Senior Loan Agreement is the English language.

21. **AMENDMENTS**

Except as otherwise provided by its terms, each Senior Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22. **PARTIAL INVALIDITY**

The illegality, invalidity or unenforceability to any extent of any provision of each Senior Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

23. **SEVERABILITY**

In case any provision in or obligation under any Senior Loan Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

24. **LIMITED RECOURSE AND NON PETITION**

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received and retained by or for the account of the Lender pursuant to this Loan Agreement (the "**Lender Assets**"), subject always (1) to the Security Interests (as defined in the Trust Deed) and (2) to the fact that any claims of the Dealers (as defined in the Dealer Agreement) pursuant to the Dealer Agreement shall rank in priority to any claims of the Borrower hereunder, any such claim by any and all such Dealers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, the Borrower shall not be entitled to institute, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) in relation to the Lender.

IN WITNESS WHEREOF, the parties hereto have caused this Senior Facility Agreement to be executed on the date first written above.

For and on behalf of
POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA

By:

Title:

By:

Title:

Signed by duly authorised signatories of

PKO FINANCE AB (PUBL)

By:

Title:

By:

Title:

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV with its registered office at 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium ("**Euroclear**") and/or Clearstream Banking, société anonyme, Luxembourg with its registered office at 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ECB credit operations" of the central banking system for the euro (the "**Eurosystem**"), *provided that* certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(c) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and

(ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

Temporary Global Note exchangeable for Bearer Notes in definitive form ("Definitive Notes")

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Enforcement*) in "*Terms and Conditions of the Notes*" occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("**Individual Note Certificates**") or a global Note certificate in registered form (a "**Global Note Certificate**"), in each case as specified in the relevant Final Terms. Each Global Note Certificate will be deposited on or around the relevant issue date, with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Enforcement*) in "*Terms and Conditions of the Notes*" occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion in accordance with the provisions of the relevant Final Terms) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Notes. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes in Global Form" below. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified in the relevant Final Terms (the "**Supplemental Trust Deed**") supplemental to the amended and restated trust deed dated 15 April 2010 (as amended, modified, supplemented and/or restated as at the Issue Date, the "**Principal Trust Deed**"), each made between PKO Finance AB (publ) (the "**Issuer**") and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**"). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the "**Trust Deed**".

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing either:

(a) a senior loan (the "**Senior Loan**") to Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Borrower**") as specified in the relevant Final Terms on the terms of an amended and restated senior facility agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the "**Senior Facility Agreement**"), as supplemented on the Issue Date specified in the relevant Final Terms by a senior loan supplement (the "**Senior Loan Supplement**" and, together with the Senior Facility Agreement, the "**Senior Loan Agreement**") each between the Issuer and the Borrower; or

(b) a subordinated loan to the Borrower (the "**Subordinated Loan**") as specified in the relevant Final Terms, on the terms of a subordinated facility agreement (as amended, modified, supplemented and/or restated from time to time, the "**Subordinated Facility Agreement**") to be dated on or before the Issue Date of such Notes, as supplemented on the Issue Date specified in the relevant Final Terms by a subordinated loan supplement (the "**Subordinated Loan Supplement**" and, together with the Subordinated Facility Agreement, the "**Subordinated Loan Agreement**") each between the Issuer and the Borrower.

If a Senior Loan is specified in the relevant Final Terms, all references in these Terms and Conditions (the "**Conditions**") to the "**Loan**", the "**Facility Agreement**", the "**Loan Supplement**" and the "**Loan Agreement**" shall be construed as being references to the "**Senior Loan**", the "**Senior Facility Agreement**", the "**Senior Loan Supplement**" and the "**Senior Loan Agreement**", respectively.

If a Subordinated Loan is specified in the relevant Final Terms, all references in these Conditions to the "**Loan**", the "**Facility Agreement**", the "**Loan Supplement**" and the "**Loan Agreement**" shall be construed as being references to the "**Subordinated Loan**", the "**Subordinated Facility Agreement**", the "**Subordinated Loan Supplement**" and the "**Subordinated Loan Agreement**", respectively.

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of funds in relation to the Loan from the Borrower) pursuant to, an amended and restated paying agency agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the "**Agency Agreement**") and made between the Issuer, the Borrower, the Trustee, Citibank, N.A., London Branch and Banque Internationale à Luxembourg. Citibank, N.A., London Branch will act as principal paying agent (the "**Principal Paying Agent**"), transfer agent (the "**Transfer Agent**"), calculation agent (the "**Calculation Agent**") and, in respect of the registered notes (if any), the registrar (the "**Registrar**"). Banque Internationale à Luxembourg will act as a paying agent (and together with the Principal Paying Agent, the "**Paying Agents**" and each a "**Paying Agent**"). Banque Internationale à Luxembourg will act as Luxembourg paying agent (the "**Luxembourg Paying Agent**", and together with the Principal Paying Agent, the Paying Agents, the Transfer Agent, the Calculation Agent and the Registrar, the "**Agents**").

Hard copies of the Trust Deed, the Loan Agreements, the Agency Agreement, the Account Bank Agreement and the Final Terms are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the principal office of the Trustee being, at the date hereof, at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the respective specified offices of the Principal Paying Agent and Luxembourg Paying Agent.

Certain provisions of these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. STATUS, SECURITY AND LIMITATION OF LIABILITY

1.1 *Status and Security*

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes constitute secured and limited recourse obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the Borrower's covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, examinership, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in a liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (together with the Charge, the "**Security Interests**"). "**Reserved Rights**" are the rights excluded from the Security Interests, being all and any rights, interests and benefits of the Issuer in respect of the obligations of the Borrower under Clause 3.4 (*Ongoing Fees and Expenses*), Clause 11 (*Indemnity*), Clause 12 (*Survival*) and Clause 14.2 (*Stamp Duties*) of the Senior Facility Agreement and the equivalent clauses in the Subordinated Facility Agreement, as the case may be, and in the case of the Senior Facility Agreement only, Clause 9.4 (*Withholding Tax Exemption*).

In certain circumstances, the Trustee shall (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least 25% of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Series Security).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the

Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the relevant Series Security granted to the Trustee in the Trust Deed. The Trustee shall not be required to take enforcement proceedings under the Trust Deed, following the enforcement of the Series Security created in the Trust Deed, or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

The obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered by or on behalf of the Issuer or the Trustee. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

1.2 ***Limitation of Liability***

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights and subject to Condition 8 (*Taxation*), will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of setoff or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and are deemed to have accepted, these Conditions, the Final Terms and the contents of the Trust Deed, the Agency Agreement, the Account Bank Agreement and the Loan Agreement. It is hereby expressly **provided that**, and Noteholders are deemed to have accepted that:

1.2.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, (in the case of only the Issuer) save as otherwise expressly provided in the Trust Deed, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts if any) due or to become due from the Borrower under the Loan Agreement;

1.2.2 the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations;

1.2.3 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower;

1.2.4 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;

1.2.5 the financial servicing of the terms of the Notes depends solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing;

1.2.6 the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to

the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The Trustee shall not at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions and/or the Trust Deed until it has received from the Borrower the funds that are necessary to cover the costs, expenses and all other liabilities in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

2. FORM, DENOMINATION, TITLE AND TRANSFER

2.1 *Form and Denomination*

The Notes will be issued in bearer or registered form, and in the Specified Denomination(s) which shall, in the case of each Note to be offered to the public within a Member State of the European Economic Area or to be admitted to trading on a regulated market situated or operating within such a Member State, be not less than EUR 100,000 or its equivalent in other currencies, and which may include a minimum denomination and higher integral multiples of a smaller amount, without interest coupons, **provided that** Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/ Payment Basis specified in the relevant Final Terms.

2.2 *Bearer Notes*

Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

2.3 *Title to Bearer Notes*

Title to Bearer Notes and Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

2.4 *Registered Notes*

Registered Notes are issued in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

2.5 *Title to Registered Notes*

The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

2.6 *Ownership*

The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

2.7 ***Transfers of Registered Notes***

Subject to Condition 2.10 (*Closed periods*) and Condition 2.11 (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

2.8 ***Registration and delivery of Note Certificates***

Within five business days of the surrender of a Note Certificate in accordance with Condition 2.7 (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2.8 (*Registration and delivery of Note Certificates*), "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

2.9 ***No charge***

The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.10 ***Closed periods***

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

2.11 ***Regulations concerning transfers and registration***

All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. **RESTRICTIVE COVENANT**

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*).

The Trust Deed provides that, save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*: (i) incur any Indebtedness (as defined in the Trust Deed) (other than issuing further Notes (which may be consolidated and form a single series with Notes of any Series) under the Programme and/or issuing securities in connection with other limited recourse financing arrangements permitted under the Trust Deed and/or creating or incurring further obligations relating to such Notes or such other limited recourse financing arrangements); (ii) engage in any business (other than entering into the Programme, issuing Notes thereunder from time to time for the sole purpose of financing Loans to the Borrower in accordance with the Senior Facility Agreement or the

Subordinated Facility Agreement, as the case may be, and each Loan Supplement, entering into a corporate services agreement for the administration of the Issuer and/or entering into other programmes or issuing securities in connection with other limited recourse financing arrangements permitted under the Trust Deed, entering into related agreements and transactions and performing any act incidental or necessary in connection with any of the foregoing),; (iii) declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities); (iv) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as

contemplated in these Conditions and the Trust Deed); (v) issue any shares (other than such shares as are in issue at the date of the Principal Trust Deed); or (vi) give any guarantee or assume any other liability or petition for any voluntary winding up.

4. INTEREST

4.1 *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the relevant Final Terms, which shall be equal to the rate per annum at which interest under the relevant Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the relevant Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified in the relevant Final Terms, the amount of interest payable on each Interest Payment Date will be an amount equal to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified, and in the case of the Broken Amount, will be payable on the particular Interest Payment Date(s) specified in the relevant Final Terms or as soon as thereafter as the same is received.

4.2 *Interest on Floating Rate Notes*

(a) *Interest Payment Dates*: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified in the relevant Final Terms, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrears on each Interest Payment Date or as soon thereafter as the same is received. Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

(b) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(c) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified in the relevant Final Terms and as set out in the Loan Agreement.

4.3 ***Accrual of Interest***

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 4 (*Interest*) to the Relevant Date (as defined in Condition 8 (*Taxation*)).

4.4 ***Calculations***

The amount of interest payable in respect of any Note for any period shall be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount and multiplying the product by the Day Count Fraction, as specified in the relevant Final Terms and in the Loan Agreement, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent, **provided that** if an Interest Amount (or a formula for its calculation) is specified in respect of such period, the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.5 ***Publication of Rates of Interest and Interest Amounts***

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Borrower, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4.2(b) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan becomes due and payable under (i) in the case of a Senior Loan, Clause 10 (*Events of Default*) of the Senior Facility Agreement, or in the case of a Subordinated Loan, under the relevant provisions in the Subordinated Loan Agreement relating to the repayment and prepayment of a Subordinated Loan, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

4.6 ***Determination or Calculation by Trustee***

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee may do so (without any responsibility or liability to any person in relation thereto) (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition 4.6 (*Determination or Calculation by Trustee*), with any necessary consequential amendments, to the extent that, in its opinion, it

can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

4.7 ***Step-Up Rate of Interest***

If a Step-Up Rate of Interest is specified in the relevant Final Terms, each Fixed Rate Note or Floating Rate Note, as applicable, will bear interest on its outstanding principal amount at the Initial Rate of Interest during the Initial Interest Term and at the Step-Up Rate of Interest during the Step-Up Interest Term, each as specified in the relevant Final Terms.

5. **REDEMPTION AND PURCHASE**

5.1 ***Scheduled redemption***

Unless the Loan is previously prepaid or repaid, the Borrower will be required to repay the Loan one Business Day (as defined in the Facility Agreement) before its Repayment Date (as defined in the Facility Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified in the relevant Final Terms at their Final Redemption Amount (which, unless otherwise specified in the relevant Final Terms, is 100% of the principal amount thereof).

5.2 ***Mandatory redemption***

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their principal amount, or at such other Early Redemption Amount specified in the relevant Final Terms (together with interest accrued to the date of redemption) and shall be redeemed by the Issuer. The Issuer shall provide not less than twenty five days' nor more than sixty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 15 (*Notices*) which notice shall be irrevocable and shall specify a date for redemption.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts if any (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 10 (*Events of Default*) of the Senior Loan Agreement or under the relevant provisions in the Subordinated Loan Agreement relating to prepayment and limited acceleration of the Subordinated Loan (as the case may be), the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 6 (*Payments – Bearer Notes*) or Condition 7 (*Payments – Registered Notes*) (as the case may be).

5.3 ***Call Option***

If Call Option is specified the relevant Final Terms, then pursuant to Clause 5.4 of the Senior Facility Agreement and the relevant Senior Loan Supplement, the Borrower may, at its option at any time from the Call Option Commencement Date (as specified in the relevant Final Terms) to the Repayment Date on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, prepay the Senior Loan at the Early Redemption Amount (as specified in the relevant Final Terms) (the "**Call Option Notice**"). The notice to be given (the "**Call Option**") shall specify the date for repayment of the relevant Senior Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the relevant Senior Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the relevant Senior Loan should become repayable following exercise of the Call Option by the Borrower (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from the Borrower under the relevant Senior Loan, redeem the Notes on the Call Redemption Date. In the case of a partial redemption, the Notes shall be redeemed pro rata, subject to compliance with any applicable laws and stock exchange or other regulatory requirements. The Issuer's obligations in respect of this Condition 5.3 (*Call Option*) to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Call Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the relevant Senior Loan Agreement.

5.4 ***Put Option***

If a Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date (as specified in the relevant Final Terms) (the "**Put Option**") at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put option notice

("**Put Option Notice**") in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Issuer shall notify the Borrower, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Senior Loan to be prepaid as a consequence of the exercise of the Put Option. Subject to timely receipt of the relevant amounts from the Borrower under the Senior Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 5.4 (*Put Option*) on the Put Settlement Date, subject as provided in Condition 6 (*Payments – Bearer Notes*) and Condition 7 (*Payments – Registered Notes*).

5.5 ***Purchase of Notes***

The Issuer or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, whilst held by or on behalf of the Issuer or the Borrower or, in either case, any of its subsidiaries, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding, including, without limitation, for the purpose of calculating quorums at meetings.

5.6 ***Cancellation***

The Facility Agreement provides that the Borrower may, from time to time, deliver Notes held by it to the Issuer, having an aggregate principal value of at least EUR 1,000,000 (or its equivalent in other currencies), together with a request for the Issuer to present such Notes to the Principal Paying Agent in case of Bearer Notes or to the relevant Registrar in case of Registered Notes for cancellation in consideration of the extinguishment of the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar or Principal Paying Agent, as the case may be, to cancel such Notes. Notes acquired or held by the Issuer will also be presented to the relevant Registrar or Principal Paying Agent, as the case may be, for cancellation. Upon any such cancellation by or on behalf of the relevant Registrar or Principal Paying Agent, as the case may be, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

6. PAYMENTS – BEARER NOTES

6.1 ***Application***

This Condition 6 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

6.2 ***Principal***

Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the specified office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (and in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System. For the purposes of these Conditions "**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; "**TARGET System**" means TARGET2 or any successor thereof.

6.3 ***Payments in New York City***

Payments of principal or interest may be made at the specified office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

6.4 ***Interest***

Payments of interest shall, subject to Condition 6.7 (*Unmatured Coupons void*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the specified office of any Paying Agent in the manner described in Condition 6.2 (*Principal*) above.

6.5 ***Payments subject to applicable laws***

All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

6.6 ***Deductions for unmatured Coupons***

If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-Condition would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in sub-Condition (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

6.7 ***Unmatured Coupons void***

If the relevant Final Terms specifies that this Condition 6 (*Payments – Bearer Notes*) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 5.2 (*Mandatory Redemption*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

6.8 ***Payments on Business Days***

If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 6.8 (*Payments on Business Days*) and in Condition 7.5 (*Payments on Business Days*) below, "**Business Day**" means a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating.

6.9 ***Payments other than in respect of matured Coupons***

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the specified office of any Paying Agent.

6.10 ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

6.11 ***Exchange of Talons***

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 12 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

6.12 ***Accrued Interest***

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified in the relevant Final Terms shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

6.13 ***Payments by the Borrower***

Save as otherwise directed by the Trustee, at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 (*Payments to Noteholders*) of the Agency Agreement, require the Borrower to make all payments of principal and interest and any additional amounts (other than any amounts constituting Reserved Rights) to be made pursuant to the Loan Agreement to the Principal Paying Agent to a specified account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of itself and of the Noteholders.

7. **PAYMENTS – REGISTERED NOTES**

7.1 ***Application***

This Condition 7 (*Payments – Registered Notes*) is only applicable to Registered Notes.

7.2 ***Principal***

Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

7.3 ***Interest***

Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

7.4 ***Payments subject to applicable laws***

All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.5 ***Payments on Business Days***

Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7.5 (*Payments on Business Days*) arriving after the due date for payment or being lost in the mail.

7.6 ***Partial Payments***

If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

7.7 ***Record Date***

Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7.8 ***Accrued Interest***

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified in the relevant Final Terms shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.9 ***Payments by the Borrower***

Save as otherwise directed by the Trustee, at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 (*Payments to Noteholders*) of the Agency Agreement, require the Borrower to make all payments of principal and interest and any additional amounts (other than any amounts constituting Reserved Rights) to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the "**Account**"). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of itself and of the Noteholders.

8. **TAXATION**

8.1 All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland or the Kingdom of Sweden or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

Where any such deduction or withholding is required by law, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives and retains an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives and retains any such equivalent sum from the Borrower, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional

amount (if any) as is actually received and retained by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, **provided that** no such additional amount will be payable in respect of any Note:

(a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; (ii) is liable for such taxes or duties by reason of his having some connection with the Republic of Poland or the Kingdom of Sweden other than the mere holding of such Note, the receipt of payment in respect thereof, or the enforcement by such Noteholder of its rights under the Notes;

(b) presented such Note for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;

(c) where such withholding or deduction is imposed on a payment to an individual as a residual entity and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.

8.2 As used herein, "**Relevant Date**" (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received and retained by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and retained and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 15 (*Notices*).

8.3 Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 (*Taxation*) or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies.

At any time after (i) in case of Senior Loan, an Event of Default (as defined in the Senior Loan Facility Agreement), or (ii) in the case of a Subordinated Loan, an Early Repayment Event (as to be defined in the Subordinated Facility Agreement) or (iii) if a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, in accordance with all applicable laws at its discretion and without notice, and shall, if requested in writing to do so by Noteholders holding at least 25% in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction against all Liabilities (as defined in the Trust Deed) to which it may become liable and all costs, charges and expenses which may be incurred in connection therewith, declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default or Early Repayment Event), or exercise any rights under the Series Security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event).

Upon a declaration as provided herein and repayment of the Loan following an Event of Default or an Early Repayment, the Notes will be redeemed or repaid at their principal amount outstanding together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

In the case of a Subordinated Loan, the Issuer shall have no right to accelerate payments under the Subordinated Loan Agreement in the case of a default in payments of principal, interest or other amounts due under the Subordinated Loan Agreement or for breaches of representations and covenants under the Subordinated Loan Agreement.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION OF NOTES, TRUST DEED AND LOAN AGREEMENT; WAIVER; SUBSTITUTION OF THE ISSUER; APPOINTMENT/ REMOVAL OF TRUSTEE

10.1 *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, these Conditions, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of 90% of all Noteholders for the time being entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by, or on behalf of, one or more Noteholders.

10.2 *Modification and Waiver*

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions, the Trust Deed or the Loan Agreement (other than in respect of Reserved Matters (as defined in the Trust Deed)) which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders of a Series of Notes. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders of a Series of Notes (other than in respect of Reserved Matters); provided always that the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution or Written Resolution or a request of 25% in aggregate principal amount of Notes outstanding of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

10.3 *Substitution*

The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, and at the request of the Borrower shall, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*). For so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, a supplement to the most recently published Base Prospectus prepared in connection with the Programme will be prepared and submitted to the Luxembourg Stock Exchange or any other document required by the Luxembourg Stock Exchange in respect of any such substitution.

10.4 *Exercise of Powers*

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders of each Series of Notes and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.5 ***Appointment and Removal of Trustee***

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, **provided that**, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders **provided that** such resignation shall not become effective unless there remains a trustee in office after such resignation.

11. **INDEMNIFICATION OF TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

12. **PRESCRIPTION**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

13. **REPLACEMENT OF NOTES**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

14. **AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out on the Notes. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents **provided that** (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 15 (*Notices*).

15. **NOTICES**

15.1 ***Notices – Bearer Notes***

Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

15.2 ***Notices – Registered Notes***

Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the third day after the date of mailing.

15.3 ***Trustee approval of notice***

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above pursuant to Condition 15.1 (*Notices – Bearer Notes*) or Condition 15.2 (*Notices – Registered Notes*) (as relevant), then such notification to such holders as shall be given with the approval of the Trustee and shall constitute sufficient notice to such holders for every purpose hereunder.

16. **FURTHER ISSUES**

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount, issue price, issue date and/or the date of the first payment of interest) so as to be consolidated and form a single series with the Notes.

Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Loan). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders.

17. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. **GOVERNING LAW**

The Notes, the Agency Agreement, the Loan Agreements, the Account Bank Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement, the Loan Agreements, the Account Bank Agreement and the Trust Deed are governed by English law other than provisions relating to subordination in the Subordinated Loan Agreement which are to be governed by Polish law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of

the courts of England and has waived any objections to the courts of England on the grounds that they are an inconvenient or inappropriate forum and has appointed an agent for the service of process in England.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will complete the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*],
issued by, but with limited recourse to

PKO Finance AB (publ) (the "**Issuer**")

under the [*Programme Amount*]
Programme for the Issuance of Loan Participation Notes

for the sole purpose of financing a [Senior/Subordinated] Loan to
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Borrower**")

The Final Terms have been prepared in accordance with Article 5(4) of Directive 2003/71/EC and must be read in conjunction with the base prospectus and its supplement(s). The Base Prospectus and its supplement(s) are published in accordance with Article 14 of Directive 2003/71/EC. The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC, as amended) (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances. In order to get the full information both the Base Prospectus and the Final Terms must be read in conjunction.

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated 6 May 2015 [and the Base Prospectus Supplement dated [●]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Notes and must be read in conjunction with such Base Prospectus [as so supplemented].

Full information on the Issuer, the Borrower and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the Base Prospectus Supplement] [is] [are] available for viewing [at [*website*]] [and] during normal business hours at [*address*] [and copies may be obtained from [*address*]].]

[*Include whichever of the following apply or specify as "Not Applicable"* (*N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*]

[*When completing any final terms, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive*].

1.	[(i) Series Number:]	[●]/[Not Applicable]
	[(ii) Tranche Number]:	[●]/[Not Applicable]
2.	Specified Currency or Currencies:	[●]
3.	Aggregate Nominal Amount:	
	[(i)] [Series]:	[●]
	[(ii) Tranche:	[●]]
4.	Issue Price:	[●] per cent. of the Aggregate Nominal Amount
5.	(i) Specified Denominations:	[●]
		[If the Specified Denomination is expressed to be EUR

			100,000 or its equivalent and multiples of a lower principal amount, insert the additional wording as follows: EUR 100,000 and integral multiples of EUR [1,000] in excess thereof up to and including EUR [199,000]. No Notes in definitive form will be issued with a denomination above EUR [199,000].] [No Notes may be issued which have a minimum denomination of less than EUR 100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency)]
	(ii)	Calculation Amount:	[●] [If only one Specified Denomination, insert the Specified Denomination. If more than one, insert the highest common factor. Note: there must be a common factor in the case of two or more Specified Denominations]
6.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[Specify/Issue Date/Not Applicable]
7.	Maturity Date:		[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
8.	Interest Basis:		[● per cent. Fixed Rate] [[Specify reference rate] +/– ● per cent. Floating Rate] [Zero Coupon]
9.	Redemption/Payment Basis – on the Maturity Date, the Notes may be redeemed at par or at a specified redemption amount specified in the relevant Final Terms:		[Redemption at par] [100 per cent]/[● per cent] [Partly Paid] [100 per cent]/[● per cent] [Instalment] [100 per cent]/[● per cent] *Note that the Redemption Amount shall always be equal to or higher than the par value of the redeemed Notes.*
10.	Change of Interest or Redemption/Payment Basis:		[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
11.	Put/Call Options:		[Investor Put] [Issuer Call]
12.	[(i)]	Status of the Notes:	[Senior/[Dated/Subordinated]
	[(ii)]	Status of the Loan Agreement:	[Senior/[Dated/Subordinated]
	[(iii)]	[Date [Board] approval for issuance of Notes [and Loan Agreement] [respectively]] obtained:	[●] [and [●]], respectively [(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]
13.	Method of distribution:		[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrears]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
	(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
	(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)]
	(vi)	[Determination Dates:	[●] in each year [insert regular interest payment dates, ignoring issue date or maturity date in the case of a

		long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]]
15.	**Floating Rate Note Provisions**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
(i)	Interest Period(s):	[●]
(ii)	Specified Period:	[●] [Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"]
(iii)	Specified Interest Payment Dates:	[●] [Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"]
(iv)	[First Interest Payment Date]:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention
(vi)	Additional Business Centre(s):	[Not Applicable/give details]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]):	[[Name] shall be the Calculation Agent (no need to specify if the Principal Paying Agent is to perform this function)]
(ix)	Screen Rate Determination:	
	● Reference Rate:	[For example, LIBOR or EURIBOR]
	● Interest Determination Date(s):	[●]
	● Relevant Screen Page:	[For example, Reuters LIBOR 01/ EURIBOR 01]
	● Relevant Time:	[For example, 11.00 a.m. London time/Brussels time]
	● Relevant Financial Centre:	[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro]
(x)	ISDA Determination:	
	● Floating Rate Option:	[●]
	● Designated Maturity:	[●]
	● Reset Date:	[●]
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/ [●]]
16.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
(i)	[Amortisation/Accrual] Yield:	[●] per cent. per annum
(ii)	Reference Price:	[●]

PROVISIONS RELATING TO REDEMPTION

17.	**Call Option**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
(i)	Call Option Redemption Date:	[●]
(ii)	Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
(iii)	If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount	[●] per Calculation Amount
(iv)	Notice period:	[●]

18.	**Put Option**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
	(i) Put Settlement Date:	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
19.	**Final Redemption Amount of each Note**	[●] per Calculation Amount
20.	**Early Redemption Amount** Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable] [If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	**Form of Notes:**	**[Bearer Notes:]** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on 7 days' notice] [Temporary Global Note exchangeable for Definitive Notes on 30 days' notice] [Permanent Global Note exchangeable for Definitive Notes on 30 days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [**Registered Notes:**] [Individual Note Certificates] [Global Note Certificate exchangeable for Individual Note Certificates on 5 days' notice/at any time/in the limited circumstances described in the Global Registered Note]
22.	New Global Note:	[Yes] [No]
23.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details*. *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(vi) and 18(x) relate*]
24.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]
25.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [●] apply]
26.	[Consolidation provisions:	Not Applicable/The provisions in Condition 16 (*Further Issues*) apply]

DISTRIBUTION

27.	(i) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
28.	If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
29.	U.S. Selling Restrictions:	[Reg. S Compliance Category]; (*In the case of Bearer Notes)* – [TEFRA C/TEFRA D/ TEFRA not applicable] (*In the case of Registered Notes)* – Not Applicable

Signed on behalf of

PKO Finance AB (publ):

By: .

Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i)	Listing	[Luxembourg Stock Exchange/other (specify)/None]
(ii)	Admission to trading	[Application is has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [*specify relevant regulated market*] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [*specify relevant regulated market*] with effect from [●].] [Not Applicable.]

2. **RATINGS**

Ratings:	[[The Programme has been/The Notes to be issued have been] rated:] [S&P: [●]] [Moody's: [●]] [Fitch: [●]] [[Other]: [●]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. **[INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]**

Need to include a description of any interest, including conflicting ones, that is material to the issue/ offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:]

["So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.*)]

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

(i)	Reasons for the offer:	[●] (*See "Use of Proceeds" wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.*)
(ii)	Estimated net proceeds:	[●] (*If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.*)
(iii)	Estimated total expenses relating to the admission to trading:	[●] [*Include breakdown of expenses*] (*If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.*)

5. [***Fixed Rate Notes only* – YIELD**

Indication of yield:	[●]

6. [***Floating Rate Notes only* – HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7. **OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank S.A./NV and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
Delivery:	Delivery [against/free of] payment

Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]/[Not Applicable]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No][Not Applicable] [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [*include this text if "yes" selected in which case the Notes must be issued in NGN form*]

8. **ADDITIONAL INFORMATION**

[Additional provisions, not required by the relevant securities note, relating to the underlying] [*if applicable*]	[●]/[Not Applicable]
Country(ies) where the offer(s) to the public takes place	[●]/[Not Applicable]
Country(ies) where admission to trading on the regulated market(s) is being sought	[●]/[Not Applicable]
Country(ies) into which the Base Prospectus has been notified	[●]/[Not Applicable]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or the Borrower to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer or the Borrower in respect of payments due under the Notes and such obligations of the Issuer and the Borrower will be discharged by payment to the holder of such Global Note or Global Registered Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

(a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated and, in the case of an NGN, effectuated, to the bearer of the Temporary Global Note; or

(b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Principal Paying Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Trust Deed.) Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Trust Deed). Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Global Note Certificates

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Trust Deed. Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon, will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Business Day for Payments: While Notes are represented by the Global Note or a Global Note Certificate, references in Conditions 6.8 and 7.5 of the Terms and Conditions of the Notes to "**Business Day**" shall mean, if the currency of payment is euro, any day the TARGET System is operating and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre, as specified in the applicable Final Terms; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre, as specified in the applicable Final Terms.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 5.4 (*Put Option*) the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 5.3 (*Call Option*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

TAXATION

The following is a general description of certain Swedish, Polish and Luxembourg tax considerations relating to the Notes and to the Programme. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws and tax treaties could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws and tax treaties of those countries. This summary is based upon the laws of Sweden, Poland and Luxembourg as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. The information contained within this section is limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

The Kingdom of Sweden

Noteholders not resident in Sweden

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to the Noteholder should not be subject to Swedish income tax, provided that such Noteholder (i) is not resident in Sweden for Swedish tax purposes and (ii) does not have a permanent establishment in Sweden to which the Notes are effectively connected.

However, broadly speaking, *provided that* the value of or the return on the Notes relates to securities taxed as shares, private individuals who have been residents of Sweden for tax purposes due to a habitual abode in Sweden or a stay in Sweden for six consecutive months at any time during the calendar year of disposal or redemption or the ten calendar years preceding the year of disposal or redemption are liable for capital gains taxation in Sweden upon disposal or redemption of such Notes. In a number of cases though, the applicability of this rule is limited by the applicable tax treaty for the avoidance of double taxation.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes, except for certain payments of interest (and other return on Notes) to a private individual (or an estate of a deceased individual) who is resident in Sweden for Swedish tax purposes (see "Noteholders resident in Sweden" below).

Noteholders resident in Sweden

In general, for Swedish corporations and private individuals (and estates of deceased individuals) with residence in Sweden for Swedish tax purposes, all capital income (for example, income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable. Specific tax consequences may be applicable to certain categories of corporations, for example, life insurance companies and in respect of Notes that are held in an investment savings account (Sw. *investeringssparkonto*). Further, specific tax consequences may be applicable if, and to the extent that, a Noteholder realises a capital loss on the Notes and to any currency exchange gains or losses.

If amounts that are deemed as interest for Swedish tax purposes are paid by a legal entity domiciled in Sweden, including a Swedish branch, to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes, Swedish preliminary taxes are normally withheld by such legal entity on such payments. Swedish preliminary taxes should normally also be withheld on other return on Notes (but not capital gains) if the return is paid out together with such payment of interest referred to above.

The Republic of Poland

Noteholders not resident in Poland

Individuals and legal persons having neither their place of residence, nor seat, nor place of management in Poland will not be liable to taxation in Poland on interest or discounts paid or accruing on the Notes, nor on income arising from the sale or repurchase of the Notes.

Noteholders resident in Poland

An individual whose place of residence is in Poland is subject to Polish income tax on his or her worldwide income irrespective of the place in which such income is earned. A person is deemed to be resident in Poland if: (i) such person's centre of personal or economic interests (the centre of vital interests) is within the territory of Poland; or (ii) such person stays within the territory of Poland more than 183 days in any tax year.

Corporate taxpayers having their registered office or management board within the territory of Poland are required to pay tax on all of their income, irrespective of the location of the source of revenues (unlimited tax

liability). The rules of taxation concerning corporate income tax also apply to limited joint-stock partnerships (*spółki komandytowo-akcyjne*).

Taxation of interest and discounts on the Notes pursuant to the Polish regulations on personal income tax

Interest and discounts on the Notes will, for Polish taxation purposes, be treated as income earned in Sweden. Pursuant to the convention for the avoidance of double taxation entered into between Sweden and the Republic of Poland, interest or discount on the Notes earned in the Sweden by Polish individuals may be taxed only in the state of residence, i.e. Poland (Sweden does not have the right of taxation). The above rules do not apply if the noteholder carries on a trade or business in Sweden through a permanent establishment with which the Notes are effectively connected.

Interest and discounts on the Notes earned by Polish individuals are subject to income tax in Poland at the rate of 19%.

Taxation on the sale, repurchase and redemption of the Notes pursuant to the Polish regulations on personal income tax

Pursuant to the double tax treaty between Poland and Sweden, income from the sale of the Notes or the repurchase or redemption of the Notes is subject to taxation only in Poland, unless the noteholder carries on business in Sweden through a permanent establishment with which the Notes are effectively connected. In such cases, tax is payable on the difference between the proceeds of the sale, repurchase or redemption and the acquisition cost of the relevant Notes (capital gains).

Capital gains earned by individuals generated from the disposal of the Notes are subject to a flat 19% personal income tax rate, assuming the trading of the Notes does not form part of business activity. No tax advances are payable upon the realisation of capital gains during a calendar year; individuals are required to file an annual tax return in which all such capital gains should be declared and pay the tax accordingly (both due on 30 April of the following calendar year).

Taxation of interest and discounts on the Notes pursuant to the Polish regulations on corporate income tax

Interest and discounts on the Notes will, for Polish taxation purposes, be treated as income earned in Sweden. Pursuant to the convention for the avoidance of double taxation entered into between Sweden and the Republic of Poland, interest or discounts on the Notes earned in Sweden by Polish individuals may be taxed only in the state of residence, i.e. Poland (Sweden does not have the right of taxation). The above rules do not apply if the noteholder carries on a trade or business in Sweden through a permanent establishment with which the Notes are effectively connected.

Interest and discounts on the Notes earned by Polish corporate taxpayers are subject to income tax in Poland at the rate of 19%.

Taxation on the sale, repurchase or redemption of the Notes pursuant to the Polish regulations on corporate income tax

Pursuant to the double tax treaty between Poland and Sweden, income from the sale of the Notes or the repurchase or redemption of the Notes is subject to taxation only in Poland unless the noteholder carries on business in Sweden through a permanent establishment with which the Notes are effectively connected. In such cases, tax is payable on the difference between the proceeds from the sale, repurchase or redemption and the acquisition cost of the relevant Notes (capital gains).

Capital gains earned by corporate taxpayers are subject to a flat 19% corporate income tax rate. Taxpayers are required to pay the tax upon the realisation of capital gains (the relevant tax advance is payable by the twentieth day of the following month; however, if the gain is generated during the last month of the tax year, no tax advance is required if before the twentieth day of the following month the taxpayer submits an annual corporate tax return and pays the tax based on the rules provided for in the Polish corporate income tax act).

Tax on civil law transactions on transfer of the Notes

Tax on civil law transactions applies to agreements for the sale or exchange of property rights. These agreements are taxable if their subjects are:

(i) property rights enforceable within the territory of Poland; or

(ii) property rights enforceable abroad if the purchaser's place of residence or registered office is within the territory of Poland and the civil law transaction was carried out within the territory of Poland.

It is expected that the rights attributable to the Notes will not be treated as property rights enforceable in Poland for these purposes. The above description of Polish tax treatment is made on the assumption that such analysis is accepted by the Polish tax authorities.

Tax liability arises when a civil law transaction (a transfer) is concluded, and such liability is the sole responsibility of the buyer in the case of a sale agreement. The taxable base is the market value of the property right. The market value of the subject of a civil law transaction is assessed based on the average prices applied in the trade in property rights of the same type applicable on the date of such transaction, without deducting debts or charges. Taxpayers are required to, without being summoned by the tax office, file a tax return on tax on civil law transactions and calculate and pay the due amount of tax within 14 days of the tax liability arising, unless the tax is collected by a tax remitter who is a notary in the case of civil law transactions concluded in the form of a notarial deed.

At the same time, under Art. 9 item 9 of the Act on Tax on Civil Law Transactions, a sale of property rights that constitute financial instruments (i) to investment firms (including foreign investment firms), or (ii) through the intermediation of investment firms (including foreign investment firms), or (iii) through organised trading, or (iv) outside organised trading by investment firms (including foreign investment firms) if such financial instruments were acquired by such companies as part of organised trading, within the meaning of the Polish act on trading in financial instruments, is exempt from tax on civil law transactions.

Tax on gifts and inheritance

Tax on gifts and inheritance applies only to individuals and may arise if the Notes are transferred as a gift or as part of an inheritance when:

(i) the acquirer is a Polish citizen or has a permanent place of residence in Poland; or

(ii) the property rights are enforceable in the territory of Poland.

It is expected that the rights attributable to the Notes will not be treated as property rights enforceable in Poland for these purposes. The above description of the Polish tax treatment is made on the assumption that such analysis is accepted by the Polish tax authorities.

The tax is paid by the recipient of the property rights. The taxable base is the value of the property rights received after deducting debts and encumbrances (i.e. the net value), assessed based on the condition of the property rights on the day of their receipt and based on the market prices applicable as of the day when the tax liability arose. The tax base is calculated according to the tax group to which the recipient was assigned. A relevant tax group is assigned according to the recipient's personal relationship to the person from whom the property rights were received or inherited. Inheritance and donations are taxed at a progressive rate of from 3% to 20% of the taxable base depending on the tax group to which the recipient was assigned. Certain amounts are exempt from tax in each group. Taxpayers are required to file with the competent head of the tax office, within one month of the date the tax liability arose, a tax return specifying the receipt of the property or property rights in a standard form. The tax return should be accompanied by documents that may influence the determination of the tax. The tax must be paid within 14 days from the receipt of the decision issued by the head of the tax office assessing the amount of the tax liability.

The acquisition of property rights by a spouse, descendant, ascendant, stepson, siblings, stepfather or stepmother is tax exempt, provided that the person receiving the property rights notifies the competent head of the tax office of the acquisition of the property or property rights within six months from the date the tax liability arose, and, in the case of their receipt by right of succession, within six months from the date the court decision acknowledging the acquisition of the inheritance becomes final and binding. The above exemption will apply if at the time of the acquisition the acquirer was a Polish citizen or a citizen of one of the Member States or an EFTA member state party to the EEA agreement, or had his place of residence within the territory of Poland or within any of such states. In case of the failure to meet the above conditions, the acquisition of the property rights is subject to taxation on the general terms specified for persons assigned to the relevant tax group.

Polish withholding tax on interest paid by the Bank to the Issuer

In general, under Polish Law, payments of interest on borrowed funds by a Polish entity to a non-resident legal person are subject to 20% withholding tax in Poland. However, it is possible to decrease the withholding tax rate on the basis of:

(i) a relevant treaty on the avoidance of double taxation (the "**DTT**"); or

(ii) regulations of Polish corporate income tax act implementing the EU Directive on royalties and interest.

The regulations of the Polish corporate income tax act implementing the EU Directive on Royalties and Interest provide that payments of interest on borrowed funds are exempt from income tax if, inter alia, all the following conditions are satisfied:

1) The interest is paid by:

   a) a company that is an income taxpayer and had its registered office or management in the territory of the Republic of Poland; or

   b) a foreign establishment located in the territory of the Republic of Poland of a company whose entire income, irrespective of where it is earned, is subject to income tax in a Member State of the European Union, if interest paid by that foreign establishment may be reported as a tax-deductible expense when determining the amount of income taxable in the Republic of Poland.

2) The revenue is earned by a company whose entire income, irrespective of where it is earned, is subject to income tax in a Member State of the European Union or a Member State of the European Economic Area other than the Republic of Poland.

3) The company:

   a) referred to in subparagraph 1 above directly holds no less than 25% of shares in the equity of the company referred to in subparagraph 2 above; or

   b) referred to in subparagraph 2 above directly holds no less than 25% of shares in the equity of the company referred to in subparagraph 1 above;

4) The interest is received by:

   a) a company as referred to in subparagraph 2 above; or

   b) a foreign establishment of a company as referred to in subparagraph 2 above, if the income earned as a result of receiving that interest is taxable in the Member State of the European Union in which that foreign establishment is located.

The shareholding condition referred to in subparagraph 3 above is considered to be satisfied if a company whose entire income, irrespective of where it is earned, is subject to income tax in a Member State of the European Union or another Member State of the European Economic Area directly holds no less than 25% shares both in the equity of a company paying interest (referred to in subparagraph 1 above) and in the equity of a company earning revenue (referred to in subparagraph 2 above). The exemption also applies if the required amount of shares will have been held for an uninterrupted period of two years after the day when a company earning revenue (referred to in subparagraph 2 above) earns revenue. If the condition to hold shares in the require number for an uninterrupted period of two years is not satisfied, a company earning revenue will pay tax, including late interest, on the revenue at the rate of 20% of the revenue, subject to double tax treaties to which the Republic of Poland is a party. Interest is charged from the day following that on which the time limit to pay the collected tax by a tax remitter to the relevant tax office expires.

If the above-mentioned regulations of Polish corporate income tax act cannot be applied, as the Issuer is a corporate entity resident in Sweden, the Poland-Sweden DTT will apply. The application of preferences resulting from the Poland-Sweden DTT (the treaty reduces the withholding tax rate to 0%) to the interest payments between the Bank and the Issuer is applicable only if:

(i) interest is at arm's length (excessive interest paid between related parties does not benefit from treaty protection and withholding tax at the standard rate may apply to such excessive amounts);

(ii) the Bank is provided with a certificate of tax residency issued by the Swedish tax authorities, documenting the tax residency of the Issuer as at the time of the given interest payment;

(iii) the limitation of benefits clause under the Poland-Sweden DTT does not apply; and

(iv) the Issuer can be treated as the beneficial owner of interest received from the Bank under the Poland-Sweden DTT. There are significant controversies relating to the existence of the beneficial owner clause in the Poland-Sweden DTT. However, the Supreme Administrative Court issued an judgment in that respect relating to an individual case of a taxpayer in which it stated that such clause is in fact present in the above-mentioned DTT and as a consequence, in order to apply the 0% withholding tax rate, it should be determined whether the recipient of the interest (the Issuer) is the beneficial owner.

The Borrower believes that, payments of interest on the Loans made by the Borrower to the Issuer will not be subject to withholding taxes under the terms of the DTT concluded between Poland and Sweden, provided the

Polish tax documentation requirements (confirmation of the Issuer's tax residency in the form of a certificate of tax residency) are satisfied. Pursuant to the Polish corporate income tax act, such certificate of tax residency should be renewed annually. However, as the interpretation or the wording of the DTT concluded between Poland and Sweden may be changed in the future, there can be no assurance that such double tax relief will continue to be available.

Payments made to the Trustee after enforcement of the security

In the case of interest and fee payments made to the Trustee following any enforcement of security, the key issue is to resolve whether the Issuer or the Trustee or another entity, on the basis of an agreement with the Issuer, may be treated as a recipient and/or beneficial owner of the interest received from the Borrower. There is a lack of clarity as to who the beneficial owner of the interest is, not only due to the absence of a clear definition of "beneficial owner", but also due to the fact that the concept of trust is not recognised by Polish regulations and, moreover, that the Trust Deed is governed by English law. The mere transfer of administrative rights and obligations from the Issuer to the Trustee should not impact on the Issuer's right to apply the exemption from withholding tax on interest provided by the Poland-Sweden DTT. Due to the transfer of administrative rights and obligations, the Issuer is not denied legal ownership of the interest and as a consequence, the Issuer should not lose the status of the beneficial owner of such interest. The role of the Trustee is limited to settling the relevant payments, to transferring such payments to the recipients, and to maintaining all technical and administrative data. However, in circumstances where the Issuer ceases to be the recipient of the interest with the full right to dispose of it as its owner, then the Trustee may come to be deemed to be the recipient and/or the beneficial owner of the interest in accordance with the tax treaty between Poland and the country where the Trustee is a tax resident. As a result, the taxation of interest and other fees constituting remuneration for making capital available should be subject to the treaty between Poland and the country where the Trustee is a tax resident. It is also possible, however, that the treaty between Poland and the country where the Trustee is a tax resident may not be applied, because the Trustee, by nature of its functions and contractual obligations, may not qualify as the recipient and/or the beneficial owner of the interest for the purposes of the relevant tax treaty. In such a case (i.e. when neither the Issuer nor the Trustee may be treated as the recipient and/or the beneficial owner within the meaning of the relevant double tax treaty), it cannot be excluded that the Polish tax authorities will support the position that the withholding tax on the interest can only be reduced or eliminated based on the double tax treaty concluded between Poland and the country in which the Noteholder is a tax resident, if any, and the provisions of such treaty, subject to compliance with treaty clearance formalities (such as the delivery of a tax residency certificate to the Bank). At the same time, if withholding tax applies, the Bank is obliged to increase such interest payment to the extent necessary so that the Trustee receives a net amount equal to the full amount it would have received in the absence of such withholding tax.

EU Savings Directive

Under Directive 2003/48/EC of 3June 2003 on the taxation of savings income in the form of interest payments (the "**EU Savings Directive**"), each member state of the European Union (an "**EU Member State**") is required to provide to the tax authorities of another EU Member State details on the payment of interest or other similar income paid by a person within its jurisdiction to an individual beneficial owner resident in such other EU Member State. However, for a transitional period, Austria will (unless during such period it elects to do otherwise) instead operate a withholding system in relation to such payments by deducting tax from interest at a rate of 35%, subject to certain exceptions. Ten relevant EU Member States' dependent or associated territories entered into commitments in the form of written agreements or arrangements between each of them and each of the 27 EU Member States in order to provide for the same measures as those in the EU Savings Directive.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending the EU Savings Directive (the "**Amending Directive**"). The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments to, or collected for, certain additional entities and legal structures. They also expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities. Once the remaining requirements referred to above come into force, investors should be aware that withholding in the relevant EU Member State(s) may be performed in a wider range of circumstances than at present. Investors who are in any doubt as to their position should consult their professional advisers.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be required to pay additional amounts with respect to the Notes as a result of the imposition of such withholding tax. The Member States shall adopt and publish, by 1 January 2016, the laws, regulations and administrative provisions necessary to comply with the Amending Directive and shall

apply those provisions from the first day of the third calendar year following the calendar year in which the Amending Directive enters into force (i.e. from 1 January 2017).

Investors who are in any doubt as to their position should consult their professional advisers.

Luxembourg

(i) Non-Resident Holders of the Notes

Under the general tax laws of Luxembourg currently in force, there would be no withholding tax on payments of principal, premiums or interest made to non-resident holders of the Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon the redemption or repurchase of the Notes held by non-resident holders of the Notes.

(ii) Resident Holders of the Notes

According to the Luxembourg law of 23 December 2005 on the taxation of interest income received by individuals resident in Luxembourg, a withholding tax of 10% on interest paid to individuals resident in Luxembourg should be levied by an economic operator located in Luxembourg that would qualify as a paying agent in the context of the EU Savings Directive (the "**10% Withholding Tax**"). The same withholding tax would be applicable, upon the request of the Resident Holder of the note, when the paying agent of the interest is established in an EU Member State other than Luxembourg. The 10% Withholding Tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. The responsibility for the withholding of tax will be assumed by the Luxembourg paying agent.

Interest on the Notes paid by a Luxembourg paying agent to residents of Luxembourg that are not individuals will not be subject to any withholding tax in Luxembourg.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna or such other Dealers as may be appointed from time to time in respect of any Series of Notes (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 19 April 2012 (the "**Dealer Agreement**") and made between the Issuer, the Borrower and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) ***Approved Prospectus***: if the Final Terms or Drawdown Prospectus in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus which is not a Drawdown Prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) ***Qualified investors***: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) ***Fewer than 100 offerees***: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) ***Other exempt offers***: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed that:

(a) ***No deposit-taking:*** in relation to any Notes having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) ***Financial promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Borrower; and

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Poland

Unless the Base Prospectus for the Notes has been approved by either the Polish competent authority for the approval of prospectuses for the public offering of securities in Poland or the admission of securities to trading on a regulated market in Poland or the relevant competent authority in an EU member state, and Poland has received a certificate of such approval with a copy of the Base Prospectus and Polish translation of its summary as required under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (Journal of Laws of 2005, No. 184 item 1539, as amended) (the "**Act on Public Offering**"), the Notes may not be publicly offered in Poland or admitted to trading on a regulated market in Poland. Pursuant to Art. 3 of the Act on Public Offering, "**public offering**" means "communication in any form and by any means, made within the Republic of Poland and addressed to at least 100 persons (150 pursuant to an amendment to the Act on Public Offering which enters into force on 23 April 2013), or to an unspecified addressee, which contains sufficient information on the securities to be offered and the terms and conditions of their acquisition, so as to enable an investor to decide to purchase securities".

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken that it will not offer or sell any

Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer, the Borrower and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisations

1. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer adopted on 14 July 2008.

   The establishment and the renewal of the Programme, as well as the entering into of the Senior Facility Agreement and the Subordinated Facility Agreement was authorised by resolutions of the Management Board of the Borrower adopted on 15 July 2008, as updated on 11 March 2010, and the resolution of the Management Board of the Borrower adopted on 15 February 2011, and by the Supervisory Board of the Borrower adopted on 16 July 2008.

   The 2015 update of the Programme was authorised under a resolution of the Management Board of the Borrower adopted on 5 March 2015.

   Each of the Issuer and the Borrower (as the case may be) has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the execution and performance of the Senior Facility Agreement and the Subordinated Facility Agreement (as applicable).

Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Borrower is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer or the Borrower and its subsidiaries.

Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer since 31 December 2014 nor any significant change in the financial or trading position of the Issuer since 31 December 2014. There has been no material adverse change in the prospects of the Borrower and its subsidiaries since 31 December 2014 nor has there been any significant change in the financial or trading position of the Borrower and its subsidiaries since 31 December 2014.

Independent Certified Auditors

4. PricewaterhouseCoopers sp. z o.o., with its registered office in Warsaw (00-638 Warszawa, Al. Armii Ludowej 14), audited the consolidated financial statements of the Group for the year ended 31 December 2014 and the consolidated financial statements of the Group for the year ended 31 December 2013 and issued unqualified auditor's opinions on the aforementioned financial statements. PricewaterhouseCoopers sp. z o.o. audited the stand-alone financial statements of the Bank for the year ended 31 December 2014 and the stand-alone financial statements of the Bank for the year ended 31 December 2013 and issued unqualified auditor's opinions on the aforementioned financial statements. The stand-alone financial statements of the Bank audited by PricewaterhouseCoopers sp. z o.o. are not incorporated into this Base Prospectus by reference.

   PricewaterhouseCoopers sp. z o.o. is registered in the register of auditors held by the National Chamber of Statutory Auditors under No. 144. On behalf of PricewaterhouseCoopers sp. z o.o., the consolidated financial statements of the Group for the years ended 31 December 2014 and 2013 were audited by Adam Celiński (certified auditor, licence No. 90033).

   Öhrlings PricewaterhouseCoopers AB, with its registered office in Stockholm (Torsgatan 21, 113 97 Stockholm, Sweden), audited the stand-alone financial statements of the Issuer for the year ended 31 December 2014 and the stand-alone financial statements of the Issuer for the year ended 31 December 2013 and issued unqualified auditor's opinions on the aforementioned financial statements.

   On behalf of Öhrlings PricewaterhouseCoopers AB, the stand-alone financial statements of the Issuer for the year ended 31 December 2014 and the stand-alone financial statements of the Issuer for the year ended 31 December 2013 were audited by Sussanne Sundvall, who is a member of FAR in Sweden.

   There were no events of resignation or dismissal of a certified auditor appointed to audit the financial statements of the Issuer, the Bank or the Group in the period covered by the Consolidated Financial Statements included in this Base Prospectus.

   In accordance with the Bank's Statute, an auditor authorised to audit the financial statements of the Bank and the consolidated financial statements of the Group is appointed by the Supervisory Board.

On 7 June 2013, the Issuer appointed Öhrlings PricewaterhouseCoopers AB to audit the annual stand-alone financial statements of the Issuer for the year 2013. On 13 June 2014, the Issuer appointed Öhrlings PricewaterhouseCoopers AB to audit the annual stand-alone financial statements of the Issuer for the year 2014.

On 28 March 2010, the Supervisory Board appointed PricewaterhouseCoopers sp. z o.o. as the auditor authorised to audit the annual financial statements of the Bank and the annual consolidated financial statements of the Group and to review the interim semi-annual financial statements of the Bank and the interim semi-annual consolidated financial statements of the Group for the years 2011-2013.

Pursuant to the resolution of the Supervisory Board of the Bank on the rules governing the selection of the entity authorised to audit the Bank's financial statements, the maximum period of uninterrupted cooperation with an entity authorised to audit its financial statements is six years, and beginning from the period of cooperation relating to the auditing of the financial statements in respect of the years 2015-2017, the maximum period of such cooperation is five years. The Bank applied to the PFSA for the issuance of a favourable opinion on the extension of the period of cooperation with the entity authorised to audit the Bank's financial statements, i.e. PricewaterhouseCoopers sp. z o.o., by one year. On 19 December 2013, the PFSA approved the request of the Bank while stating that it treated the Bank's move to extend cooperation with its previous auditor as an exceptional derogation from the general principle. On 5 March 2014, the Supervisory Board of the Bank selected PricewaterhouseCoopers Sp. z o.o. as the entity authorised to audit and review the financial statements of the Bank and the consolidated financial statements of the Bank's Group for 2014.

On 11 March 2015, the Supervisory Board of the Bank selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorised to audit and review the financial statements of the Bank and the consolidated financial statements of the Group in respect of the years 2015 – 2016. KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its registered seat in Warsaw at 51 Chłodna Street, is an audit firm registered with the National Chamber of Registered Auditors as an entity authorised to audit financial statements under No. 3546. The Supervisory Board of the Bank selected this entity to audit and review its financial statements in compliance with applicable regulations and professional standards. The Bank will conclude an agreement for the audit and review of the financial statements of the Bank and the Group in respect of the years 2015 – 2016. The Bank has used the services of KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa in the past in relation to changes in the Group and in connection with support in the analysis and implementation of certain regulatory issues.

A change of the auditor of the Issuer, resulting from the decision of the supervisory board of the Borrower to change the auditor for the entire Group, is expected to be made at an annual general meeting of the shareholders of the Issuer, which is due to take place in June 2015.

Documents on Display

5. Copies of the following documents (and the English translations where the original documents are not in English) may be inspected during normal business hours at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent for 12 months from the date of this Base Prospectus:

   (a) a copy of this Base Prospectus along with any supplement to this Base Prospectus;

   (b) the Articles of Association and Certificate of Registration of the Issuer;

   (c) the By-laws (*Statut*) of the Borrower;

   (d) the audited consolidated financial statements of the Group for the years ended 31 December 2014 and 2013;

   (e) the auditors' reports in respect of the audited consolidated financial statements of the Group for the years ended 31 December 2014 and 2013;

   (f) the audited stand-alone financial statements of the Issuer for the years ended 31 December 2014 and 2013;

   (g) the auditors' reports in respect of the audited stand-alone financial statements of the Issuer for the years ended 31 December 2014 and 2013;

   (h) the Agency Agreement;

(i) the Trust Deed;

(j) the Senior Facility Agreement;

(k) the Dealer Agreement;

(l) the Account Bank Agreement; and

(m) the Issuer-ICSDs Agreement.

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

REGISTERED OFFICE OF THE ISSUER

PKO Finance AB (publ)
c/o AB 1909 Corporate Services
Norrlandsgatan 18
11143 Stockholm
Sweden

REGISTERED OFFICE OF THE BORROWER

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
ul. Puławska 15
02-515 Warsaw
Poland

ARRANGER AND DEALER

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
ul. Puławska 15
02-515 Warsaw
Poland

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre
Canada Square
Canary Wharf
London
E14 5LB
United Kingdom

PRINCIPAL PAYING AGENT, TRANSFER AGENT, CALCULATION AGENT, ACCOUNT BANK AND REGISTRAR

Citibank, N.A., London Branch
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

LUXEMBOURG PAYING AGENT

Banque Internationale à Luxembourg
69 route d'Esch
L-2953 Luxembourg

LEGAL ADVISERS

To the Issuer and the Borrower as to English law:

Weil Gotshal & Manges
110 Fetter Lane
London, EC4A 1AY
United Kingdom

To the Issuer as to Swedish law:

Advokatfirman Vinge KB
Smålandsgatan 20
Box 1703
S-111 87 Stockholm
Sweden

To the Borrower as to Polish law:

Weil, Gotshal & Manges – Paweł Rymarz Sp. k.
ul. Emilii Plater 53
00-113 Warsaw
Poland

AUDITORS

To the Issuer:
Öhrlings PricewaterhouseCoopers
Torsgatan 21
113 97 Stockholm
Sweden

To the Borrower:
PricewaterhouseCoopers sp. z o.o.
Al. Armii Ludowej 14
00-638 Warsaw
Poland