



Bank Hipoteczny

**PKO Bank Hipoteczny Spółka Akcyjna**

(incorporated as a joint-stock company under the laws of the Republic of Poland)

**EUR 4,000,000,000**

**Programme for the issuance of the Covered Bonds (*hipoteczne listy zastawne*)**

Under this EUR 4,000,000,000 Programme (the "**Programme**"), PKO Bank Hipoteczny Spółka Akcyjna, with its registered offices at ul. Jerzego Waszyngtona 17, 81-342 Gdynia, Poland (the "**Bank**") may from time to time issue mortgage covered bonds (*hipoteczne listy zastawne*) (the "**Covered Bonds**"). The Covered Bonds will be issued in bearer form.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed EUR 4,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*General Description of the Programme*" and to any additional Dealer appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the "**relevant Dealer**" shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

**An investment in the Covered Bonds involves certain risks. For a discussion of these risks, see "*Risk Factors*" beginning on page 1 of this Base Prospectus.**

This Base Prospectus has been approved by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**") of the Grand Duchy of Luxembourg ("**Luxembourg**") in its capacity as competent authority (the "**Competent Authority**") under the Luxembourg Act on Securities Prospectuses (*loi relative aux prospectus pour valeurs mobilières*) (the "**Luxembourg Act**"). Application has been made to list Covered Bonds on the Official List of the Luxembourg Stock Exchange and/or on the Warsaw Stock Exchange and to trade the Covered Bonds on the regulated market of the Luxembourg Stock Exchange and/or the regulated market of the Warsaw Stock Exchange. The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

In order to be able to conduct a listing in relation to certain issuances of Covered Bonds and/or to list certain Covered Bonds on a Regulated Market of a Stock Exchange, the Bank applied for a notification of this Base Prospectus pursuant to Article 19 of the Luxembourg Act into the Republic of Poland ("**Poland**"). The Bank may request the CSSF to provide competent authorities in additional host Member States within the European Economic Area with a notification. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Offering Circular or the quality or solvency of the Bank in accordance with Article 7(7) of the Luxembourg Act.

Moody's Investors Service Ltd. ("**Moody's**") is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation. The Covered Bonds issued under the Programme are expected to be assigned a rating by Moody's. However, the Bank may also issue Covered Bonds which are unrated or rated by another rating agency. Where a Tranche of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to other Tranches of Covered Bonds. 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.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any state securities laws, and are subject to U.S. tax law requirements. The Covered Bonds issued under the Programme will be offered and sold outside the United States to, or for the account or benefit of, non-U.S. persons in reliance on Regulation S under the Securities Act ("**Regulation S**") in compliance with applicable securities laws.

*Global Coordinator and Lead Co-Arranger*

**Société Générale Corporate & Investment Banking**

*Co-Arrangers*

**Deutsche Bank**

**J.P. Morgan**

**PKO Bank Polski**

*Dealers*

**Deutsche Bank**

**J.P. Morgan**

**Landesbank  
Baden-  
Württemberg**

**PKO Bank  
Polski**

**Société Générale  
Corporate & Investment Banking**

This Base Prospectus and any supplement thereto will be published in electronic form on the website of the Luxembourg Stock Exchange under [www.bourse.lu](http://www.bourse.lu), will be available free of charge at the specified offices of the Bank and will be published in electronic form on the website of the Bank under [www.pkobh.pl](http://www.pkobh.pl).

The date of this Base Prospectus is 28 September 2016.

## IMPORTANT NOTICE

This document constitutes the base prospectus of PKO Bank Hipoteczny Spółka Akcyjna (the "**Bank**") in respect of Covered Bonds (the "**Base Prospectus**"). This Base Prospectus constitutes a base prospectus for the purposes of Article 5(4) of Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended by Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 and as further amended from time to time (the "**Prospectus Directive**"). This Base Prospectus should be read and understood in conjunction with any supplement thereto and with the documents incorporated by reference. Full information on the Bank and any Tranche of Covered Bonds is only available on the basis of the combination of this Base Prospectus, including any supplements thereto, and relevant final terms (the "**Final Terms**").

The Bank, with its registered offices at ul. Jerzego Waszyngtona 17, 81-342 Gdynia, Poland, is solely responsible for the information given in this Base Prospectus. The Bank hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus for which it is responsible, is to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus. This Base Prospectus may only be used for the purposes for which it has been published.

Neither Société Générale, Deutsche Bank Aktiengesellschaft, J.P. Morgan Securities plc and Powszechna Kasa Oszczędności Bank Polski S.A. ("**PKO BP**") (together, the "**Co-Arrangers**") nor any other Dealer nor any other person mentioned in this Base Prospectus, excluding the Bank, is responsible for the information contained in this Base Prospectus or any supplement thereof, or any Final Terms or any other document incorporated herein by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accept any responsibility for the accuracy and completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Co-Arrangers or any of the other Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Bank, the Co-Arrangers or any of the other Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Bank. Neither this Base Prospectus nor any other information supplied in connection with the Programme nor the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Bank, the Co-Arrangers or any of the other Dealers to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Co-Arrangers and the other Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Base Prospectus when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Bank, the Co-Arrangers and the other Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Co-Arrangers or the other Dealers which would permit a public offering of any Covered Bonds outside the European Economic Area or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform

themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the European Economic Area, the United Kingdom and Poland (see "**Subscription and Sale**").

This Base Prospectus has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of Covered Bonds which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Covered Bonds may only do so in circumstances in which no obligation arises for the Bank, the Co-Arrangers or any other 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 Bank nor the Co-Arrangers nor any other Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Bank, the Co-Arrangers or any other Dealer to publish or supplement this Base Prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement to this Base Prospectus;
- (ii) has access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal or interest payable in one or more currencies or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Covered Bonds and is familiar with the behaviour of any relevant indices and financial markets;
- (v) understands that an investment in the Covered Bonds involves a reliance on the creditworthiness of the Bank only and not that of any other entities; and
- (vi) is 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.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Covered Bonds are legal investments for it, (2) Covered Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

The Covered Bonds have not been and will not be registered under the Securities Act or any state securities laws, and are subject to U.S. tax law requirements. The Covered Bonds issued under the Programme will be offered and sold outside the United States to, or for the account or benefit of, non-U.S. persons in reliance on Regulation S under the Securities Act in compliance with applicable securities laws.

This Base Prospectus contains selected macroeconomic, industry and statistical data as well as data relating to the PKO BP group which has been derived from publicly available sources, including official industry sources and other third-party sources, such as financial statements of the PKO BP group which do not form part of this Base Prospectus. The Bank believes that such data is reliable but cannot guarantee its accuracy and completeness. Such information, data and statistics may be based on a number of assumptions, estimates and may be subject to rounding.

All references in this Base Prospectus to "*U.S. dollars*" refer to United States dollars, all references to "*PLN*" and "*Zloty*" refer to Polish zloty, all references to "*Sterling*" and "*£*" refer to pounds sterling, all references to "*euro*", "*EUR*" and "*€*" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended from time to time and all references to "*Swiss Francs*" and "*CHF*" refer to the currency of Switzerland.

As at 27 September 2016, the euro/PLN spot exchange rate published by the National Bank of Poland was EUR 1.00 = PLN 4.2972.

Certain figures in this Base Prospectus have been subject to rounding adjustments. Accordingly, amounts shown as totals in tables or elsewhere may not be an arithmetic aggregation of the figures which precede them.

The term "*mortgage covered bond*" as used herein corresponds to the use of the term "*hipoteczny list zastawny*" as used in Polish legislation. Covered Bonds (as so capitalised) means mortgage covered bonds in bearer form.

In connection with the issue and distribution of any Tranche of Covered Bonds under the Programme, the Dealer(s) who is/are specified in the relevant Final Terms as the stabilising manager(s) (or persons acting on its/their behalf) may over-allot Covered Bonds (provided that the aggregate nominal amount of Covered Bonds allotted does not exceed 105 per cent. of the aggregate nominal amount of the Covered Bonds) or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that such Dealer(s) (or any person acting on its/their behalf) will undertake stabilisation action. Any stabilisation action may begin at any time after the adequate public disclosure of the Final Terms of the offer of Covered Bonds 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 and 60 days after the date of the allotment of the Covered Bonds.

Any such stabilisation action so taken will be, in all material respects, permitted by or otherwise in accordance with all relevant requirements applicable to such actions in the jurisdictions where such actions are effected (including rules and other regulatory requirements governing any stock exchange where such Covered Bonds are listed).

## TABLE OF CONTENTS

Important Notice .....	i
Risk Factors .....	1
General Description of the Programme .....	21
Documents Incorporated by Reference.....	27
Use of Proceeds .....	28
Form of the Covered Bonds.....	29
Form of Final Terms .....	31
Terms and Conditions of the Covered Bonds .....	37
Market Overview .....	52
Description of the Bank.....	61
Management of the Bank.....	69
Related Party Transactions .....	73
Overview of Legal regulations concerning the banking sector .....	75
Overview of the Polish Covered Bonds Legislation.....	77
Bankruptcy and Insolvency .....	81
Taxation.....	86
Subscription and Sale.....	90
General Information .....	93

## RISK FACTORS

*In purchasing Covered Bonds, investors assume the risk that the Bank may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of factors which individually or together could result in the Bank becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Bank may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Bank's control. The Bank has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Covered Bonds.*

*In addition, factors which are material for the purpose of assessing the market risks associated with the Covered Bonds issued under the Programme are also described below.*

*Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision.*

### **Risk Factors that may affect the Bank's ability to fulfil its obligations under the Covered Bonds**

#### ***The Bank may fail to meet its strategic objective***

The key business objective defined in the Bank's strategy is to grant residential mortgage loans financed primarily with proceeds from covered bond issuances. As at the date of this Base Prospectus, the Bank has no plans to offer customers any other banking products as part of its business. This means that the Bank's financial performance and its ability to deliver the stated strategic business objective largely depend on the condition of the residential mortgage loans market in Poland. Any shifts in the market environment, particularly those with a negative impact on demand for, and margins on, mortgage loans and covered bonds, may adversely affect the Bank's business, results of operations and financial condition. Given the nature of its business, the Bank will have a limited ability to seek alternative sources of funding should it fail to deliver its strategic objective regarding mortgage loans and covered bonds. Such failure to deliver its strategic objective could adversely affect the Bank's business, results of operations and financial condition and ability to meet its obligations under the Covered Bonds.

#### ***The Bank is dependent on PKO BP***

The Bank is a wholly-owned subsidiary of PKO BP, the largest bank in Poland in terms of assets, net profit, total equity, loans and deposits portfolio, the number of customers and size of the distribution network (based on the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*, "KNF") data). The Bank is dependent on PKO BP in a number of areas.

PKO BP set up the Bank to diversify the sources of funding for the PKO BP group (the "Group"). As at the date of this Base Prospectus, the Group perceives the covered bonds to be issued by the Bank as an important source of funding for the Group. However, it cannot be excluded that the Group's strategy may change and the Group may decide to raise financing in ways other than through the issuance of covered bonds by the Bank. Such a change in the Group's strategy may lead to a reduction in the scale of the Bank's business activity.

As the sole shareholder of the Bank, PKO BP may be required to subscribe for new shares in the Bank's share capital or provide the Bank with capital in a different manner if so required by the applicable capital adequacy requirements. It is possible that PKO BP may decide that these requirements became too onerous for the Group. This may lead to PKO BP deciding to reduce the scale of operations of the Bank to avoid making additional capital contributions. For example, financial institutions will have to meet the minimum requirement for own funds and eligible liabilities ("MREL"). As at the date of this Base Prospectus, the Bank is exempt from meeting this requirement, but PKO BP will be obliged to satisfy MREL. It is not certain whether PKO BP should take into account the Bank when verifying whether the MREL requirement is met at the Group level. If PKO BP has to also take into account the Bank when calculating MREL, PKO BP may decide to raise financing in ways other than through the issuance of covered bonds by the Bank or reduce the scale of operations of the Bank.

Additionally, the Bank outsources certain services to PKO BP on the basis of an outsourcing agreement (see "*Description of the Bank – Business overview of the Bank – Cooperation between the Bank and PKO BP in mortgage loan origination*"). The outsourcing agreement defines the tasks to be performed by PKO BP for the Bank in the course of its business and specifies how these tasks are to be delivered. In particular, the Bank uses PKO BP's sales and distribution channels. The outsourcing agreement covers the following:

- sales of mortgage loans to retail customers through PKO BP's sales network, including intermediaries and agents;
- post-sale services, with PKO BP reviewing post-sale applications, instructions and complaints for which no lending decision is required;

- sharing IT systems with PKO BP; and
- support in the application of group-wide tools, methodologies and risk models approved by the Bank's competent bodies for the purposes of risk assessment and control.

Any negative future changes affecting PKO BP's operations, business model and IT systems, as well as any changes in how the PKO BP brand is perceived, may adversely affect the Bank's business, results of operations and financial condition and the Bank's ability to meet its obligations under the Covered Bonds.

***Borrowers may fail to duly perform their obligations under the mortgage loans***

The Bank is exposed to potential credit-related losses that can occur as a result of borrowers being unable or unwilling to honour their contractual obligations. Like any financial services organisation, the Bank assumes credit risk where it relies on the ability of the borrowers to satisfy their financial obligations to the Bank on a timely basis.

Various factors can influence mortgage delinquency rates, prepayment rates, foreclosure and eviction frequency and the ultimate payment of interest and principal, such as changes in market interest rates, foreign exchange rates, international, national or local economic conditions, regional economic or housing conditions, changes in tax laws, inflation or real estate property values, unemployment, the financial standing of borrowers, the availability of financing, yields on alternative investments, political developments and government policies or factors similar to the foregoing.

Other factors that concern borrowers' personal or financial condition may also affect the borrowers' ability to repay mortgage loans, such as loss of earnings, illness or divorce. In addition, the ability of a borrower to sell a property mortgaged as security for a mortgage loan at a price sufficient to repay the amount outstanding under that loan depends on a number of factors, including the availability of buyers for the property, the value of that property and property values in general at any given time. To the extent the Bank's credit exposure increases, it could have an adverse effect on its business and profitability if material unexpected credit losses occur.

The Bank maintains credit approval and monitoring procedures (see "*Description of the Bank – Business overview of the Bank – Cooperation between the Bank and PKO BP in mortgage loan origination*") and monitors, among other factors, the borrower's cash flow and ability to repay mortgage loans in an effort to improve the quality of the Bank's mortgage loan portfolio and mitigate future allowances for loan losses and credit impairments. However, there can be no assurance that these credit approval and monitoring procedures will successfully protect the Bank from material credit losses or reduce the amount of provisions for mortgage loans that become non-performing in the future.

***Proceeds from enforcement of mortgages may not satisfy the Bank's claims in full***

When borrowers default on mortgage loans, enforcement actions can be taken in order to claim the collateral securing these mortgage loans. However, the Bank's credit risk may be increased when the collateral it holds cannot be enforced or is liquidated at a price not sufficient to recover the full amount due and payable under the relevant mortgage loan. The market value at which real estate properties mortgaged as security for mortgage loans can be sold, and the amount that can be recovered as a result of enforcement action, heavily depends on the current real estate market prices and the legal environment at the time.

The fair market value of real estate that is mortgaged as security for loans may be subject to fluctuations over time, caused in particular by changes in supply and demand, construction deficiencies and delays, land contamination and environmental hazards, leasing status (vacancies) or potential buyers and their financial resources, changes in the general legal framework such as tax treatment, and other factors that are beyond the control of the Bank (such as natural disasters, civil war and terrorist attacks). Such market developments and changes may reduce the value of real estate collateral. A decline in the value of collateral taken by the Bank or the inability of the Bank to obtain additional collateral may require the Bank to reclassify the relevant loans and/or set aside additional provisions for loan losses, and could result in increased reserve and/or capital requirements.

Any failure to recover the expected value of real estate collateral taken by the Bank in the case of enforcement action may expose the Bank to losses, which may have an adverse effect on the Bank's business, results of operations and financial conditions.

***Enforcement of mortgages is a lengthy and expensive process***

Enforcement of a mortgage over a property can be a lengthy process and may require the creditor to incur substantial costs, especially in relation to foreclosure sale of property by court enforcement officers. Given its short operating history, the Bank has not yet developed a comprehensive database on the average time to enforce security over property; however the Bank relies on the Group's solution in this case. This solution may affect the reliability of the Bank's projections concerning the expected duration of an enforcement action.

Prolonged enforcement proceedings requiring significant expenditure can render it difficult for the Bank to recover in full the funds made available by the Bank to borrowers, which could adversely affect the Bank's financial performance and its ability to meet its obligations under the Covered Bonds.

***Similar to other mortgage banks, the Bank has a special asset-liability structure***

Since the Bank operates as a mortgage bank under stringent legal requirements (see "*Description of the Bank – Business overview of the Bank – Spheres of activity*"), it has a special asset-liability structure as compared with that generally characterising the Polish banking system. The Bank will primarily fund its mortgage lending business by issuing covered bonds. Mortgage loans have long-term maturities and provide for repayments in the form of instalments with principal amounts being subject to amortisation on a periodic basis. Covered bonds, on the other hand, are medium-term obligations of the Bank with bullet repayments. Consequently, financing mortgage loans through the issuance of covered bonds exposes the Bank to (funding) liquidity risks (besides interest rate risks) in particular arising from such maturity mismatches. To the extent that the volume of, or the Bank's ability to access on commercially reasonable terms and/or in a timely manner, the wholesale lending markets become constrained, the Bank may face funding gaps, in particular, in periods of turmoil or in the event of unexpected governmental interventions in the markets where it operates. Difficulties in refinancing may also cause the Bank to dispose of its assets at a loss, increase the rates paid on funding or limit its business activities. A lack of liquidity or refinancing opportunities may, inter alia, result in a limitation of business volume in the financing business, which may, in turn, lead to a reduction of the Bank's interest income and could adversely affect the Bank's business, financial position and results of operations.

***The Bank's refinancing costs may increase***

Mortgage loans granted by the Bank usually have maturities beyond the maturity of the corresponding funding, which results in the Bank's dependence on its ability to continuously refinance its maturing debts with new funding. The Bank's funding capacity and ability to raise funding can deteriorate due to a number of factors such as a lower credit rating, large financial losses, rumours, market price changes that affect the size of liquidity reserves, increases in interest rates and/or a widening of credit spreads. Some of these factors may also increase the Bank's need for funding through, for example, a higher amount of collateral demanded by the counterparties to certain financing transactions.

As a result of turmoil or crises in the financial and capital markets, the Bank may encounter difficulties in obtaining refinancing or may only be able to obtain refinancing at elevated costs. The inability of the Bank to anticipate or provide for unforeseen decreases or changes in funding sources and/or to refinance itself would have a material adverse effect on the Bank's ability to meet its obligations under the Covered Bonds.

***The borrowers may prepay the mortgage loans***

A borrower may prepay a mortgage loan. Prepayment of a mortgage loan may affect the rate of return achieved by the Bank on its loan portfolio if the repaid loans cannot be replaced with another asset offering a comparable rate of return. This risk is higher for fixed rate loans. Prepayments of mortgage loans may have a material adverse effect on the Bank's ability to meet its obligations under the Covered Bonds.

***Changes in interest rates may affect the Bank's income***

Interest rate risk originates primarily from the differences between the structure and/or levels of interest rates applicable in respect of the Bank's asset side and liability side respectively. For example, the Bank may fund its assets with fixed and/or relatively high interest rates, by liabilities obtained at floating and/or lower interest rates, and vice versa. Interest rate risk may also arise when interest rate fixing periods on assets and liabilities do not coincide.

As with all other banks, the Bank earns interest from loans and other assets, and pays interest to its creditors. Interest rates are highly sensitive to many factors beyond the Bank's control, including monetary policies and domestic and international economic and political conditions. As with any bank, changes in market interest rates (including changes in the difference between prevailing short-term and long-term rates) and correlations between changes in interest rates in the reference markets and interest margins could affect the interest rates the Bank charges on its interest-earning assets compared to the interest rates it pays on its interest-bearing liabilities. This difference could reduce the Bank's net interest income.

As a consequence of its distinctive asset-liability structure as a mortgage bank, the Bank earns interest primarily from mortgage loans and pays interest mainly to the holders of covered bonds. An increase in interest rates may reduce the demand for mortgage loans and the Bank's ability to originate such loans. Conversely, a decrease in the general level of interest rates may adversely affect the Bank through, increased prepayments on the Bank's mortgage loan portfolio. Changes in interest rates may also affect the Bank's ability to issue covered bonds.

A mismatch in interest-earning assets and interest-bearing liabilities in any given period, which tends to accompany changes in interest rates, may have a material adverse effect on the financial condition and results of operations of the Bank.



### ***Foreign exchange movements may affect the value of the Bank's liabilities***

Given that some of the Bank's assets or liabilities may be denominated in a currency other than the currency in which its equity and liabilities are denominated, foreign exchange movements may decrease the Bank's assets or increase its liabilities, which may have an adverse effect on the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

### ***The Bank is exposed to settlement risk***

Settlement risk means the possibility that the Bank has already paid a counterparty (for example, a bank in a securities or foreign exchange transaction) or given an irrevocable instruction for a transfer of securities, but the corresponding delivery of securities or, as the case may be, return payment does not settle at the agreed time as a consequence of default or a failure in the relevant settlement system.

### ***The Bank is exposed to counterparty credit risk***

The Bank may routinely execute transactions (including securities or currency trades, repos, swaps, and derivative contracts) with counterparties in the financial services industry, including commercial banks, investment banks, funds, brokers and dealers.

Many of these transactions expose the Bank to the risk of a counterparty defaulting on its obligations prior to maturity when the Bank has an outstanding claim against that counterparty. This counterparty credit risk may also be increased where the collateral held by the Bank cannot be realised or is liquidated at prices not sufficient to recover the full amount of the counterparty exposure. In addition, counterparty credit risk also arises from holding debt instruments as the issuers (including financial institutions, sovereigns, supranational entities and corporations) of such debt instruments may default on their obligations thereunder due to insolvency, political events, lack of liquidity, operational failure or a number of other reasons. Furthermore, the deteriorating solvency of such counterparties may impair the efficacy of the Bank's hedging and other risk management strategies.

Any of the aforementioned events may have a material adverse effect on the Bank's business, financial condition and results of operations.

### ***Disruptions in the Bank's day-to-day operations might occur***

There might be disruptions in the Bank's day-to-day operations which may even render the Bank temporarily unable to conduct its business. Such disruptions may be caused by a number of factors, including: IT system failures, errors by the Bank's staff, crimes to which the Bank may fall victim, improper performance of tasks by the Bank's outsourcing partners, the Bank's internal procedures not being appropriate to its business, or incorrect processing of data or information received by the Bank in the course of its business. Any disruptions in the Bank's day-to-day operations may have an adverse effect on the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

### ***Risk management systems might not identify all risks***

In its operations, the Bank manages risk through the risk assessment methods and procedures it has implemented, including risk assessment models. These tools support the Bank's decision-making processes. However, they may prove to be insufficient to properly assess future risks due to reliance on historical data, errors made at the stage of development, implementation or incorrect use of the methods and models, etc. This may lead to an incorrect assessment of the risk related to the Bank's recognised assets and liabilities, off-balance sheet items and the Bank's business decisions, which in turn may adversely affect the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

### ***The procedure of establishing mortgages is lengthy and formalised***

Loans granted by the Bank are secured by mortgages. A mortgage is created upon its entry in the land and mortgage register by a competent court. Although the Act dated 29 August 1997 on Covered Bonds and Mortgage Banks (*Ustawa z dnia 29 sierpnia 1997 r. o listach zastawnych i bankach hipotecznych*, the "**Polish Covered Bonds Act**") provides that the registration proceedings should not last longer than one month, this procedure can be lengthy, and its duration can vary significantly in different parts of Poland. Furthermore, the procedure is subject to strict formal requirements and a registration document that does not meet all requirements may cause the court to reject the application to register a mortgage. In addition, banks in Poland disburse funds under mortgage loans either before or after the mortgage is entered in the land and mortgage register. When funds are disbursed before the mortgage is entered in the land and mortgage register, interim security interests (such as bridge insurance) are used and the loan is less effectively secured in the period between the disbursement of funds and the subsequent registration of the mortgage. Delays in registering mortgages and reliance on the interim security interests may affect the Bank's business, results of operations and financial condition and ability to meet its obligations under the Covered Bonds.

### ***The borrowers or real properties securing the mortgage loans may be concentrated in certain regions of Poland***

Certain geographic regions of Poland from time to time will experience weaker regional economic conditions and housing markets or be directly or indirectly affected by natural disasters or civil disturbances. Mortgage loans in the Bank's cover pool in such areas will experience higher rates of loss and delinquency than mortgage loans in the Bank's cover pool generally.

The ability of borrowers to make payments under the mortgage loans in the cover pool may also be affected by factors which do not necessarily affect property values, such as adverse economic conditions generally in particular geographic areas or industries, or affecting particular segments of the borrowing community (such as borrowers relying on commission income and self-employed borrowers). Such occurrences may accordingly affect the actual rates of delinquencies, foreclosures and losses with respect to the mortgage loans in the Bank's cover pool.

### ***A borrower may challenge the transfer of a mortgage loan from PKO BP to the Bank***

One of the Bank's main activities is acquisition of mortgage loans granted by PKO BP, to the extent permitted by the Polish Covered Bonds Act. The acquisition of receivables by the Bank will not require borrowers' consent. Receivables under mortgage loans granted by PKO BP will have a significant share in the Bank's loan portfolio and will be included in the cover pool.

The adopted model for acquiring receivables involves the risk of the borrower challenging, by way of litigation, the effectiveness of the transfer of receivables to the Bank. In connection with such transfer, the Bank also bears the risk of unjustified, in terms of scope and point in time, access to the receivables seller's data covered by banking secrecy. The transfer of receivables also involves exposure to reputational risk and a potential increase in the number of clients' grievances, requests and complaints.

Any such circumstances may involve the Bank, to a significant extent, in disputes and explanatory procedures, leading to costs affecting the Bank's financial performance and ability to perform its obligations under the Covered Bonds.

### ***The transfer of mortgage loans from PKO BP to the Bank may be declared ineffective***

Under Polish law, in principle, the debtor's consent is not required to transfer a receivable. The Bank will not acquire a loan from PKO BP before the mortgage securing this loan is established. However, the transfer of the mortgage loans to the Bank may be subject to certain generally available remedies which could result in such transfer being declared ineffective by Polish courts.

In case of the bankruptcy of PKO BP, the transfer of the mortgage loans from PKO BP to the Bank may be declared ineffective pursuant to certain rules in the Polish Bankruptcy Law dated 28 February 2003 (the "**Polish Bankruptcy Law**"). Grounds for ineffectiveness include: (i) the transfer of mortgage loans occurred later than six months of the bankruptcy of PKO BP, unless the Bank can show that such transfer was not detrimental to the creditors of PKO BP; or (ii) if the transfer of mortgage loans was made later than 12 months before the commencement of bankruptcy proceedings, and such transfer was made without remuneration or the remuneration obtained by PKO BP was grossly disproportionate to the value of the transferred mortgage loans.

If a Polish court declares the transfer of the mortgage loans to the Bank ineffective, PKO BP will be required to repay to the Bank all amounts received from the Bank in respect of such transfer and the Bank will be required to return the transferred mortgage loans to PKO BP or, if such return is not possible, to pay to PKO BP the value of the respective mortgage loans.

### ***The Bank may be unable to satisfy its minimum capital adequacy and other regulatory ratios***

As at 30 June 2016, the Bank's total capital ratio was 17.9 per cent. Certain developments could affect the Bank's ability to continue to satisfy the current capital adequacy requirements, including:

- increasing the scale of the Bank's business activities and increasing the Bank's risk-weighted assets;
- the Bank's ability to raise capital;
- the payment of dividends by the Bank to its shareholder;
- losses resulting from a deterioration in the Bank's asset quality, a reduction in income levels, the introduction of new levies or a combination of all of the above;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks; and
- additional capital requirements imposed by the Bank's regulator.

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 regulatory approvals;
- the Bank's credit rating;
- financial markets disruption;
- general market conditions for capital-raising activities by commercial banks and other financial institutions;
- changes in domestic and international economy; and
- 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, including further changes to the Directive 2013/36/EU of the European Parliament and of the Council 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 IV**") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the "**CRR**") package and the possible introduction of Basel 4.

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 Bank. Moreover, a breach of laws relating to the minimum capital adequacy and other regulatory ratios may result in the Bank being subject to administrative sanctions or regulatory resolution measures which may result in an increase in the operating costs of the Bank, loss of reputation, and, consequently, an adverse effect on the business, financial condition and results of operations of the Bank.

#### ***The Bank may not be able to comply with all regulatory requirements***

Entities operating in the banking sector have to comply with a number of regulatory requirements, including anti-money laundering and anti-terrorist financing laws. The number and complexity of regulatory requirements concerning the banking sector has increased. Although the Bank employs personnel with relevant knowledge and skills and has implemented various policies and procedures, including procedures preventing use of the Bank for money laundering or terrorist financing, it cannot be fully excluded that the Bank may not be able to meet all applicable regulatory requirements or recommendations of the relevant authorities and therefore may be subject to sanctions, fines or penalties. Any such sanctions, fines or penalties, as well as changes to regulatory requirements may have an adverse effect on the business, financial condition and results of operations of the Bank.

#### ***The Bank faces litigation risk***

The Bank, like all other commercial entities, may from time to time be subject to litigation, whether of a substantive or vexatious nature. Such litigation, if not dismissed at an early stage or if decided contrary to the Bank's best commercial interests, may have an adverse impact on the operations of the Bank. Furthermore, such cases may include claims or actions in which the petitioner or plaintiff has not specifically, or not in whole, quantified the penalties or damages sought. In these circumstances, it may, in particular, be difficult to predict the outcome of a dispute and estimate possible losses in a reliable manner and, therefore, to set aside adequate provisions for such possible losses. Furthermore, the Bank might also be subject to representative actions brought by prosecuting attorneys, empowered bodies or certain civil society organisations in relation to consumer agreements which are entered into pursuant to the Bank's standard forms of contract, where a court might, in certain circumstances, declare its judgment binding with respect to all agreements entered into on the relevant standard terms of the Bank if one or more of them is found unfair. In relation to agreements entered into on the standard terms of the Bank, there is also the risk that an action brought by a customer and/or a judgment rendered in favour of such customer, which would not, in isolation, affect the financial condition of the Bank, may encourage a large number of other customers with similar agreements to bring several actions simultaneously against the Bank. Should such actions be brought against the Bank and be adjudicated contrary to its commercial interest, the combined effect of such judgments together, as a whole, may have a negative effect on the operations of the Bank. In addition, the Bank may settle litigation prior to final judgments or determination of liability with a view to avoiding the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Bank believes that it has no liability. This might also be the case where the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Bank may, for similar reasons, reimburse counterparties for losses even when the Bank does not believe that it is legally compelled to do so.

Any litigation is subject to many uncertainties, and the outcome is not predictable. Failure to manage these risks could adversely affect the Bank's operations and/or reputation.

### **Risk related to the regulatory, political, economic, operational and competitive environment**

#### ***Competition in the Polish banking market may affect the Bank's profitability***

The Bank operates in the Polish banking services market which is subject to growing competition resulting from such market's continuous development. This competition may interfere with the Bank's plans to sell mortgage loans. In this respect, the Bank faces competition from banks controlled and financed by international financial institutions, enjoying a competitive advantage offered by access to larger capital resources. Competition in the Polish banking market, and in particular the possibility that banks will resume the price war over housing loans, may also negatively impact the margins earned by the Bank on mortgage loans. In turn, competition in the covered bonds market, both from Polish and international issuers, may have a negative impact on the value of covered bond issuances planned by the Bank and thus on the Bank's ability to finance its lending activity or the costs of such financing. Growing competition could adversely affect the Bank's financial performance and its ability to perform its obligations under the Covered Bonds.

#### ***Risks related to the overall political and economic situation***

Global macroeconomic conditions and the behaviour of the financial markets have an impact on the Bank and its performance. The prolonged slowdown of the world economy following the recent global financial crisis, has been accompanied by an increase in risk aversion, which resulted in, among other factors, a lack of trust with regard to financial institutions, restricted access to financing on the interbank market and other forms of financing, and decreases in the market valuations of assets. The crisis had an adverse effect on the valuation of assets and capital adequacy situation with respect to many financial institutions globally. The consequences of the deteriorating economic conditions include an increase in credit risk provisions, poorer access to capital and credit markets, and to other available forms of financing. Additionally, there has been a liquidity crisis and the cost of raising financing has significantly increased. Although the world economy has started to recover from the global financial crisis and the market and economic conditions have improved, there is still a threat of economic turbulence, and no assurance may be given that the improvement of the economic conditions will persist. Overall political and military situations in Europe and other regions of the world, including, but not limited to, the most recent events like: (i) the military conflict in Ukraine; (ii) political tension in Turkey following the military putsch; and (iii) the refugee crisis in Europe may negatively impact the Polish economy and, as a consequence, the Bank's business activity. In addition, on 23 June 2016 the United Kingdom (the "UK") held a referendum to decide on the UK's membership in the European Union in which the majority of voters decided to leave the European Union. The uncertainty following the UK referendum and the potential departure of the UK from the European Union could have an adverse effect on the Polish economy and on the business of the Bank.

No assurance can be given that such matters would not adversely affect the ability of the Bank to satisfy its obligations under the Covered Bonds and/or the market value and/or the liquidity of the Covered Bonds in the secondary market. Adverse macroeconomic conditions or negative developments in the financial markets could have an adverse effect on the Bank's business, financial condition and results of operations.

#### ***Poland's economic, political and social conditions have affected and will continue to have an effect on the Bank's business, financial condition and results of operations***

The Bank conducts its operations only in Poland. 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 Bank's products and services, which materially affects the Bank's business, financial condition and results of operations.

After economic recovery in Poland in 2010 and 2011, the Polish economy slowed markedly in 2012. Weaknesses in euro area growth spread to Poland's main trading partners, with a negative impact on Polish consumers and business confidence. As a result, international demand was subdued and private investment and consumption weakened. The labour market deteriorated and credit growth trends reduced. Since the second half of 2013, the Polish economy has begun to improve, but in 2014 the economy was hit by a number of negative shocks, including mainly a sharp decline of demand for Polish products among Poland's eastern trade partners, as well as an economic slow-down in the Eurozone. Since 2014, Poland has experienced satisfactory GDP growth.

On 15 January 2016, Standard & Poor's Ratings Services ("S&P") lowered Poland's long-term foreign currency sovereign credit rating to BBB+ from A-. The rating outlook is negative. The downgrade reflects S&P's view that Poland's system of institutional checks and balances has been eroded significantly as the independence and effectiveness of key institutions, such as the constitutional court and public broadcasting, is being weakened by various legislative measures initiated since the election. The negative outlook reflects S&P's view that there is potential for further erosion of the independence, credibility, and effectiveness of key institutions, especially the National Bank of Poland (*Narodowy*

*Bank Polski*) (the "NBP"). Moreover, S&P foresees some reversals in Poland's sound macroeconomic management of the past years, for instance by targeting certain sectors with new taxes.

On 14 May 2016, Moody's changed Poland's long-term foreign currency sovereign rating outlook from stable to negative. The main reasons for the change of outlook were, in Moody's view: (i) the fiscal risk arising from the significant increase in public spending, lack of certainty on the possibility to acquire new sources of public revenues as well as the government's intention to lower the retirement age; and (ii) the lack of new investments resulting from unpredictable public policies and new legislation, for example, the potential statutory intervention into mortgage loans denominated in foreign currencies or the conflict between the Constitutional Tribunal and the government.

The main external threats to the Polish economy include the economic slowdown in China with its effects on Germany and the political situation in Ukraine. In addition, the Polish economy and the export-orientated German economy are affected by western sanctions on trade with Russia, which may have a negative impact on economic growth in Poland.

Fluctuations in financial markets may adversely affect the financial conditions of the Bank's customers, which could, in turn, impair the quality and volume of the Bank's loan portfolio and result in decreased demand for the Bank's products. The Bank's business, as well as the successful implementation of its strategy, is highly dependent on the financial situation of its customers and their ability to repay existing obligations. The financial situation of Polish households, including the Bank's customers, is highly correlated with the unemployment rate. An increase in the unemployment rate in Poland could cause an increase in the Bank's impairment losses or hinder growth of the Bank's loans and advances portfolio.

Any deterioration of the economic, business, political and social conditions in Poland or the failure of the policy of the Polish government may have a material adverse effect on the business, financial condition and operations of the Bank.

### ***Effect of government policy and regulation***

The Bank's business and earnings may be affected by measures of legislative bodies and the fiscal or other policies and other actions of various governmental and regulatory authorities in Poland.

Areas where changes could have an impact include:

- (a) the monetary, interest rate and other policies of the NBP and regulatory authorities in Poland;
- (b) general changes in government or regulatory policy that may significantly influence investor decisions;
- (c) general changes in regulatory requirements, for example prudential rules relating to the capital adequacy framework and rules designed to promote financial stability;
- (d) the costs, effects and outcomes of other regulatory reviews, actions or litigation, including any additional compliance requirements;
- (e) changes in bankruptcy legislation and the consequences thereof;
- (f) initiatives by local, state and national regulatory authorities or legislative bodies to revise the practices, pricing or responsibilities of financial institutions serving the interests of their consumers;
- (g) changes in rules on competition and the pricing environment;
- (h) further developments in the financial reporting environment;
- (i) the expropriation, nationalisation or confiscation of assets;
- (j) any change in legislation, including, but not limited to, taxation (e.g. the introduction of tax on financial institutions and the retail sales tax), banking regulations, foreign exchange control and customer protection rules, in particular, legislative or administrative measures imposing restrictions and limitations on the ability of financial institutions to set their prices or recoup their costs of operation (including the imposition of caps on interest rates, exchange rates, annual percentage rates, asset management and other fees, commissions and/or fixing lending interest rates and/or linking such interest rates to reference rates with predetermined maximum spreads);
- (k) governmental, regulatory or legislative intervention in existing contractual relations (such as, but not limited to, existing loan or deposit agreements), or specifying other commercial or legal terms that must be applied to, or become by operation of law part of, such existing agreements (such as terms under which the provision of loans, settlement of claims, repayment of deposits, repayment of loans or other banking services or operations are required to take place or provisions that give borrowers under existing loan agreements the right to reduce or defer monthly repayments (whether with or without compensation to the lending financial institution) or oblige financial institutions to provide additional lending in relation to such existing loan agreements);

- (l) the possibility that certain aspects of the Bank's business may be determined by the relevant authorities (such as the NBP, the KNF or the Office of Consumer and Competition Protection), or the courts not to have been conducted in accordance with applicable laws or regulations, or, in the case of the courts, with what is fair and reasonable;
- (m) the possibility of alleged misselling of financial products or the mishandling of complaints related to the sale of such products by or attributed to the Bank, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;
- (n) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians;
- (o) any failure or malfunction of any relevant judicial system, including, but not limited to, the failure of, or substantial delay to, court proceedings and/or in respect of enforcement procedures;
- (p) any circumstance resulting in judgments becoming unenforceable or any substantial delay to the enforcement of judgments rendered by any relevant court, including any courts of arbitration; and
- (q) other unfavourable political developments producing any legal uncertainty which in turn may affect demand for the Bank's products and services.

The evolution of such risks may have an adverse effect on the Bank or on its products and services offered or on the value of its assets. Although the Bank works closely with its regulators and continuously monitors the situation, future changes in regulation, fiscal or other policies can be unpredictable and are beyond the control of the Bank.

The Bank is also subject to financial services laws, regulations and banking supervision and it is widely expected that there may be a substantial increase in government regulation and the supervision of the financial industry. If any violation of such regulations is detected, this may lead to higher scrutiny by the supervising authority and therefore to an increase in administrative expenses. Furthermore, should orders or fines imposed on the Bank by supervisory authorities become publicly known, this may lead to a loss of confidence among clients and business partners which may also have a negative effect on the Bank's financial condition and results of operations.

The Bank faces legal and regulatory risks from the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations to which it is subject. This is particularly the case in the current market environment, which is witnessing unprecedented levels of government intervention and changes to the regulatory framework for the banking sector. This is coupled with a number of substantial changes to the current regulatory framework at global and EU levels, including, in particular, capital adequacy, liquidity requirements, financial supervision and bank resolution (as discussed in more detail below). All these matters have, in turn, significantly reduced legal certainty in the financial markets where the Bank operates. Due to the current volatile market environment, future changes to the regulatory framework of the banking sector are difficult to predict, and these changes might have an adverse effect on the Bank's business and/or increase its compliance costs.

#### ***Statutory intervention regarding CHF mortgage loans***

Prior to the global financial crisis, many people in Poland took mortgage loans denominated in foreign currencies, especially in CHF, due to the very low prevailing exchange rates of CHF against PLN at the time. After the end of the global financial crisis the exchange rate of CHF against PLN began to rise and on 15 January 2015, as a result of the Swiss National Bank Announcement, CHF appreciated significantly against EUR, and consequently against PLN. This exchange rate movement affected the value and the risk profile of CHF-denominated mortgage loans granted by Polish banks.

On 2 August 2016, the President of the Republic of Poland filed with the Polish parliament a draft act concerning the mortgage loans denominated in foreign currencies and PLN-denominated mortgage loans indexed to foreign currencies (the "**FX Loans Act**"). The FX Loans Act will apply to loan agreements entered into between 1 July 2000 and 26 August 2011. Under the FX Loans Act, a borrower under an eligible loan will be entitled to request the bank which granted the loan to decrease the principal amount of the loan by the "spread", i.e. the difference between the amount of the loan calculated with the relevant exchange rate announced by the NBP adjusted by 0.5 per cent. and the amount of the loan calculated under the exchange rate used by the bank, or, if the loan was repaid, to request the bank to pay the borrower an amount equal to the amount of the spread. The FX Loans Act must be approved by the Polish parliament to become effective. As at the date of this Base Prospectus, it is not certain how long the parliamentary procedure for such approval may take. According to the President's office, the costs borne by the Polish banking sector as a consequence of adopting the FX Loans Act should not exceed PLN 4 billion.

As at the date of this Base Prospectus, it is not certain whether, apart from the FX Loans Act, the Polish authorities will adopt any other measures concerning the mortgage loans denominated in foreign currencies, including mandatory

conversion of these loans into PLN. Any measures concerning the mortgage loans denominated in foreign currencies could have a material negative impact on the Polish financial system.

There are no loans denominated in foreign currencies in the Bank's loan portfolio, however they are in PKO BP's portfolio. The conversion of foreign currency denominated loans may have a negative impact on the Polish banking sector as a whole and, as a consequence, on the business activity and financial position of PKO BP. This may adversely affect the Bank's financial standing and its ability to meet obligations under the Covered Bonds.

#### ***Transfer of pension funds' assets***

In July 2016, the Polish Government announced its intention to transfer 75 per cent. of the assets currently held by the open pension funds to individual pension accounts which would be maintained for each citizen and to transfer the remaining assets to the Demographic Reserve Fund (*Fundusz Rezerwy Demograficznej*). According to the Polish Government's plans, the open pension funds would be transformed into companies managing individual pension accounts. Open pension funds are important investors in debt securities issued in the Polish market. Any changes to the operations of the pension funds which may limit the number of pension funds, the value of assets managed by the pension funds or their investment policies may affect the investors' demand for covered bonds issued by the Bank and therefore may adversely affect the Bank's financial standing and ability to meet its obligations under the Covered Bonds.

#### ***The 'Apartment+' programme may affect the demand for mortgage loans***

In June 2016, the Polish Government announced its intention to launch the 'Apartment+' (*Mieszkanie+*) programme. Under the programme, the Polish Government intends to build apartments for lease. The estimated rent would be lower than the average market rate. As at the date of this Base Prospectus, it is not certain how and when this programme will be implemented. Implementation of the Apartment+ programme may result in a decreased demand for mortgage loans financing the acquisition of new apartments.

#### ***The Group is controlled by the State Treasury of the Republic of Poland***

As at the date of this Base Prospectus, the State Treasury directly holds shares representing 31.39 per cent. of the PKO BP's share capital. The State Treasury's stake in PKO BP's share capital and the provisions of PKO BP's constitutional documents which grant the State Treasury acting as a PKO BP's shareholder certain privileges, give the State Treasury corporate control over PKO BP.

Accordingly the Bank may be exposed to the effect of political changes on its operations, in particular on its ability to change the composition of the governing bodies, both at PKO BP and the Bank. Such changes may have an adverse effect on the assumptions and implementation of PKO BP's and the Bank's strategies, as well as the day-to-day operations of the Bank. Additionally, the decisions taken by the State Treasury as a PKO BP's shareholder may conflict with the interests of other shareholders of PKO BP. This may also conflict with interests of holders of the covered bonds issued by the Bank. As a consequence, the decisions of PKO BP's controlling shareholder may adversely affect the Bank's financial performance and ability to perform its obligations under the Covered Bonds.

#### ***A credit rating downgrade may increase the Bank's financing costs***

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. A reduction in PKO BP's or the Bank's credit ratings could increase the costs associated with the Bank's interbank and capital markets transactions and could adversely affect the Bank's liquidity and competitive position, undermine confidence in the Bank, increase its borrowing costs and adversely affect its interest margins. Furthermore, should the rating of the Bank be downgraded below investment grade, this could significantly impair the operating business of the Bank and the Bank's refinancing costs.

A downgrade in the rating of PKO BP or the Bank could increase the Bank's financing costs and could adversely affect the Bank's business, financial conditions and results of operations.

#### ***Falling residential property prices may affect the Bank's financial standing***

The repayment of mortgage loans advanced by the Bank is secured by residential property, which is exposed to the risk of losing value. Therefore, a decline in property prices may lead directly to a decrease in the value of security for loans advanced by the Bank. Furthermore, depreciation of property value may have an effect on the mortgage lending value of property calculated by the Bank, which may result in the Bank breaching statutory restrictions on its activities. All such developments may lead to a reduction of the scale of the Bank's operations and adversely affect the Bank's financial standing.

### ***Decline in demand for residential properties will lead to decline in demand for mortgage loans***

A drop in demand for residential property may have a direct negative effect on the demand for mortgage loans, translating into lower-than-planned sales of mortgage loans by the Bank or PKO BP. Lower sales of mortgage loans could adversely affect the Bank's financial performance and ability to perform its obligations under the Covered Bonds.

### ***The banking sector is exposed to systemic risks***

Systemic risk may arise in various areas of banking activity. There are four main categories of systemic risks to which the Bank may be exposed:

- risk caused by an (excessively) rapid increase in bank loans and the resultant excessive increase in asset prices – excessive borrowing volumes are usually driven by market participants' overly optimistic view of risk changes during a period of economic upturn, making them inclined to borrow heavily to finance investments; extravagant optimism about future profits leads to excessive investments, higher asset prices, capital inflow to the market and an increase in the market value of security (higher relative asset prices), encouraging businesses and households to increase debt and spending and when the actual state of affairs fails to meet such expectations, prices of assets and values of security instruments fall and capital flows out of the market, which brings about a relative increase in debt, limiting market players' ability to service the debt and acquire new credit facilities;
- risk relating to excessive asset purchases financed with debt, where even a minor fall in asset prices brings about technical insolvency as the value of assets falls below the value of debt;
- risk relating to insufficient liquidity, which arises when the majority of market players face limited access to financing sources and in such circumstances, the financial sector as a whole lacks sufficient liquidity and financial institutions are unable to quickly generate additional liquidity by, for instance, taking short-term loans on the interbank market; and
- risk relating to large-scale cross-border flows of capital, including loans and borrowings – if the cross-border flow of capital is unrestricted, a country may experience dramatic inflows or outflows of capital; in the latter case, the outflow of short-term debt capital might lead to a liquidity crisis in the banking sector, depreciation of the local currency and, consequently, a currency and banking crisis.

Systemic risk has two dimensions:

- the time dimension – the risk grows under sound economic conditions and shrinks at the time of an economic downturn, given banks' tendency towards excessive lending when the market is bullish, and towards reducing risky exposures when the market is bearish, which may give rise to risk accumulation at the time of an economic upturn, rendering the financial sector more susceptible to fluctuations; and
- the sector dimension – an increase in systemic risk may occur on a specific market (eg the mortgage loan market) due to the excessive concentration of risk-bearing activities at certain institutions and mutual business relations with other market players, fostering negative repercussions across the banking system.

Thus the systemic risk can adversely affect the Bank's operations and ability to raise funds in scarce liquidity conditions, rendering the Bank unable to perform its obligations under the Covered Bonds.

### ***Polish tax legislation is complex and unclear, which might lead to disputes with tax or tax audit authorities concerning the application of tax laws and regulations***

Certain Polish tax law provisions are complex, unclear and subject to frequent amendments. This gives rise to uncertainty in the application of tax legislation and to the risk of errors. Under the current Polish tax regime, it frequently happens that taxpayers and tax authorities follow different, and sometimes divergent, interpretations of the same provisions. This can lead to disputes between taxpayers and tax or tax audit authorities over the interpretations followed by the Bank and the Bank's application of tax laws. Adoption by tax authorities of a tax law interpretation different to that adopted by the Bank could adversely affect the Bank's financial standing and its ability to perform obligations under the Covered Bonds.

Frequent amendments to tax legislation, including in particular those taking effect without sufficient time between promulgation of the legislation and the time it takes legal effect, could have a material adverse effect on the Bank's business and hinder its day-to-day operations. There is a risk that the implementation of new, or amendment of existing, tax laws might result in significant costs due to the need to adapt to such new or amended legislation or costs related to failure to adapt to such new or amended legislation.



***The Polish Covered Bonds Act was significantly amended in 2015 and some of its provisions may be interpreted differently by market participants, public authorities and the courts***

The Polish Covered Bonds Act was significantly amended in 2015 and the Polish covered bonds market is relatively undeveloped. This means that market participants, public authorities and the courts in Poland have limited experience in applying the Polish Covered Bonds Act. Additionally, some provisions of the Polish Covered Bonds Act and other acts of law governing the activities of mortgage banks, in particular, the provisions concerning the bankruptcy of a mortgage bank, have not been tested in practice. In particular, there has not been any international issuance of the covered bonds governed by the Polish Covered Bonds Act. There is a risk that the Bank's interpretation of the Polish Covered Bonds Act may differ from the opinion of other market participants, public authorities and the courts. A different interpretation may have an impact on the validity and enforceability of certain rights and obligations under the Covered Bonds. These differences may also result in sanctions imposed by the relevant authorities or disputes which may have unfavourable results for the Bank. Additionally, these differences may require the Bank to change the way it conducts business and these changes may adversely affect the Bank's financial standing and its ability to perform obligations under the Covered Bonds.

***The Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 might restrict the Bank's business activity***

The Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (the "**Mortgage Credit Directive**") was adopted to introduce a framework for mortgage loans granted to consumers for residential purposes. The Mortgage Credit Directive covers all stages of the lending process, from advertising of the mortgage loans to foreclosure. As at the date of this Base Prospectus, the Mortgage Credit Directive has not been implemented in Poland and it is uncertain how and when it will be implemented. The implementation of the Mortgage Credit Directive may introduce additional restrictions on the Bank's business activity, reduce its ability to grant mortgage loans or adversely affect the Bank's ability to efficiently enforce its claims under mortgage loans within the scope of the Mortgage Credit Directive.

***Properties securing mortgage loans are exposed to catastrophes and natural disasters***

The Bank generally secures the properties, but there are exceptions for natural disasters. Properties on which loans advanced by the Bank are secured may be destroyed or significantly damaged as a result of natural disasters, such as floods, hurricanes, tornadoes, hailstorms and fires. The frequency and intensity of such phenomena are difficult to predict. Moreover, the growing weather and climate variability observed in recent years creates additional uncertainty over the future occurrence of such disasters. A natural disaster can result in a lower value of property and thus the value of security established for the Bank's benefit, especially if a property is not covered by a valid insurance policy or if bringing the property back to its pre-disaster condition is impossible. In consequence, such natural disasters could adversely affect the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

***Undeveloped secondary market for mortgage loans***

The secondary market for mortgage loans in Poland has not yet developed and it is difficult to assess whether it will develop in the future. If the Bank decides to dispose of mortgage loans in its portfolio, the Bank may encounter difficulties in finding a purchaser willing to pay the price acceptable to the Bank or the Bank may not find a purchaser at all.

***Changes in accounting standards***

The Bank's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the Bank's financial statements (such as the new IFRS 9 which includes revised directions on classification and measurement of financial assets, impairment of financial assets and hedge accounting). These changes can be hard to predict and can materially impact how the Bank records and reports its financial condition and results of operations.

***Risk of unpredictable events***

Unpredictable events such as terrorist attacks and epidemics can disrupt the Bank's operations and cause significant losses relating to immovable and movable property, financial assets and key personnel. Unpredictable events can also generate additional operating expenses, such as higher insurance premiums. They can also prevent the Bank from obtaining insurance coverage with respect to certain risks. In consequence, they may adversely affect the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

## **Risk relating to the Cover Pool**

The Covered Bonds and any other covered bonds issued by the Bank will have the benefit of a statutory preference under the Polish Covered Bonds Act over a single shared cover pool maintained by the Bank.

### ***Holders of all covered bonds issued by the Bank share the same cover pool***

The Covered Bonds are not guaranteed by any person and constitute direct, unconditional and unsubordinated obligations of the Bank, which will rank pari passu among themselves and with all other covered bonds issued by the Bank and with all other obligations of the Bank that have been provided the same priority as the Covered Bonds.

The Bank maintains one cover pool for all covered bonds of the same type (for example, mortgage covered bonds) issued by the Bank. This means that holders of all covered bonds of one type issued by the Bank have a claim against the same assets in the cover pool maintained for that type of covered bonds. Holders of one type of covered bonds have no claim against the assets in the cover pool maintained for another type of covered bonds (which means that holders of mortgage covered bonds have no claim against the cover pool maintained for public covered bonds). The Polish Covered Bonds Act does not permit the maintenance of a "variety of pools" for calculation, insolvency or other purposes under Polish law (for example, on issue-by-issue or programme-by-programme basis). The Bank has an active domestic mortgage covered bond programme, under which it has issued and may continue to issue mortgage covered bonds. As at the date of this Base Prospectus, the aggregate principal amount of all mortgage covered bonds issued by the Bank is PLN 1,030,000,000. In the future, the Bank may decide to issue mortgage covered bonds under programmes other than the Programme and the domestic programme or on a standalone basis and the holders of mortgage covered bonds will have access to the same cover pool as holders of the Covered Bonds and the mortgage covered bonds issued under the domestic programme.

### ***Holders of the Covered Bonds will have limited information on loans in the cover pool***

This Base Prospectus provides basic information on the loans in the cover pool as at 30 June 2016. Within three months from the end of each financial year, the Bank will announce in "*Monitor Sądowy i Gospodarczy*" the aggregate amount of the Bank's receivables in the cover pool. Additionally, the Bank publishes quarterly a cover pool report in accordance with Article 129 section 7 of the CRR. The Cover Pool Monitor supervises the proper maintenance of the cover pool register, but the results of this inspection are not publicly available. Therefore, it is possible that after the date of this Base Prospectus the composition of the cover pool will change and these changes may have an adverse effect on the Bank's financial position and ability to perform its obligations under the Covered Bonds.

### ***Audit of the cover pool***

Neither the Bank nor the Co-Arrangers nor the Dealers have conducted or commissioned any independent audit of the cover pool nor will they undertake any audit of the cover pool in connection with an offering of the Covered Bonds.

### ***Valuation of properties***

Valuations of the properties securing the mortgage loans are conducted by independent experts (real estate appraisers) and reviewed by internal independent experts from a separate internal unit of the Bank. In the case of loans acquired by the Bank from PKO BP, the valuations are conducted by internal independent experts from the separate internal unit of the Bank on the basis of information delivered by reputable companies accepted by the Bank's Management Board. Such valuations reflect the individual expert's judgment as to value of the property, based, among others, on the market values of comparable homes sold in the recent past in comparable nearby locations. The final review, which is conducted by an internal independent expert from a separate internal unit of the Bank, is based on an internal database of real estate transaction prices.

No assurance can be given that values of the properties securing the mortgage loans have remained or will remain at the levels which existed on the dates of appraisal (or, where applicable, on the dates of appraisal updates) of the related mortgage loans.

### ***The Bank may breach the regulatory requirements concerning the cover pool***

The Bank, its cover pool and issuances of covered bonds by the Bank are subject to a number of regulatory restrictions. If the Bank does not originate or acquire new mortgage loans to replace the loans which were included in the cover pool, but were repaid, it is possible that the Bank will not satisfy the statutory overcollateralisation requirements. Additionally, even though the Bank and the cover pool monitor verify whether the loans in the cover pool meet the statutory criteria, it cannot be excluded that particular loans in the cover pool might not satisfy all statutory criteria.

### ***Termination payments for swaps***

If any of the interest rate swaps or the currency swaps are terminated, the Bank may as a result be obliged to make a termination payment to the relevant swap provider. The amount of the termination payment will be based on the cost of entering into a replacement interest rate swap or currency swap, as the case may be. Any termination payment to be made by the Bank to a swap provider of hedging instruments entered in the cover pool will rank pari passu with payments due to the holders of the Covered Bonds.

If the Bank fails to make timely payment of amounts due under the relevant swap and any applicable grace period expires, then the Bank will default under the relevant swap. If the Bank defaults under the relevant swap due to non-payment, the relevant swap provider will not be obliged to make any further payments under the relevant swap and may terminate that swap. In such circumstances, the Bank will be exposed to changes in interest rates or currency exchange rates and in the associated interest rates relating to such currencies as applicable. Unless a replacement swap is entered into, the Bank may have insufficient funds to make payments due on the Covered Bonds when payable.

The term of any interest rate swap or currency swap, as applicable, entered into by the Bank is unlikely to extend beyond the Extended Maturity Date of the Covered Bonds to which such swap relates. As such, if the relevant Covered Bonds are not redeemed in full by the applicable Extended Maturity Date, such interest rate swap or currency swap, as applicable, may be terminated and a termination payment may be due to the relevant swap provider. Consequently, holders of the Covered Bonds will be exposed foreign currency exchange risk after the applicable Extended Maturity Date if the term of the relevant currency swap does not continue past the applicable Extended Maturity Date. It is unlikely that a replacement swap will be entered into after the applicable Extended Maturity Date.

### ***Regulatory considerations regarding hedging arrangements***

The European Market Infrastructure Regulation 648/2012 ("**EMIR**") entered into force on 16 August 2012. EMIR aims to increase stability in European over-the-counter ("**OTC**") derivatives markets and includes measures to require the clearing of certain OTC derivatives contracts through central clearing counterparties and to increase the transparency of OTC derivatives transactions. EMIR will apply to OTC derivatives contracts falling within its scope entered into by financial counterparties, regardless of the identity of the other counterparty to the contract. In connection with EMIR, various implementing technical standards have now come into force, but certain critical technical standards remain outstanding, including those addressing which classes of OTC derivative contracts will be subject to the clearing obligation and the scope of collateralisation obligations in respect of OTC derivative contracts which are not cleared. Therefore, the potential impact of the clearing obligation on the types of derivative contracts that are entered into by the Bank is not clear, including whether it will be possible to clear such derivative contracts or whether the derivative contracts will be determined to be too bespoke to be cleared.

Prospective investors should be aware that the regulatory changes arising from EMIR may in due course significantly increase the cost to the Bank of entering into derivative contracts and may adversely affect the Bank's ability to engage in derivative contracts.

In addition, Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted 21 July 2010 (the "**Dodd-Frank Act**"), established a comprehensive new U.S. regulatory regime for a broad range of derivatives contracts (collectively referred to in this risk factor as "covered swaps"). Among other things, Title VII provides the U.S. Commodity Futures Trading Commission ("**CFTC**") and the U.S. Securities and Exchange Commission ("**SEC**") with jurisdiction and regulatory authority over many different types of derivatives that are currently traded over-the-counter, requires the establishment of a comprehensive registration and regulatory framework applicable to covered swap dealers and other major market participants, requires many types of covered swaps to be exchange-traded or executed on swap execution facilities ("**SEFs**") and centrally cleared, and contemplates the imposition of capital requirements and margin requirements for uncleared transactions in covered swaps.

Many of the key regulations implementing Title VII have recently become effective or are in final form. However, in some instances, the interpretation and potential impact of these regulations are not yet entirely clear. Additionally, not all of the regulations, particularly with respect to security-based swaps, have been finalised and made effective. Due to this uncertainty, a complete assessment of the exact effects of Title VII cannot be made at this time.

In particular, the swaps contemplated under the Programme may include agreements that are regulated as covered swaps under Title VII, each of which may be subject to new clearing, execution, capital, margin posting, reporting and recordkeeping requirements under the Dodd-Frank Act that could result in additional regulatory burdens, costs and expenses (including extraordinary, non-recurring expenses of the Bank). Such requirements may disrupt the Bank and its affiliates' ability to hedge their exposure to various transactions, including any obligations it may owe to investors under the Covered Bonds, and may materially and adversely impact a transaction's value or the value of the Covered Bonds. While the Dodd-Frank Act provides for the grandfathering of certain swaps, such grandfathering may not apply to the transactions entered into by the Bank or may only apply to certain transactions. Additionally, the Bank cannot be certain as to how these regulatory developments will impact the treatment of the Covered Bonds.

Given that the full scope and consequences of the enactment of EMIR and the Dodd-Frank Act and the rules still to be adopted thereunder are not yet known, investors are urged to consult their own advisers regarding the suitability of an investment in any Covered Bonds.

The Covered Bonds are intended to comply with the requirements of Article 129 of the CRR and qualify for a preferential risk weighting in the eligible European jurisdictions. However, the requirements of Article 129 of the CRR (in relation to derivative exposures) are unclear in circumstances where derivative counterparties are not credit quality step 1 (for the purposes of the CRR).

In general, investors should consult their own advisers as to the regulatory capital framework relating to the Banks and the Covered Bonds and as to consequences of any changes to the CRD IV/CRR package and the relevant implementing measures. No prediction can be made as to the precise effects of such regulatory matters on any investor.

## **Risk factors in the event of Bankruptcy**

### ***Extension of maturity dates in the case of Bank's bankruptcy***

Upon a Bankruptcy Event of the Bank (as defined in Condition 5(c)), the maturity of all outstanding covered bonds issued by the Bank, including the Covered Bonds, will automatically be extended by 12 months (the "**Extended Maturity Date**"). While interest under all of the Bank's covered bonds (including the Covered Bonds) will continue to be payable in the manner and on the dates indicated in the terms and conditions of the Covered Bonds and the applicable Final Terms, a Bankruptcy Event may affect the timing and amount of principal to be paid to Covered Bond Holders.

On the date of the Bankruptcy Event, the bankruptcy court will appoint a bankruptcy receiver (*syndyk*) who will assume responsibility for the administration of the Bank's assets. Within three months of the Bankruptcy Event, the bankruptcy receiver must conduct, in accordance with the Bankruptcy Law dated 28 February 2003 (*Ustawa z dnia 28 lutego 2003 r. Prawo upadłościowe*, the "**Bankruptcy Law**"):

- a coverage test (*test równowagi pokrycia*) to determine whether the assets forming the separate bankruptcy asset pool (*osobna masa upadłości*) of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds (including the Covered Bonds) issued by the Bank; and
- a liquidity test (*test płynności*) to determine whether the assets forming the separate bankruptcy asset pool of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the Extended Maturity Dates of all outstanding covered bonds (including the Covered Bonds) issued by the Bank.

If the results of both the coverage test and the liquidity test are positive, the claims of the holders of the Covered Bonds for the repayment of principal are to be fulfilled in accordance with the terms and conditions of the Covered Bonds and the applicable Final Terms up to the Extended Maturity Date.

If the result of the coverage test is positive but the result of the liquidity test is negative, or if the result of the coverage test is negative, the maturity of the Covered Bonds will be extended by three years from the latest maturity date of a receivable in the cover pool.

In certain circumstances provided by Polish law, the claims of the holders of the Covered Bonds for the payment of principal may be satisfied sooner than the applicable extended maturity dates pursuant to pass-through procedures from the receivables in the cover pool.

In addition, the holders of all outstanding covered bonds issued by the Bank may, by a vote of holders representing two-thirds of the aggregate principal amount of all outstanding covered bonds of the Bank, adopt resolutions requesting the bankruptcy receiver to sell the cover pool (Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*").

Other circumstances may affect the timing and amount of principal to be paid to Covered Bond Holders. For further details see Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*" of the terms and conditions of the Covered Bonds and "*Information Relating to Covered Bonds*".

Additionally, filing the motion to declare a mortgage bank bankrupt results in a suspension of the mortgage bank's operations for approximately two months. Suspension of the mortgage bank's operations may further affect the timing of payments to be made to Covered Bond Holders.

## **Risk factors regarding the Covered Bonds**

### ***The Covered Bonds are obligations of the Bank only***

The Covered Bonds will constitute the obligations of the Bank only. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Bank. The Covered Bonds are not guaranteed by PKO BP or any other member of

the Group. Holders of Covered Bonds have no recourse to any entity other than the Bank. Although PKO BP declared its intention to support the Bank, this declaration cannot be a basis for claims of the Holders of the Covered Bonds against PKO BP. Additionally, PKO BP's capacity to support the Bank will depend on the financial standing of PKO BP and any deterioration in PKO BP's financial standing may affect PKO BP's ability to support the Bank.

#### ***No events of default***

The Terms and Conditions of the Covered Bonds do not include any events of default relating to the Bank or the Covered Bonds, the occurrence of which would entitle the Holders of the Covered Bonds to accelerate the Covered Bonds. Consequently, the Holders of the Covered Bonds will only be paid the scheduled interest payments under the Covered Bonds as and when they fall due under the Terms and Conditions of the Covered Bonds.

#### ***The Covered Bonds can be subject to mandatory redemption in case of non-bankruptcy liquidation, merger, division or transformation under statutory provisions of Polish law***

The applicable Final Terms will indicate that the Covered Bonds Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date.

However, under the Polish Act on Bonds dated 15 January 2015 (*Ustawa z dnia 15 stycznia 2015 r. o obligacjach*, the "**Polish Act on Bonds**"), if the Bank is subject to non-bankruptcy liquidation (*likwidacja*), the Bank shall redeem the Covered Bonds at par on the opening day of such non-bankruptcy liquidation (*likwidacja*) proceedings. If the Bank is subject to a merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*), and the entity that has taken over all or a portion of the Bank's obligations under the Covered Bonds pursuant to such merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*) is not permitted under the Polish Covered Bonds Act to issue covered bonds, the Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (*likwidacja*), merger (*połączenie*), division (*podział*) and transformation (*przekształcenie formy prawnej*) in this paragraph shall have the meaning as prescribed under Polish law.

#### ***Changes in interest rates may affect the investors' return on the Covered Bonds***

Interest rate risk is one of the central risks of interest-bearing securities and, therefore, applies to all Covered Bonds which bear interest. The interest rate level may fluctuate on a daily basis and cause the value of the Covered Bonds to change on a daily basis. Interest rate risk is a result of the uncertainty with respect to future changes of the market interest rate level. In particular, Holders of Fixed Rate Covered Bonds (as defined below) are exposed to an interest rate risk that could result in a decrease in value if the market interest rate level increases. In general, the effects of this risk increase as the market interest rates increase.

#### ***Currency risk***

The Bank will pay principal and interest on the Covered Bonds in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Covered Bonds; (ii) the Investor's Currency-equivalent value of the principal payable on the Covered Bonds; and (iii) the Investor's Currency-equivalent market value of the Covered Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Bank to make payments in respect of the Covered Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Additionally, although the Covered Bonds will be denominated in the Specified Currency, if a judgement in the Polish courts is made in the Specified Currency without explicit indication that the claim can only be fulfilled in the Specified Currency, the enforcement of such judgement would be made in PLN, which means an investor becomes exposed to currency risk as the currency of its investment has changed. If PLN moves against the Specified Currency after judgement and before the judgment is fully enforced, the investor might incur a loss due to currency fluctuation.

Furthermore, in the course of bankruptcy proceedings, in principle the claims of the Bank's creditors denominated in any currency other than PLN will be placed on the list of claims in PLN at the exchange rate of the NBP as at the date of the Bankruptcy Event, and in the absence of such exchange rate – according to the average market price on that day. Entering the claim on the list of claims in PLN does not result in the conversion of the claim denominated in a foreign currency into a claim denominated in PLN, however all payments made as a result of the implementation of the distribution plan prepared based on the list of claims shall be made in PLN. The Bank, after consultation with its advisers, has concluded that in the course of bankruptcy proceedings, the abovementioned provisions relating to satisfaction of claims as a result of the implementation of the distribution plan after conversion into PLN should not

apply to the Covered Bonds, and consequently all payments under the Covered Bonds should be made in accordance with their respective terms and conditions in the Specified Currency. However, as the relevant provisions of the Polish Bankruptcy Law relating to the bankruptcy of mortgage banks have been recently amended and have not been tested in practice, the Bank cannot exclude the possibility that bankruptcy administrators appointed in the course of bankruptcy proceedings of the Bank might interpret the relevant legislation in a different manner.

### ***Inflation risk***

Inflation risk is the risk of future depreciation of money. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on a Covered Bond. If the inflation rate is equal to or higher than the nominal yield of a Covered Bond, the real yield is zero or even negative.

***An active secondary market in respect of the Covered Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Covered Bonds***

Application may be made to list the Covered Bonds to be issued under the Programme on the Official List of the Luxembourg Stock Exchange (*Bourse de Luxembourg*) and/or the Warsaw Stock Exchange (*Gięlda Papierów Wartościowych w Warszawie S.A.*) and to admit to trading such Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange and/or on the Regulated Market of the Warsaw Stock Exchange. In addition, the Programme provides that Covered Bonds may be listed on other or further stock exchanges or may not be listed at all. Regardless of whether the Covered Bonds are listed or not, there can be no assurance that a liquid secondary market for the Covered Bonds will develop or, if it does develop, that it will continue. The fact that the Covered Bonds may be listed does not necessarily lead to greater liquidity than if they were not listed. If the Covered Bonds are not listed on any exchange, pricing information for such Covered Bonds may, however, be more difficult to obtain, which may affect the liquidity of the Covered Bonds adversely. In an illiquid market, an investor might not be able to sell his Covered Bonds at any time at fair market prices. The possibility to sell the Covered Bonds might additionally be restricted due to currency restrictions.

### ***Fixed Rate Covered Bonds***

The Holder of a Covered Bond with a fixed rate of interest ("**Fixed Rate Covered Bonds**") is exposed to the risk that the price of such Covered Bond falls as a result of changes in the market interest rate. While the nominal interest rate of a Fixed Rate Covered Bond as specified in the applicable Final Terms is fixed during the life of such Covered Bond, the current interest rate on the capital markets ("**market interest rate**") typically changes on a daily basis. As the market interest rate changes, the price of a Fixed Rate Covered Bond also changes, but in the opposite direction.

If the market interest rate increases, the price of a Fixed Rate Covered Bond typically falls, until the yield of such Covered Bond is approximately equal to the market interest rate.

If the market interest rate falls, the price of a Fixed Rate Covered Bond typically increases, until the yield of such Covered Bond is approximately equal to the market interest rate. If the Holder of a Fixed Rate Covered Bond holds such Covered Bond until maturity, changes in the market interest rate are not relevant to such Holder as the Covered Bond will be redeemed at a specified redemption amount, usually the principal amount of such Covered Bond.

In the case of Fixed Rate Covered Bonds with an interest commencement date not equal to the issue date, such instruments will have a lower yield than Fixed Rate Covered Bonds with an interest commencement date equal to the issue date. In the event that such Fixed Rate Covered Bonds are sold in the secondary market before accrual of interest begins, investors may face a negative yield.

Where an investor purchases Covered Bonds at an issue price (including any fees or transaction costs in connection with such purchase) higher than or equal to the sum of the redemption amount of the Covered Bonds and all remaining interest payments on the Covered Bonds until the maturity date, the investor may receive no yield or a negative yield.

***Floating Rate Covered Bonds (including Reverse Floating Rate Covered Bonds and Fixed to Floating Rate Covered Bonds)***

### ***General***

The Holder of a Covered Bond with a floating rate of interest ("**Floating Rate Covered Bonds**") is exposed to the risk of fluctuating reference rates such as the Euro Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR) or the Warsaw Interbank Offered Rate (WIBOR) as applicable and uncertain interest income. Fluctuating reference rate levels make it impossible to determine the yield of Floating Rate Covered Bonds in advance.

Furthermore, where the Floating Rate Covered Bonds do not provide for a minimum rate of interest above zero per cent., investors may not receive any interest payments during one or more interest periods if the applicable reference rate decreases or increases (in the case of Reverse Floating Rate Covered Bonds (as defined below)) to a certain level.

In case of a low floating rate of interest and where an investor purchases Covered Bonds at an issue price (including any fees or transaction costs in connection with such purchase) higher than or equal to the sum of the redemption amount of the Covered Bonds and all remaining interest payments on the Covered Bonds until the maturity date, the investor may receive no yield or a negative yield.

### ***Reverse Floating Rate Covered Bonds***

Reverse floating rate Covered Bonds have an interest rate equal to a fixed rate minus a rate based upon a reference rate ("**Reverse Floating Rate Covered Bonds**"). The market values of Reverse Floating Rate Covered Bonds are typically more volatile than the market values of other conventional Floating Rate Covered Bonds based on the same reference rate (and with otherwise comparable terms). Reverse Floating Rate Covered Bonds are more volatile because an increase in the reference rate not only decreases the interest rate of these Covered Bonds, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Covered Bonds.

### ***Fixed to Floating Rate Covered Bonds***

The Holder of a Covered Bond issued with a fixed interest rate and a floating interest rate ("**Fixed to Floating Rate Covered Bonds**") is exposed to both risks relating to Fixed Rate Covered Bonds (see – "*Fixed Rate Covered Bonds*" and risks relating to Floating Rate Covered Bonds (see – "*Floating Rate Covered Bonds (including Reverse Floating Rate Covered Bonds and Fixed to Floating Rate Covered Bonds)*").

### ***Zero Coupon Covered Bonds***

Zero Coupon Covered Bonds do not pay current interest but are issued at a discount from their nominal value. The difference between the redemption price and the issue price constitutes interest income until maturity and reflects the market interest rate. The Holder of a Zero Coupon Covered Bond is exposed to the risk that the price of such Covered Bond falls as a result of changes in the market interest rate. Prices of Zero Coupon Covered Bonds are more volatile than prices of Fixed Rate Covered Bonds and are likely to fluctuate more in relation to market interest rate changes than interest-bearing Covered Bonds with a similar maturity.

### ***Covered Bonds with a Cap***

Covered Bonds (except for Reverse Floating Rate Covered Bonds, Fixed Rate Covered Bonds and Zero Coupon Covered Bonds) may be issued with a cap with respect to interest payments. In that case the amount of interest will never rise above and beyond the predetermined cap, so that the Holder will not be able to benefit from any actual favourable development beyond the cap. The yield of these Covered Bonds could therefore be lower than that of similarly structured Covered Bonds without a cap. The market value of such Covered Bonds may decrease or fluctuate over their term to a higher extent than comparable interest structured Covered Bonds without a cap.

Notwithstanding the aforementioned paragraph, Holders of Reverse Floating Rate Covered Bonds should note that, in the event of a participation rate (factor) which is above 100 per cent. (a factor bigger than 1), Holders bear the risk that the accrual of interest will decrease more in the case of a positive performance of the relevant reference rate(s) than would be the case in the event of a multiplication with a factor of 1 or if Covered Bonds are not equipped with a participation rate (factor). However, in the case of a participation rate (factor) which is below 100 per cent. (a factor smaller than 1), Holders bear the risk that the accrual of interest will increase less in the case of a negative performance of the relevant reference rate(s) than would be the case in the event of a multiplication with a factor of 1 or if Covered Bonds are not equipped with a participation rate (factor).

### ***Legality of Purchase***

Neither the Bank nor the Co-Arrangers, the Dealers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Covered Bonds by a prospective purchaser of the Covered Bonds, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different) or for compliance by that prospective purchaser with any laws, regulation or regulatory policy applicable to it. A prospective purchaser may not rely on the Bank, the Co-Arrangers, the Dealers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Covered Bonds.

### ***Meetings of Holders of Covered Bonds***

The Terms and Conditions of the Covered Bonds contain provisions for calling meetings of their respective Covered Bond Holders to consider matters affecting the interests of such Covered Bond Holders generally. These provisions permit defined majorities to bind all Covered Bond Holders who did not attend and vote at the relevant meeting and Covered Bond Holders who voted in a manner contrary to the majority. As a result, Covered Bond Holders can be bound by the result of a vote that they voted against.

Additionally, under the Polish Act on Bonds, the resolutions of meetings of Holders of listed Covered Bonds amending the provisions of the Conditions or the Final Terms concerning: (i) the amounts payable by the Bank under the Covered Bonds, the manner of determining these amounts, including conditions of payment of interest; (ii) the dates, place and the manner of making payments under the Covered Bonds and the dates on which persons entitled to receive payments under the Covered Bonds are determined; (iii) convening, holding and adopting resolutions by the meeting of Holders; and (iv) lowering the principal amount of the Covered Bonds require consent of all Holders attending the meeting and the consent of the Bank. This means the Bank or a holder of a single Covered Bond may prevent an amendment to the Conditions or the Final Terms which would be beneficial for a majority of Holders of the Covered Bonds.

### ***Market value of Covered Bonds***

The market value of Covered Bonds will be affected by the creditworthiness of the Bank and a number of additional factors including, but not limited to, the interest structure of the Covered Bonds (including caps relating to interest payments), market interest and yield rates, market liquidity and the time remaining to the maturity date.

The value of the Covered Bonds, reference rates or an index depends on a number of interrelated factors, including economic, financial and political events in Poland or elsewhere, including factors affecting capital markets generally. The price at which a Holder will be able to sell Covered Bonds prior to maturity may be at a discount, which could be substantial, from the relevant issue price of the Covered Bonds or the purchase price paid by such purchaser. The historical market prices of reference rates or an index should not be taken as an indication of reference rates' or an index's future performance during the term of any Covered Bond.

### ***Clearing Systems***

Because the global covered bonds representing the Covered Bonds (each a "**Global Covered Bond**" and, together, the "**Global Covered Bonds**") may be held by or on behalf of Euroclear Bank SA/NV, with registered address at 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium ("**Euroclear**") and/or Clearstream Banking S.A., with its registered address at 42 Avenue Kennedy, L-1855 Luxembourg, Luxembourg ("**Clearstream, Luxembourg**"), investors will have to rely on their procedures for transfer, payment and communication with the Bank.

Covered Bonds issued under the Programme may be represented by one or more Global Covered Bond(s). Such Global Covered Bond will be deposited on the issue date with a common safekeeper (in the case of Covered Bonds issued in NGCB form) or common depositary (in any other case) for Euroclear or Clearstream, Luxembourg. Investors will not be entitled to receive definitive Covered Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Covered Bonds. While the Covered Bonds are represented by one or more Global Covered Bond(s), investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

While the Covered Bonds are represented by one or more Global Covered Bond(s) the Bank will discharge its payment obligations under the Covered Bonds by making payments to the common depositary or to the common safekeeper (in the case of Covered Bonds issued in NGCB form), as the case may be, for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Covered Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Covered Bonds. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Covered Bonds.

Holders of beneficial interests in the Global Covered Bonds will not have a direct right to vote in respect of the relevant Covered Bonds. 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.

### ***Credit ratings***

One or more independent credit rating agencies may assign credit ratings to the Bank and/or the Covered Bonds. The ratings may not reflect the potential impact of all risks related to the structure, market or additional factors discussed above, and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. A credit rating agency may from time to time alter the methodology employed by it for rating the Covered Bonds, and such modification may affect ratings attributed to the Covered Bonds issued under the Programme.

In general, European regulated investors are restricted under Regulation (EC) No 1060/2009 (as amended, the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European



Securities and Markets Authority ("ESMA") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

### ***Form of New Global Note (NGCB form)***

The form of "New Global Note" was established to enable Covered Bonds to be issued and held in a manner which is recognised as eligible collateral in accordance with Eurosystem's monetary policy and intra-day credit operations either upon issue or while still outstanding. However, such recognition will depend upon satisfying the Eurosystem's eligibility criteria, as applied from time to time by European Central Bank.

## **Taxation**

### ***General***

Potential purchasers and sellers of the Covered Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Covered Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Covered Bonds. Potential investors are advised not to rely upon the tax summary contained in this document and/or in the Final Terms but instead to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Covered Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration has to be read in connection with the section "Taxation" on pages 86 to 89 of this Base Prospectus.

### ***Payments under the Covered Bonds may be subject to withholding tax pursuant to FATCA***

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("FATCA") impose a new reporting regime and, potentially, a 30 per cent. withholding tax with respect to: (i) certain payments from sources within the United States; (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime; and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. While the Covered Bonds are in global form and held within Euroclear or Clearstream, Luxembourg (together the "ICSDs"), in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the ICSDs. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Bank's obligations under the Covered Bonds are discharged once the Paying Agent has paid the ICSDs and the Bank has therefore no responsibility for any amount thereafter transmitted through the ICSDs and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "IGA") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

### ***Independent review and advice***

Each prospective purchaser of Covered Bonds must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of Covered Bonds is fully consistent with its (or if it is acquiring Covered Bonds in a fiduciary capacity, the beneficiary's) financial needs, objectives and condition, that it complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it (whether acquiring the Covered Bonds as principal or in a fiduciary capacity) and that it is a fit, proper and suitable investment for it (or if it is acquiring Covered Bonds in a fiduciary capacity, for the beneficiary), notwithstanding the clear and substantial risks inherent in investing in or holding Covered Bonds.

A prospective purchaser may not rely on the Bank, the Co-Arrangers, the Dealer(s) or any of their respective affiliates in connection with its determination as to the legality of its acquisition of Covered Bonds or as to the other matters referred to above.

## GENERAL DESCRIPTION OF THE PROGRAMME

*This section "General Description of the Programme" must be read as an introduction to this Base Prospectus and any decision to invest in any Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference. The following is qualified in its entirety by the remainder of this Base Prospectus.*

Words and expressions defined in "*Form of the Covered Bonds*" and "*Terms and Conditions of the Covered Bonds*" shall have the same meanings in this description.

Issuer:	PKO Bank Hipoteczny Spółka Akcyjna.
Description:	Programme for the issuance of Covered Bonds ( <i>hipoteczne listy zastawne</i> ).
Global Coordinator and Lead Co-Arranger:	Société Générale.
Co-Arrangers:	Deutsche Bank Aktiengesellschaft J.P. Morgan Securities plc Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Dealers:	Deutsche Bank Aktiengesellschaft J.P. Morgan Securities plc Landesbank Baden-Württemberg Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Société Générale,  and any other Dealers appointed in accordance with the Programme Agreement.
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under Covered Bonds issued under the Programme. These are set out under " <i>Risk Factors</i> ". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme. These are set out under " <i>Risk Factors</i> " and include certain risks relating to the structure of particular Series of Covered Bonds and certain market risks.
Certain Restrictions:	Each issue of Covered Bonds in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see " <i>Subscription and Sale</i> ") including the following restrictions applicable at the date of this Base Prospectus.  <b>Covered Bonds having a maturity of less than one year</b>  Covered Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see " <i>Subscription and Sale</i> ".
Principal Paying Agent:	Société Générale Bank & Trust.
Programme Size:	EUR 4,000,000,000 (or its equivalent in other currencies calculated as described under " <i>General Description of the Programme</i> ") outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis and subject to certain restrictions, as described under " <i>Subscription and Sale</i> ".
Series and Tranches:	Covered Bonds will be issued on a continuous basis in Tranches with no minimum issue size, each Tranche consisting of Covered Bonds which are identical in all respects.  One or more Tranches, which are expressed to be consolidated and forming a

single series and identical in all respects, but having different issue dates, interest commencement dates, issue prices and dates for first interest payments may form a series ("**Series**") of Covered Bonds. Further Covered Bonds may be issued as part of an existing Series. The specific terms of each Tranche will be set forth in the applicable Final Terms.

Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer(s).
Maturities:	Such maturities as may be agreed between the Bank and the relevant Dealer(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued only on a fully-paid basis and at an issue price which is at their nominal amount or at a discount to, or premium over, their nominal amount.
Type of Covered Bonds:	For a description of certain aspects relevant to the Covered Bonds, see " <i>Information relating to Covered Bonds</i> ".
Form of Covered Bonds:	The Covered Bonds will be issued in bearer form as described in " <i>Form of the Covered Bonds</i> ".
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Floating Rate Covered Bonds:	<p>Floating Rate Covered Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none"><li>(i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series); or</li><li>(ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or</li><li>(iii) on such other basis as may be agreed between the Bank and the relevant Dealer.</li></ul> <p>The margin (if any) relating to such floating rate will be agreed between the Bank and the relevant Dealer for each Series of Floating Rate Covered Bonds.</p> <p>Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Covered Bonds in respect of each Interest Period (as defined in the Final Terms), as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates (as defined in the Final Terms), and will be calculated on the basis of such Day Count Fraction (as defined in the Final Terms), as may be agreed between the Bank and the relevant Dealer.</p>
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The applicable Final Terms will indicate that the Covered Bonds Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date.</p> <p>Under the Polish Act on Bonds, if the Bank is subject to non-bankruptcy liquidation (<i>likwidacja</i>), the Bank shall redeem the Covered Bonds at par on the opening day of such non-bankruptcy liquidation (<i>likwidacja</i>) proceedings. If the Bank is subject to a merger (<i>połączenie</i>), division (<i>podział</i>) or transformation (<i>przekształcenie formy prawnej</i>), and the entity that has taken over all or a portion of the Bank's obligations under the Covered Bonds pursuant to such merger (<i>połączenie</i>), division (<i>podział</i>) or transformation (<i>przekształcenie formy prawnej</i>) is not permitted under the Polish Covered Bonds Act to issue covered bonds, the</p>

Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (*likwidacja*), merger (*połączenie*), division (*podział*) and transformation (*przekształcenie formy prawnej*) in this paragraph shall have the meaning as prescribed under Polish law.

Unless previously redeemed or purchased and cancelled and subject to Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*", each Covered Bond will be redeemed by the Bank at 100 per cent. of its nominal value on its scheduled maturity date.

Covered Bonds having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions*".

Extended maturity in the event of the Bank's bankruptcy:

Upon a Bankruptcy Event of the Bank (as defined in Condition 5(c) of the Conditions), the maturity of all outstanding covered bonds issued by the Bank, including the Covered Bonds, will automatically be extended by 12 months (the "**Extended Maturity Date**"). While interest under all of the Bank's covered bonds (including the Covered Bonds) will continue to be payable in the manner and on the dates indicated in the Terms and Conditions of the Covered Bonds and the applicable Final Terms, a Bankruptcy Event may affect the timing and amount of principal to be paid to Covered Bond Holders.

On the date of the Bankruptcy Event, the bankruptcy court appoints a bankruptcy receiver (*syndyk*) who will assume responsibility for the administration of the Bank's assets. Within three months of the Bankruptcy Event, the bankruptcy receiver must conduct, in accordance with the Bankruptcy Law:

- a coverage test (*test równowagi pokrycia*) to determine whether the assets forming the separate bankruptcy asset pool (*osobna masa upadłości*) of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds (including the Covered Bonds) issued by the Bank; and
- a liquidity test (*test płynności*) to determine whether the assets forming the separate bankruptcy asset pool of the Bank are sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the Extended Maturity Dates of all outstanding covered bonds (including the Covered Bonds) issued by the Bank.

If the results of both the coverage test and the liquidity test are positive, the claims of the Holders of the Covered Bonds for the repayment of principal are to be fulfilled in accordance with the Terms and Conditions of the Covered Bonds and the applicable Final Terms up to the Extended Maturity Date.

If the result of the coverage test is positive but the result of the liquidity test is negative, or if the result of the coverage test is negative, the maturity of the Covered Bonds will be extended by three years from the latest maturity date of a receivable in the cover pool.

In certain circumstances provided by Polish law, the claims of the Holders of the Covered Bonds for the payment of principal may be satisfied sooner than the applicable extended maturity dates pursuant to pass-through procedures from the receivables in the cover pool.

In addition, the holders of all outstanding covered bonds issued by the Bank may, by a vote of holders representing two-thirds of the aggregate principal amount of all outstanding covered bonds of the Bank, adopt resolutions requesting the bankruptcy receiver to sell the cover pool (Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*").

Other circumstances may affect the timing and amount of principal to be paid to Covered Bond Holders. For further details see Condition 5(c) "*Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*" of the terms and conditions of the Covered Bonds and "*Information Relating to Covered Bonds*".

Denomination of Covered Bonds:	Covered Bonds will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see " <i>Certain Restrictions</i> ", and save that the minimum denomination of each Covered Bond will be at least EUR 100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).
Taxation:	All payments in respect of the Covered Bonds will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 6 " <i>Taxation</i> " of the Terms and Conditions of the Covered Bonds unless such deduction is required by law. In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 6 " <i>Taxation</i> " of the Terms and Conditions of the Covered Bonds be required to pay additional amounts to cover the amounts so deducted.
Negative Pledge:	The Terms and Conditions of the Covered Bonds will not contain a negative pledge provision.
Cross Default:	The Terms and Conditions of the Covered Bonds will not contain a cross default provision.
Status of the Covered Bonds:	The Covered Bonds are direct, unconditional, unsubordinated obligations of the Bank and rank pari passu among themselves. The Covered Bonds are covered in accordance with the Polish Covered Bonds Act and rank pari passu with all other covered and unsubordinated present and future obligations of the Bank which have the same status as the Covered Bonds under the Polish Covered Bonds Act.
Subordination:	Covered Bonds may not be issued on a subordinated basis.
Rating:	Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms.  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. See " <i>Information relating to Ratings</i> ".
Listing and admission to trading:	Application may be made to list Covered Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and/or the Warsaw Stock Exchange and to admit to trading the Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange and/or on the Regulated Market of the Warsaw Stock Exchange.  Each of the Luxembourg Stock Exchange's Regulated Market and the Warsaw Stock Exchange's Regulated Market is a regulated market for the purposes of the Market and Financial Instruments Directive 2004/39/EC. The Programme provides that Covered Bonds may be listed on further stock exchanges, as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series, as specified in the relevant Final Terms. Covered Bonds may further be issued under the Programme without being listed on any stock exchange.  The applicable Final Terms will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.
Clearing:	The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg and any other clearing system as may be specified in the relevant Final Terms. The Common Code, the International Securities Identification Number (ISIN) and the alphabetical code of each Series of Covered Bonds will be set out in the relevant Final Terms, as more fully described under " <i>Form of the Covered Bonds</i> ".
Payments:	Payments on Global Covered Bonds will be made to Euroclear or Clearstream, Luxembourg, as relevant, or to its order for credit to the relevant accountholders of Euroclear or Clearstream, Luxembourg. The Bank will be discharged by payment

to, or to the order of, Euroclear or Clearstream, Luxembourg, as relevant, and each Holder of Covered Bonds represented by a Global Covered Bond held through Euroclear or Clearstream, Luxembourg must look solely to Euroclear or Clearstream, Luxembourg for its share of any payments so made by the Bank.

**Notification:** In order to be able to list certain Covered Bonds on the Regulated Market of the Warsaw Stock Exchange, the Bank applied initially for a notification of this Base Prospectus pursuant to Article 19 of the Luxembourg Act into Poland.

**Governing Law:** The Covered Bonds and any non-contractual obligations arising therefrom or in connection therewith are governed by, and shall be construed in accordance with, Polish law.

The Polish common court appropriate for the registered seat of the Bank at the time of making a claim shall have non-exclusive jurisdiction for any action or other legal proceedings arising out of or in connection with the Covered Bonds. The Polish courts shall have exclusive jurisdiction over lost or destroyed Covered Bonds.

**Selling Restrictions:** There are restrictions on the offer, sale and transfer of Covered Bonds in the United States, the European Economic Area, the United Kingdom and Poland and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds (see "*Subscription and Sale*").

**United States Selling Restrictions:** The Covered Bonds have not been and will not be registered under the Securities Act or any state securities laws, and are subject to U.S. tax law requirements. Covered Bonds issued under the Programme will be offered and sold outside the United States to, or for the account or benefit of, non-U.S. persons in reliance on Regulation S in compliance with applicable securities laws.

The Covered Bonds will be issued in compliance with U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) (or any successor U.S. Treasury regulations section, including, without limitation, successor regulations issued in accordance with IRS Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) ("**TEFRA D**") or 1.163-5(c)(2)(i)(C) (or any successor U.S. Treasury regulations section, including, without limitation, successor regulations issued in accordance with IRS Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) ("**TEFRA C**"), unless the Covered Bonds are issued in circumstances in which the Covered Bonds will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstances will be referred to in the relevant Final Terms as a transaction to which TEFRA is not applicable.

**Representation of the Holders of the Covered Bonds:** There is no provision for the representation of Holders of the Covered Bonds.

### **Calculating the PLN equivalent of the Aggregate Nominal Amount**

For the purpose of calculating the PLN equivalent of the aggregate nominal amount of Covered Bonds issued under the Programme from time to time:

- (i) the PLN equivalent of Covered Bonds denominated in another Specified Currency (as specified in the applicable Final Terms in relation to the Covered Bonds, described under "*Form of the Covered Bonds*") shall be determined, at the discretion of the Bank, either as of the date on which agreement is reached for the issue of Covered Bonds or on the preceding day on which commercial banks and foreign exchange markets are open for business in London, in each case on the basis of the spot rate for the sale of the PLN against the purchase of such Specified Currency in the London foreign exchange market quoted by any leading international bank selected by the Bank on the relevant day of calculation; and
- (ii) the PLN equivalent of Zero Coupon Covered Bonds (as specified in the applicable Final Terms in relation to the Covered Bonds, described under "*Form of the Covered Bonds*") and other Covered Bonds issued at a discount or a premium shall be calculated in the manner specified above by reference to the net proceeds received by the Bank for the relevant issue.

## **Issuing and Principal Paying Agent, Paying Agent, Calculation Agent and Luxembourg Listing Agent**

The Programme provides for the following initial agents:

<b>Issuing and Principal Paying Agent:</b>	Société Générale Bank & Trust
<b>Calculation Agent:</b>	Société Générale Bank & Trust
<b>Luxembourg Listing Agent:</b>	Société Générale Securities Services

The Bank may vary or terminate the appointment of the agents and may appoint other or additional agents.

### **Information relating to Ratings**

Covered Bonds issued under the Programme may be rated or unrated. The ratings assigned to the Covered Bonds will be disclosed in the relevant Final Terms within the item "*Rating*".

The risk pertaining to the Bank is described by ratings assigned to the Bank and which may be subject to change over the course of time. Investors should nevertheless keep in mind that a rating does not constitute a recommendation to purchase, sell or hold debt securities issued by the Bank.

Moreover, the ratings assigned by the rating agencies may at any time be suspended, downgraded or withdrawn. Any such suspension, downgrade or withdrawal of the rating assigned to the Bank may have a sustained adverse effect on the market price of the debt securities issued under this Base Prospectus.

Based on the provisions of Regulation (EC) No. 1060/2009 on rating agencies as amended from time to time (the "**Rating Regulation**"), certain institutions as further determined pursuant to Article 4(1) of the Rating Regulation which are established in the European Union (the "**Regulated Institutions**") are subject to certain restrictions with regard to the use of ratings for regulatory purposes. Pursuant to Article 4 (1) of the Rating Regulation, Regulated Institutions may use credit ratings for regulatory purposes only if such credit ratings are issued by credit rating agencies established in the European Union and registered in accordance with the Rating Regulation (or for which the relevant registration procedure is still pending). The Bank is rated by Moody's, which is established in the European Union or have relevant subsidiaries which are established in the European Union and have been registered in accordance with the Rating Regulation.

ESMA publishes on its website ([www.esma.europa.eu](http://www.esma.europa.eu)) a list of credit rating agencies registered in accordance with the CRA Regulation. That list is updated within five working days following the adoption of a decision under Article 16, 17 or 20 of the CRA Regulation. The European Commission shall publish that updated list in the Official Journal of the European Union within 30 days following such update.

The overview provided below shows the ratings assigned to the Bank by Moody's as at the date of this Base Prospectus. The current ratings of the Bank may be found on the Bank's website at: [www.pkobh.pl](http://www.pkobh.pl).

### ***Prospectus***

This Base Prospectus and any supplement(s) thereto will be published in electronic form on the website of the Luxembourg Stock Exchange at: [www.bourse.lu](http://www.bourse.lu), will be available free of charge at the specified offices of the Bank (at the request of potential investors) and will be published on the website of the Bank at: [www.pkobh.pl](http://www.pkobh.pl).

### ***Final Terms***

In relation to Covered Bonds issued by the Bank which are listed on a Regulated Market on any stock exchange, the relevant Final Terms will be available on the website of the Bank at: [www.pkobh.pl](http://www.pkobh.pl) and will, if legally required, be published in any other form. Furthermore, in relation to Covered Bonds which are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Regulated Market of the Luxembourg Stock Exchange, the relevant Final Terms will also be available on the website of the Luxembourg Stock Exchange at [www.bourse.lu](http://www.bourse.lu).

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents have been filed with the CSSF and shall be incorporated in, and form part of, this Base Prospectus as described below:

- (a) the English translation of the audited financial statements of the Bank in respect of the financial period from 6 October 2014 until 31 December 2015:
  - (i) statement of profit or loss – page 3;
  - (ii) statement of comprehensive income – page 3;
  - (iii) statement of financial position – page 4;
  - (iv) statement of changes in equity – page 4;
  - (v) cash flow statement – page 5; and
  - (vi) notes to the financial statements – pages 8-49;
- (b) the English translation of the audit opinion prepared in connection with the audited financial statements of the Bank in respect of the financial period from 6 October 2014 until 31 December 2015;
- (c) the English translation of the reviewed condensed interim financial statements of the Bank for the periods ended 30 June 2016 and 30 June 2015:
  - (i) statement of profit or loss – page 3;
  - (ii) statement of comprehensive income – page 3;
  - (iii) statement of financial position – page 4;
  - (iv) statement of changes in equity – page 5;
  - (v) cash flow statement – page 6; and
  - (vi) notes to the financial statements – pages 9-44; and
- (d) the English translation of the review report prepared in connection with the reviewed condensed interim financial statements of the Bank for the six months' periods ended 30 June 2016 and 30 June 2015.

Any information not listed above but included in the documents incorporated by reference is given for information purposes only. The Bank 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.

All documents incorporated by reference will be published on the website of the Luxembourg Stock Exchange at: [www.bourse.lu](http://www.bourse.lu). Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Bank and from the specified offices of the Paying Agents for the time being in Luxembourg.



## **USE OF PROCEEDS**

The net proceeds from each issue of Covered Bonds will be applied by the Bank for its general corporate purposes.

If, in respect of any particular issue, there is a particular identified use of proceeds other than using the net proceeds for the Bank's general corporate purposes, then this will be stated in the relevant Final Terms.

## FORM OF THE COVERED BONDS

Each Tranche of Covered Bonds will be in bearer form and will be initially issued in the form of a temporary global covered bond (a "**Temporary Global Covered Bond**") or, if so specified in the applicable Final Terms, a permanent global covered bond (a "**Permanent Global Covered Bond**") which, in either case, will:

- (i) if the Global Covered Bonds are intended to be issued in new global covered bond ("**NGCB**") form, as stated in the applicable Final Terms, be delivered on or prior to the Issue Date of the Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear and Clearstream, Luxembourg; and
- (ii) if the Global Covered Bonds are not intended to be issued in NGCB form, be delivered on or prior to the Issue Date of the Tranche to a common depository (the "**Common Depository**") for, Euroclear and Clearstream, Luxembourg.

Where the Global Covered Bonds issued in respect of any Tranche are in NGCB form, the applicable Final Terms will also indicate whether such Global Covered Bonds are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Global Covered Bonds are to be so held does not necessarily mean that the Covered Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper for NGCBs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Final Terms. Each Temporary Global Covered Bond (if it will not be exchanged) and/or Permanent Global Covered Bond will be kept in custody by or on behalf of a Common Safekeeper until all obligations of the Bank under the Covered Bonds have been satisfied. While any Covered Bond is represented by a Temporary Global Covered Bond, payments of principal, interest (if any) and any other amount payable in respect of the Covered Bonds due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Global Covered Bond if the Temporary Global Covered Bond is not intended to be issued in NGCB form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Covered Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Global Covered Bond is issued, interests in such Temporary Global Covered Bond will be exchangeable (free of charge) upon a request as described therein for interests in a Permanent Global Covered Bond of the same Series. The holder of a Temporary Global Covered Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Covered Bond for an interest in a Permanent Global Covered Bond is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Covered Bond will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Global Covered Bond if the Permanent Global Covered Bond is not intended to be issued in NGCB form) without any requirement for certification.

The applicable Final Terms will specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) ("**TEFRA C**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) ("**TEFRA D**") are applicable in relation to the Covered Bonds or, if the Covered Bonds do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Where TEFRA D is specified in the applicable Final Terms, the following legend will appear on the applicable Permanent Global Covered Bond:

"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. "

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Covered Bonds and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Covered Bonds or interest.

Covered Bonds which are represented by a Global Covered Bond will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Agent (as defined under "*Terms and Conditions of the Covered Bonds*") shall arrange that, where a further Tranche of Covered Bonds is issued which is intended to form a single Series with an existing Tranche of Covered Bonds at a point after the Issue Date of the further Tranche, the Covered Bonds of such further Tranche shall be assigned, if so required, a common

code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Covered Bonds of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

## FORM OF FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Series/Tranche of Covered Bonds issued under the Programme.

Luxembourg, [Date]

### PKO BANK HIPOTECZNY S.A.

(incorporated as a joint-stock company under the laws of the Republic of Poland)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]

under the EUR 4,000,000,000

Programme for the issuance of Covered Bonds (*hipoteczne listy zastawne*)

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated [•] [and the supplement[s] to it dated [•] [and [•]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") as amended (which includes the amendments made by Directive 2010/73/EU (the "**2010 PD Amending Directive**") to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "**Base Prospectus**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange website (www.bourse.lu), on the website of the Bank (www.pkobh.pl), and is available for viewing at and collection from the registered office of PKO Bank Hipoteczny S.A., at ul. Jerzego Waszyngtona 17, 81-342 Gdynia, Poland and the office of Société Générale Bank & Trust (in its capacity as the Issuing and Principal Paying Agent) 11, avenue Emile Reuter, L-2420 Luxembourg, Grand Duchy of Luxembourg.

1. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
(c) Date on which the Covered Bonds will be consolidated and form a single Series: The Covered Bonds will be consolidated and form a single Series with [identify issue amount/ISIN/maturity date/issue date of earlier Tranche(s)] on [the Issue Date/the exchange date of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency: [ ]
3. Aggregate Nominal Amount:  
(a) Series: [ ]  
(b) Tranche: [ ]  
(c) Issue Price (per Covered Bond): [ ] per cent. of the Aggregate Nominal Amount of the Tranche [plus accrued interest amounting to [insert Specified Currency and amount of accrued interest] for [insert number of days] days for the period from, and including [the Interest Commencement Date][insert date] to, but excluding [the Issue Date] [insert date]]  
(Zero Coupon Covered Bonds can be issued only at a discount.)
4. (a) Specified Denominations: [ ]  
(Covered Bonds of each Series must have only one Specified Denomination with a minimum denomination of €100,000 (or equivalent)).  
(b) Calculation Amount: [ ]  
(Insert the relevant Specified Denomination.)
5. (a) Issue Date: [ ]  
(b) Interest Commencement Date: (An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)  
Period to Maturity Date: [Specify/Issue Date/Not Applicable]

- Period from Maturity Date to Extended Maturity Date or Additionally Extended Maturity Date: [Specify/Maturity Date/Not Applicable]
6. Maturity Date: [Specify date or for Floating Rate Covered Bonds – Interest Payment Date falling in or nearest to [specify month and year]]
7. Interest Basis:  
 Period to Maturity Date: [ ] per cent. per annum Fixed Rate]  
 [[[ ] month [WIBOR/LIBOR/EURIBOR]] +/- [ ] per cent. Floating Rate]  
 [Zero Coupon]  
 (see paragraph [11]/[12]/[13(a)] below)
- Period from Maturity Date to Extended Maturity Date or Additionally Extended Maturity Date: [ ] per cent. per annum Fixed Rate]  
 [[[ ] month [WIBOR/LIBOR/EURIBOR]] +/- [ ] per cent. Floating Rate]  
 [Zero Coupon]  
 (see paragraph [11]/[12]/[13(a)] below)
8. Redemption/Payment Basis: Redemption at par
9. Change of Interest Basis [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [11/12] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [11/12] applies] [Not Applicable]
10. Date of Management Board approval for issuance of Covered Bonds obtained: [ ] [and [ ]], respectively]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

11. Fixed Rate Covered Bond Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [ ] per cent. per annum in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [[ ] in each year up to and including the Maturity Date]  
*(Amend appropriately in the case of irregular coupons)*
- (c) Fixed Coupon Amount(s): [[●] per Calculation Amount/Not Applicable]
- (d) Broken Amount(s): [[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]/Not Applicable]
- (e) Day Count Fraction: [Actual/Actual (ICMA)]  
 [30/360]
- (f) Determination Date(s): [ ] in each year [Not Applicable]  
*(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short first or last coupon.)*
- (g) Party responsible for calculating amounts payable: [Agent/[if not the Agent, insert details of Calculation Agent]]
12. Floating Rate Covered Bond Provisions [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [ ] subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as

- the Business Day Convention in (b) below is specified to be Not Applicable]
- (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not applicable]
- (c) Additional Business Centre(s): [ ]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount: [Agent/[if not Agent, insert details of Calculation Agent]]
- (f) Screen Rate Determination:
- Reference Rate: [ ] month [[WIBOR]/[LIBOR]/[EURIBOR]].
- Interest Determination Date(s): [ ]
- (Second Warsaw business day prior to the start of each Interest Period if WIBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
- Relevant Screen Page: [ ]
- (In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate)*
- Reference Banks: [ ]
- (g) ISDA Determination:
- Floating Rate Option: [ ]
- Designated Maturity: [ ]
- Reset Date: [ ]
- (In the case of a LIBOR or EURIBOR based option, the first day of the Interest Period)*
- (h) Linear Interpolation [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
- (i) Margin(s): [+/-][ ] per cent. per annum
- (j) Minimum Rate of Interest: [[ ] per cent. per annum]/[Not Applicable]
- (k) Maximum Rate of Interest: [[ ] per cent. per annum]/[Not Applicable]
- (l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]
- [Actual/365 [(Fixed)]]
- [Actual/365 (A`KK)]
- [Actual/365 (Sterling)]
- [Actual/360]
- [30/360][360/360][Bond Basis]
- [30E/360][Eurobond Basis]
- [30E/360 (ISDA)]

13. Zero Coupon Covered Bond [Applicable/Not Applicable]  
Provisions  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Accrual Yield: [ ] per cent. per annum
- (b) Reference Price: [ ]

**PROVISIONS RELATING TO REDEMPTION**

14. Final Redemption Amount of each Covered Bond: [ ] per Calculation Amount  
*(N.B.: In relation to any issue of Covered Bonds which are expressed at item 4 above to have a minimum denomination and tradeable amounts above such minimum denomination which are smaller than it, the following wording should be added: "For the avoidance of doubt, in the case of a holding of Covered Bonds in an integral multiple of [ ] in excess of [ ] as envisaged in item 4 above, such holding will be redeemed at its nominal amount.")*

**GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

15. Relevant Financial Centre(s) or other special provisions relating to Payment Dates: [Warsaw] / [London] / [Brussels] / [Not Applicable] / [ ]  
*(Note that this item relates to the date of payment as referred to under Condition 4(c))*

**MISCELLANEOUS**

16. Type of Covered Bonds: Mortgage covered bonds (*hipoteczne listy zastawne*)
17. Form of Covered Bonds:
- (a) Form: [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond]  
[Permanent Global Covered Bond]
- (b) New Global Note: [Yes/No]

**THIRD PARTY INFORMATION**

[ ] has been extracted from [ ]. The Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [ ], no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Bank:

By: *Duly authorised* By: *Duly authorised*

**PKO BANK HIPOTECZNY S.A.**

By: *Duly authorised*

**COVER POOL MONITOR OF PKO BANK HIPOTECZNY S.A.**

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Luxembourg/ Warsaw / None / *specify other*]
- (ii) Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange / Warsaw Stock Exchange/ *specify other*] with effect from [ ].]/[Not Applicable.]

### 2. RATINGS

Ratings: [The Covered Bonds to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). The list of registered and certified rating agencies is published by the European Securities and Markets Authority on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) in accordance with the CRA Regulation.]/[Not Applicable.]

*(The above disclosure should reflect the rating allocated to Covered Bonds 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 ISSUES

[Save for any fees payable to the [Managers/Dealers], so far as the Bank is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.] The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business.] [*Amend as appropriate if there are other interests*]

*[(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 Base Prospectus under Article 16 of the Prospectus Directive.)]*

### 4. EXPENSES RELATING TO ADMISSION TO TRADING

Estimated expenses relating to the [ ]/[Not Applicable.] admission to trading

### 5. YIELD (Fixed Rate Covered Bonds only)

Indication of yield: [ ]/[Not Applicable]

### 6. OPERATIONAL INFORMATION

- (i) ISIN Code: [ ]
- (ii) Common Code: [ ]
- (iii) Alphabetical code of Series: [ ]
- (iv) Any clearing system(s) other than Clearstream Luxembourg [./and], Euroclear Bank S.A./N.V. and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (v) Delivery: Delivery [free of/against] payment
- (vi) Names and addresses of additional Paying Agent(s) (if any): [ ]/[Not Applicable]
- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day 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.]/

[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

- (viii) Serial number of the Covered Bonds: [       ]

7. **DISTRIBUTION**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/*give names*]
- (iii) Date of Subscription Agreement: [Not Applicable/*insert date*]
- (iv) Stabilisation Manager(s) (if any): [Not Applicable/*give name and address*]
- (v) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (vi) U.S. Selling Restrictions: [[Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]

## TERMS AND CONDITIONS OF THE COVERED BONDS

*The following are the terms and conditions of the Covered Bonds which will be incorporated by reference into, and will form part of, each Global Covered Bond (as defined below). The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Covered Bond. Reference should be made to "Form of the Covered Bonds" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Covered Bonds.*

The Covered Bonds are mortgage covered bonds (*hipoteczne listy zastawne*) issued by PKO Bank Hipoteczny Spółka Akcyjna, a joint stock company with its registered office in Gdynia, Poland, at ul. Jerzego Waszyngtona 17, 81- 342 Gdynia, registered in the register of entrepreneurs of the National Court Register maintained by the District Court Gdańsk-Północ in Gdańsk, VIII National Court Register Commercial Division, under the KRS No. 0000528469, with the share capital of PLN 700,000,000 paid in full, NIP number 204-000-45-48, with the corporate website [www.pkobh.pl](http://www.pkobh.pl) pursuant to the resolution of the Management Board of the Bank No. 95/2016 dated 4 August 2016 and the Agency Agreement (as defined below).

The place of issue of the Covered Bonds is Luxembourg.

References herein to the "**Covered Bonds**" shall be references to the Covered Bonds of the relevant Tranche and shall mean:

- (a) in relation to any Covered Bonds represented by a global Covered Bond (a "**Global Covered Bond**"), units of each Specified Denomination in the Specified Currency; and
- (b) any Global Covered Bond.

The Covered Bonds have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 28 September 2016 and made between the Bank Société Générale Bank & Trust as issuing and principal paying agent (the "**Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

The final terms for the Covered Bonds (or the relevant provisions thereof) are set out in the Final Terms attached to or endorsed on the Global Covered Bond pertaining thereto, which complete these terms and conditions of the Covered Bonds (the "**Conditions**"). References to the "**applicable Final Terms**" are to the Final Terms (or the relevant provisions thereof) attached to or endorsed on the Global Covered Bond for the relevant Covered Bonds.

The Global Covered Bonds do not have interest coupons attached on issue.

Any reference to "**Covered Bond Holders**" or " **Holders**" in relation to any Covered Bonds shall mean the holders of the Covered Bonds and shall, in relation to any Covered Bonds represented by a Global Covered Bond, be construed as provided below.

As used herein, "**Tranche**" means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Agency Agreement are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the registered office of the Bank and of the Agent and copies may be obtained from those offices save that, if the Covered Bonds is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, the applicable Final Terms will only be obtainable by a Covered Bond Holder holding one or more Covered Bonds and such Covered Bond Holder must produce evidence satisfactory to the Bank and the relevant Paying Agent as to its holding of such Covered Bonds and identity. If the Covered Bonds are to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, the applicable Final Terms will be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). Words and expressions used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated. In the Conditions, "**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

### 1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer form and are serially numbered, in the currency (the "**Specified Currency**") and in the denominations for each Series (the "**Specified Denomination(s)**") specified in the applicable Final

Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

The Covered Bonds may be Fixed Rate Covered Bonds or Floating Rate Covered Bonds or a combination of any of the foregoing, depending upon the Interest Basis and the determination in Change of Interest Basis shown in the applicable Final Terms. Alternatively, the Covered Bonds may be Zero Coupon Covered Bonds depending upon the Interest Basis shown in the applicable Final Terms.

Subject as set out below, title to the Covered Bonds is effected by agreement on the transfer among the relevant parties and by delivery or otherwise in accordance with any applicable laws and regulations including the rules of any relevant Clearing System.

The Bank and the Paying Agents will (except as otherwise required by law) deem and treat the Holder of any Covered Bond as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but without prejudice to the provisions set out in the next succeeding paragraph.

The applicable Final Terms will specify whether the Covered Bonds will be issued in new global note form.

The applicable Final Terms will specify the initial Aggregate Nominal Amount of the relevant Tranche and, in the event of a further Tranche to be consolidated with an existing Tranche or Tranches, the Aggregate Nominal Amount of the relevant Series of Covered Bonds.

The Aggregate Nominal Amount of the relevant Series of Covered Bonds represented by the Temporary Global Covered Bond(s) and the Permanent Global Covered Bond(s) shall be the aggregate nominal amount from time to time entered in the records of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The records of Euroclear or Clearstream, Luxembourg (which expression means the records that of Euroclear or of Clearstream, Luxembourg holds for its customers which reflect the amount of such customer's interest in the Covered Bonds) shall be conclusive evidence of the aggregate nominal amount of the Covered Bonds represented by the Temporary Global Covered Bond and the Permanent Global Covered Bond and, for these purposes, a statement issued by a Euroclear or by Clearstream, Luxembourg stating the aggregate nominal amount of the Covered Bonds so represented at any time shall be conclusive evidence of the records of Euroclear or of Clearstream, Luxembourg at that time.

## 2. STATUS OF THE COVERED BONDS

The Covered Bonds are direct, unconditional and unsubordinated obligations of the Bank and rank pari passu among themselves. The Covered Bonds are covered in accordance with the Polish Act dated 29 August 1997 on Covered Bonds and Mortgage Banks (*Ustawa z dnia 29 sierpnia 1997 r. o listach zastawnych i bankach hipotecznych*, the "**Polish Covered Bonds Act**") and rank pari passu with all other unsubordinated present and future obligations of the Bank which have the same status as the Covered Bonds under the Polish Covered Bonds Act.

## 3. INTEREST

The applicable Final Terms determine whether the Covered Bonds of a given Series are Fixed Rate Covered Bonds, Floating Rate Covered Bonds, or any combination thereof (depending upon the Interest Basis and the determination in Change of Interest Basis shown in the applicable Final Terms), or Zero Coupon Covered Bonds.

### (a) *Interest on Fixed Rate Covered Bonds*

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date, subject to Condition 5(c) (in which case it shall be paid until the Extended Maturity Date or Additionally Extended Maturity Date, as the case may be).

Except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or, in case of the first interest period, the Interest Commencement Date) to (but excluding) the next Interest Payment Date.

If interest is required to be calculated for a period other than a Fixed Interest Period such interest shall be calculated in respect of such period by applying the Rate of Interest to the aggregate outstanding nominal

amount of the Fixed Rate Covered Bonds represented by a Global Covered Bond and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 3:

- (A) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:
- (1) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of: (I) the number of days in such Determination Period; and (II) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (2) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of: (I) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and (II) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (B) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In these Conditions:

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

(b) *Interest on Floating Rate Covered Bonds*

(i) Interest Payment Dates

Each Floating Rate Covered Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (A) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or
- (B) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, "**Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (A) in any case where Specified Periods are specified in accordance with Condition 3(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii)

below shall apply mutatis mutandis or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

- (B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or
- (C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means a day which is:

- (A) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Luxembourg and each Relevant Business Centre specified in the applicable Final Terms;
- (B) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open; and
- (C) a day on which Clearstream, Luxembourg and Euroclear are offsetting money and securities transfers.

(ii) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms.

(A) ISDA Determination for Floating Rate Covered Bonds

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (A), "**ISDA Rate**" for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the "**ISDA Definitions**") and under which:

- (1) the Floating Rate Option is as specified in the applicable Final Terms;
- (2) the Designated Maturity is a period specified in the applicable Final Terms; and
- (3) the relevant Reset Date is the day specified in the applicable Final Terms.

For the purposes of this subparagraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Covered Bonds

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or WIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 12.30 pm (Warsaw time in the case of WIBOR) on the Interest Determination Date in question plus or minus (as specified in the applicable Final Terms) the Margin (if any), all as determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

In the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 am (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 12.30 pm (Warsaw time in the case of WIBOR) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Principal Paying Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

As used herein, "**Reference Banks**" means the principal office of the bank or banks specified as such in the Final Terms or such other prime bank or banks as may be appointed as such by the Agent after consultation with the Bank.

(iii) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 3(b)(ii) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of Condition 3(b)(ii) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(iv) Determination of Rate of Interest and calculation of Interest Amounts

The Agent, in the case of Floating Rate Covered Bonds, will at, or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Covered Bonds for the relevant Interest Period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Covered Bonds represented by a Global Covered Bond and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 3(b):

- (A) if "**Actual/Actual (ISDA)**" or "**Actual/Actual**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "**Actual/365 (A' KK)**" is specified in the applicable Final Terms, the actual number of days (except the 29th day of February in a leap year, if applicable) in the Interest Period divided by 365;

- (D) if "**Actual/365 (Sterling)**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (E) if "**Actual/360**" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (F) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms, the number of days in the Interest 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:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

- (G) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms, the number of days in the Interest 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:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**M1**" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"**M2**" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30;

- (H) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms, the number of days in the Interest 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:

"**Y1**" is the year, expressed as a number, in which the first day of the Interest Period falls;

"**Y2**" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest 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 D2 will be 30.

(v) Linear Interpolation

Where Linear Interpolation is specified in respect of an Interest Period in the applicable Final Terms, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Final Terms) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Final Terms), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next than shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"Designated Maturity" means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(vi) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Bank and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed (by no later than the first day of each Interest Period) and notice thereof to be published in accordance with Condition 9 as soon as possible after their determination but in no event later than the fourth Luxembourg Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and to the Covered Bond Holders in accordance with Condition 9. For the purposes of this paragraph, the expression "**Luxembourg Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in Luxembourg.

(vii) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b) by the Agent, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Bank, the Agent, the other Paying Agents and all Covered Bond Holders and (in the absence of wilful default or bad faith) no liability to the Bank or the Covered Bond Holders shall attach to the Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(viii) Accrual of interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at a level specified under the provisions of the Polish Civil Code dated April 23, 1964 (*Ustawa z dnia 23 kwietnia 1964 r. Kodeks cywilny*, the "**Civil Code**") until whichever is the earlier of:

- (A) the date on which all amounts due in respect of such Covered Bond have been paid; and
- (B) five days after the date on which the full amount of the moneys payable in respect of such Covered Bond has been received by the Agent and notice to that effect has been given to the Holders in accordance with Condition 9.



(c) *No Periodic Payments of Interest on Zero Coupon Covered Bonds*

There will be no periodic payments of interest on any Zero Coupon Covered Bonds.

**4. PAYMENTS**

(a) *Method of payment*

Subject as provided below, Holders will receive payments as follows:

- (i) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the Holder with a bank in the principal financial centre of the country of such Specified Currency; and
- (ii) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the Holder.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 6 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 (without prejudice to the provisions of Condition 6) through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

(b) *Payments*

Payments of principal and interest (if any) in respect of Covered Bonds will (subject as provided below) be made in the manner specified and otherwise in the manner specified in the relevant Global Covered Bond, where applicable, against presentation or surrender, as the case may be, of such Global Covered Bond at the specified office of any Paying Agent outside the United States. A record of each payment distinguishing between any payment of principal and any payment of interest, will be made on such Global Covered Bond either by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

The holder of a Global Covered Bond shall be the only person entitled to receive payments in respect of Covered Bonds represented by such Global Covered Bond and the Bank will be discharged by payment to, or to the order of, the holder of such Global Covered Bond in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Covered Bonds represented by such Global Covered Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Bank to, or to the order of, the holder of such Global Covered Bond.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Covered Bonds is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Covered Bonds will be made at the specified office of a Paying Agent in the United States if:

- (i) the Bank has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Covered Bonds in the manner provided above when due;
- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Bank, adverse tax consequences to the Bank.

Payments will be subject in all cases to any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 6) any law implementing an intergovernmental approach thereto.

(c) *Payment Day*

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be

entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 7) is:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in each Relevant Financial Centre specified in the applicable Final Terms; and
- (ii) either (A) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) or (B) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and
- (iii) a day on which Clearstream, Luxembourg and Euroclear are effecting money and securities transfers.

(d) *Interpretation of principal and interest*

Any reference in the Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (i) any additional amounts which may be payable with respect to principal under Condition 6;
- (ii) the Final Redemption Amount of the Covered Bonds; and
- (iii) any premium and any other amounts (other than interest) which may be payable by the Bank under or in respect of the Covered Bonds.

Any reference in the Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 6.

## 5. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

Subject to Condition 5(c) and Condition 5(g), unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Bank at its Final Redemption Amount specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

(b) *No redemption at the option of the Covered Bond Holders (Investor Put)*

The Covered Bond Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date.

(c) *Redemption of the Covered Bonds in the event of the Bank's Bankruptcy*

- (i) In these Conditions:

"**Bankruptcy Event**" means the announcement of the bankruptcy of the Bank (*ogłoszenie upadłości*) by a Polish bankruptcy court in accordance with the Polish Bankruptcy Law;

"**Bankruptcy Receiver**" means the receiver (*syndyk*) appointed by the bankruptcy court in respect of the Separate Bankruptcy Asset Pool in accordance with the Polish Bankruptcy Law;

"**Coverage Test**" means the coverage test (*test równowagi pokrycia*) as defined in the Polish Covered Bonds Act, performed by the Bankruptcy Receiver to determine whether the Separate Bankruptcy Asset Pool is sufficient to satisfy all of the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full;

"**Cover Pool Register**" means the cover pool register (*rejestr zabezpieczenia listów zastawnych*) maintained by the Bank in accordance with the provisions of the Polish Covered Bonds Act;

"**Liquidity Test**" means the liquidity test (*test płynności*) as defined in the Polish Bankruptcy Law, performed by the Bankruptcy Receiver to determine whether the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full taking into account the maturity of all outstanding covered bonds issued by the Bank extended by 12 months;

"**Partial Separate Bankruptcy Asset Pool Sale**" means the sale of a portion of the assets constituting the Separate Bankruptcy Asset Pool in accordance with the Polish Bankruptcy Law;

"**Polish Accounting Act**" means the Polish Act dated 29 September 1994 on accounting (*Ustawa z dnia 29 września 1994 r. o rachunkowości*);

"**Polish Bankruptcy Law**" means the Polish Act of 28 February 2003 Bankruptcy law (*Ustawa z dnia 28 lutego 2003 r. Prawo upadłościowe*);

"**Separate Bankruptcy Asset Pool**" means a separate bankruptcy asset pool (*osobna masa upadłości*) of the Bank created on the date of the Bankruptcy Event to satisfy claims of all holders of outstanding covered bonds issued by the Bank and counterparties to Qualifying Hedging Instruments;

"**Separate Bankruptcy Asset Pool Sale**" means the sale of all of the assets constituting the Separate Bankruptcy Asset Pool in accordance with the Polish Bankruptcy Law;

"**Qualifying Hedging Instruments**" means hedging arrangements to which the Bank is a party which satisfy the conditions of the Polish Covered Bonds Act and the Polish Accounting Act; and

"**Underlying Receivables**" means the receivables which are the basis for the issuance of the covered bonds issued by the Bank.

- (ii) Upon the occurrence of a Bankruptcy Event, the maturity date of all covered bonds issued by the Bank shall be automatically extended by 12 months (the "**Extended Maturity Date**").
- (iii) With respect to the Coverage Test and the Liquidity Test to be conducted by the Bankruptcy Receiver within three months of the date of the Bankruptcy Event in accordance with the Polish Covered Bonds Act:
  - (A) If the Coverage Test and the Liquidity Test each confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full, the Bank's obligations towards the Covered Bond Holders shall be fulfilled in accordance with these Conditions and the applicable Final Terms taking into account the Extended Maturity Date and paragraph (iv) below.

Notwithstanding the above, the Covered Bond Holders, together with the holders of all outstanding covered bonds issued by the Bank may, not later than two months following the announcement of the results of the Coverage Test and the Liquidity Test by the Bankruptcy Receiver, by a vote of holders representing two-thirds of the aggregate nominal amount of all outstanding covered bonds of the Bank, instruct the Bankruptcy Receiver to conduct a Separate Bankruptcy Asset Pool Sale (a) to another mortgage bank, with the transfer of the obligations of the Bank under all of the outstanding covered bonds of the Bank in which case payments of principal and interest under the Covered Bonds will be made by the mortgage bank acquiring the Separate Bankruptcy Asset Pool or (b) to another mortgage bank or a bank, without such transfer, in which case payments of principal and interest under the Covered Bonds will be made by the Bankruptcy Receiver from the proceeds from the Separate Bankruptcy Asset Pool Sale.

If the amount of proceeds received from the Separate Bankruptcy Asset Pool Sale, *less*, with respect to all outstanding covered bonds of the Bank:

- (I) the aggregate amount of interest that will become due and payable within six months from the Separate Bankruptcy Asset Pool Sale, and
- (II) the aggregate amount of principal and interest that had become due and payable prior to the date of the Bankruptcy Event but had not been paid prior to the date of Bankruptcy Event,

is equivalent to at least 5 per cent of the aggregate principal amount of all outstanding covered bonds of the Bank, the Bankruptcy Receiver may, at his discretion repay the principal under the Covered Bonds (provided that payments are made pro rata to all holders of outstanding covered bonds of the Bank, including the Covered Bond Holders, and counterparties to the Qualifying Hedging Instruments) earlier than on the Extended Maturity Date. Such payment would be made on the next interest payment date, but in any event not earlier than 14 days after the date on which the decision of the judge-commissioner approving the Bankruptcy Receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

- (B) If the Coverage Test confirms that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full, but the Liquidity Test fails to confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds

issued by the Bank in full taking into account the maturity of all outstanding covered bonds issued by the Bank extended by 12 months, the Maturity Date of the Covered Bonds shall be extended by three years from the latest maturity date of an Underlying Receivable entered into the Cover Pool Register (the "**Additionally Extended Maturity Date**").

However, if the available funds in the Separate Bankruptcy Asset Pool, *less*, with respect to all outstanding covered bonds of the Bank:

- (I) the aggregate amount of interest that will become due and payable within six months from the date of the performance of the Coverage Balance Test; and
- (II) the costs of bankruptcy proceedings with respect to the Separate Bankruptcy Asset Pool indicated in the Bankruptcy Receiver's report,

are equivalent to at least 5 per cent of the aggregate nominal value of the outstanding covered bonds issued by the Bank, payment of principal under the Covered Bonds shall be made on the next interest payment date falling at least 14 days after the date on which the decision of the judge-commissioner approving the Bankruptcy Receiver's report on the progress of the bankruptcy proceedings becomes final and binding; *provided that* such payments of principal shall be made pro rata to all holders of covered bonds issued by the Bank (including the Covered Bond Holders) and counterparties to the Qualifying Hedging Instruments (the "**Pass-Through Procedure**").

Notwithstanding the above, the Covered Bond Holders, together with all holders of the outstanding covered bonds issued by the Bank, may, not later than three months following the date of the announcement of the results of the Coverage Test and the Liquidity Test, by a vote of holders representing two-thirds of the aggregate nominal amount of all outstanding covered bonds of the Bank:

- (I) disapply the Additionally Extended Maturity Date and the Pass-Through Procedure and revert to the Extended Maturity Date; or
- (II) instruct the Bankruptcy Receiver to conduct a Separate Bankruptcy Asset Pool Sale or Partial Separate Bankruptcy Asset Pool Sale to:
  - a. another mortgage bank, with the transfer of the obligations of the Bank under all of the outstanding covered bonds of the Bank;
  - b. a bank which is not a mortgage bank, without the transfer of the obligations of the Bank under all of the Bank's outstanding covered bonds, or
  - c. an entity which is not a bank, with respect to assets the possession of which is not restricted to banks, without the transfer of the obligations of the Bank under all of the Bank's outstanding covered bonds,

in which case principal and all interest under the Covered Bonds shall become immediately due and payable.

- (C) If the Coverage Test fails to confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards all holders of outstanding covered bonds issued by the Bank in full, paragraph (B) above shall apply (including the Additionally Extended Maturity Date); *provided that* the vote by the holders of the outstanding covered bonds issued by the Bank on the Separate Bankruptcy Asset Pool Sale or Partial Separate Bankruptcy Asset Pool Sale referred in paragraph (B) above may occur at any time following the announcement of the results of the Coverage Balance Test.
- (iv) Irrespective of the results of the Coverage Test and Liquidity Test, following the date of the Bankruptcy Event, any interest under the Covered Bonds shall be calculated on the basis of, and payable in the manner and on the dates indicated in the Conditions and the applicable Final Terms.
- (v) In addition, if a Bankruptcy Event occurs after the Maturity Date and the aggregate nominal amount under the Covered Bonds which is due and payable had not been repaid prior to the Bankruptcy Event Date, the Bank shall, subject to the Additionally Extended Maturity Date, pay such aggregate nominal amount under the Covered Bonds within 12 months of the date of the Bankruptcy Event, but not earlier than after the first announcement on the results of the Coverage Test and the Liquidity Test.

*This Condition 5(c) replicates mandatory provisions of Polish law, in particular the Polish Bankruptcy Law, as at the date of this Base Prospectus. In the event of a conflict between Condition 5(c) and mandatory provisions of Polish law, if and as amended from time to time, mandatory provisions of*

*Polish law shall prevail. Changes (if any) in the mandatory provisions of Polish law which affect the provisions of this Condition 5(c) shall not create an obligation for the Bank to notify the Holders thereof unless otherwise required under applicable Polish law.*

(d) *Purchases*

The Bank may at any time purchase Covered Bonds at any price in the open market or otherwise.

(e) *Cancellation*

All Covered Bonds which are redeemed or purchased by the Bank will forthwith be cancelled. All Covered Bonds so cancelled cannot be reissued or resold.

(f) *Late payment on Zero Coupon Covered Bonds*

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Zero Coupon Covered Bond pursuant to Condition 5(a) is improperly withheld or refused, default interest specified under Article 481 §2 of the Civil Code shall accrue on such amount.

(g) *Mandatory redemption in case of non-bankruptcy liquidation, merger, division or transformation under statutory provisions of Polish law*

Under the Polish Act dated 15 January 2015 on Bonds (*Ustawa z dnia 15 stycznia 2015 r. o obligacjach*) (the "**Polish Act on Bonds**"), if the Bank is subject to non-bankruptcy liquidation (*likwidacja*), the Bank shall redeem the Covered Bonds at par on the opening day of such non-bankruptcy liquidation (*likwidacja*) proceedings. If the Bank is subject to a merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*), and the entity that has taken over all or a portion of the Bank's obligations under the Covered Bonds pursuant to such merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*) is not permitted under the Polish Covered Bonds Act to issue covered bonds, the Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (*likwidacja*), merger (*połączenie*), division (*podział*) and transformation (*przekształcenie formy prawnej*) in this paragraph shall have the meaning as prescribed under Polish law.

## 6. TAXATION

All payments of principal and interest in respect of the Covered Bonds by or on behalf of the Bank will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Bank will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Covered Bonds after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Covered Bonds, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Covered Bond:

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Covered Bond by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond; or
- (b) presented for payment by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by it complying, or procuring (if it is in the relevant Holder's control) that any third party complies, with any statutory requirements or by it making, or procuring (if it is in the relevant Holder's control) that any third party makes, a declaration of non-residence or other similar claim for exemption to any tax authority in the relevant place; or
- (c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 4(e)); or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond to another Paying Agent in a Member State of the European Union.

As used herein:

- i. "**Tax Jurisdiction**" means Poland or any political subdivision or any authority thereof or therein having power to tax; and

- ii. the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bond Holders in accordance with Condition 9.

## 7. **PRESCRIPTION**

Claims against the Bank for payment under the Covered Bonds expire after ten years and may not be prescribed unless otherwise permitted by Polish law.

## 8. **PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Final Terms.

The Bank is entitled to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent, which may be the 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
- (b) the Bank undertakes that it will ensure that it maintains a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Bank is incorporated.

In addition, the Bank shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 4(d). Notice of any variation, termination, appointment or change in the Paying Agents will be given to the Covered Bond Holders promptly by the Bank in accordance with Condition 9.

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Bank and do not assume any obligation to, or relationship of agency or trust with, any Covered Bond Holders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## 9. **NOTICES**

All notices regarding the Covered Bonds will be deemed to be validly given if published in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the Luxemburger Wort in Luxembourg. So long as the Covered Bonds are admitted to trading on, and listed on the Official List of the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, [www.bourse.lu](http://www.bourse.lu). It is expected that any such publication in a newspaper will be made in the Luxemburger Wort in Luxembourg. The Bank shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant regulatory authority on which the Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. The Bank will deliver printouts of all information published on the Bank's website in accordance with the Polish Act on Bonds to Powszechna Kasa Oszczędności Bank Polski S.A.

So long as any Global Covered Bonds representing the Covered Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, there may be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Holders of the Covered Bonds and, in addition, for so long as any Covered Bonds are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Holders on the second day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Covered Bond Holder shall be in writing and given by lodging the same with the Agent. While any of the Covered Bonds are represented by a Global Covered Bond, such notice may be given by any Holder to the Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 10. FURTHER ISSUES

The Bank shall be at liberty from time to time without the consent of the Covered Bond Holders to create and issue further covered bonds having terms and conditions the same as the Covered Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Covered Bonds.

## 11. GOVERNING LAW AND SUBMISSION TO JURISDICTION

### (a) *Governing law*

The Covered Bonds and any non-contractual obligations arising therefrom or in connection therewith are governed by, and shall be construed in accordance with, Polish law.

### (b) *Submission to jurisdiction*

The Polish common court appropriate for the registered seat of the Bank at the time of making a claim shall have non-exclusive jurisdiction for any action or other legal proceedings ("**Proceedings**") arising out of or in connection with the Covered Bonds. The Polish courts shall have exclusive jurisdiction over lost or destroyed Covered Bonds.

### (c) *Enforcement*

Any Holder of Covered Bonds may in any proceedings against the Bank, or to which such Holder and the Bank are parties, in his own name enforce his rights arising under such Covered Bonds on the basis of (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of Covered Bonds (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of Covered Bonds credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b) or (ii) a copy of the Covered Bonds in global form certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the Global Covered Bond representing the Covered Bonds. For purposes of the foregoing, "**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Holder maintains a securities account in respect of the Covered Bonds and includes the Clearing System. Each Holder may, without prejudice of the foregoing, protect and enforce his rights under the Covered Bonds also in any other way which is permitted in the country in which the proceedings are initiated.

## 12. MEETINGS OF COVERED BOND HOLDERS MODIFICATION, WAIVER AND SUBSTITUTION

The meeting of the Covered Bond Holders may consider any matter affecting their interests under the Covered Bonds, including the sanctioning by a resolution of a modification of the Conditions. Such a meeting may be convened for each Series by the Bank and shall be convened by the Bank if required in writing by Covered Bond Holders holding not less than 10 per cent. in nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 Section 1 item 44 of the Polish Accounting Act). The meeting of the Covered Bond Holders shall be convened by an announcement made at least 21 days before the date of the meeting published in accordance with Condition 9. The meeting of the Covered Bond Holders shall be held at the seat of the entity operating the regulated market (in the event the Covered Bond Holders are admitted to trading on a regulated market) or (in all other cases) in Warsaw, Poland. The quorum at any such meeting for passing a resolution is one or more persons holding or representing not less than 50 per cent. of the nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 Section 1 item 44 of the Polish Accounting Act), except that at any meeting the business of which includes the modification of certain provisions of the Covered Bonds (including modifying the date of maturity of the Covered Bonds or any date for payment of interest thereon, reducing the nominal value or the rate of interest payable in respect of the Covered Bonds or altering the currency of payment of the Covered Bonds), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 Section 1 item 44 of the Polish Accounting Act). A resolution passed at any meeting of the Covered Bond Holders shall be binding on all the Covered Bond Holders of the Series for which the meeting was held, whether or not they are present at the meeting. The resolutions shall be passed:

- (a) in case of reduction of the nominal value of the Covered Bonds – by an unanimous vote of all present Covered Bond Holders;

- (b) in case of :
- i. modifications to the methods of calculating interest, and terms of payment (including reduction or cancellation) of interest;
  - ii. modifications as to the time, place or method of satisfying the claims of the Covered Bond Holders, including date, as at which entitlement to these benefits is established; or
  - iii. the principles of convening, holding or adopting resolutions by the meeting of the Covered Bond Holders,

by an unanimous vote of all present Covered Bond Holders (in case the Covered Bonds are admitted to trading on a regulated market); or by a majority of 75 per cent. of all present Covered Bond Holders (in case the Covered Bonds are not admitted to trading on a regulated market); and

- (c) in all other cases – by a majority vote.

Any changes to the Conditions approved by the Covered Bond Holders in the manner specified above shall only take effect if the Bank consents thereto. The Bank's statement concerning consent or the lack thereof for the change of the Conditions shall be published by the Bank on the Bank's website within seven days from the end of the meeting of the Covered Bond Holders. Failure to publish such statement means that the Bank does not grant its consent for the change of the Conditions.

Upon the occurrence of the Bankruptcy Event, the provisions of the Polish Bankruptcy Law with respect of meetings of holders of all outstanding covered bonds of the Bank shall prevail. For further details see Condition 5(c) above.



## MARKET OVERVIEW

### The Polish economy

The Polish economy is one of the fastest developing economies in the EU. Poland, with 38.0 million residents, remains the largest accession member of the EU and the sixth largest EU country by population. With a GDP of EUR 428 billion in 2015 (according to Eurostat), it is the eighth largest EU economy and the 25<sup>th</sup> largest economy globally (by GDP, according to data from the International Monetary Fund). The Polish economy has expanded consistently, with real GDP growing at a compound annual growth rate of 3.0 per cent. over the six-year period ending on 31 December 2015 (according to OECD). In 2015, the GDP growth rate in Poland was 3.6 per cent., substantially higher than the average for the EU, which recorded a 2.2 per cent. increase in GDP. The European Commission forecast for Poland is also positive for 2016 and 2017: GDP growth in Poland is expected to remain stable at 3.7 per cent. in 2016 and 3.6 per cent. in 2017. These figures are above the growth forecasts for the EU as a whole, which, according to the European Commission, in 2016 is expected to grow by 1.8 per cent. and in 2017 by 1.9 per cent.

The following table sets forth key economic indicators for Poland for the periods indicated:

	For the year ended 31 December		
	2015	2014	2013
Real GDP growth (%) .....	3.6	3.3	1.3
Individual consumption growth (%).....	3.1	2.6	0.2
Public sector spending growth (%) .....	3.4	4.9	2.2
Investment expenditures growth (%).....	5.8	9.8	(1.1)
CPI Inflation rate on a year-on-year basis (%).....	(0.9)	0.0	0.9
Average wage growth (%).....	3.2	3.2	3.7
Harmonised unemployment rate (%).....	7.5	9.0	10.3
Exports growth (%).....	8.4	6.4	5.7
Imports growth (%).....	4.9	8.3	0.2
Budget deficit/GDP (domestic definition, %).....	2.4	1.7	2.5
Government debt/GDP (domestic definition, %).....	49.0	46.9	53.1
Reference rate (%) .....	1.5	2.0	2.5
PLN/EUR (average).....	4.18	4.19	4.20

Source: Central Statistical Office of Poland (Główny Urząd Statystyczny, "GUS"), NBP, Eurostat, the Ministry of Finance, the European Commission

### The Polish banking sector

#### Structure of the Polish banking sector

According to the KNF, as at 30 June 2016, the total number of banks and branches of foreign credit institutions operating in Poland was 623: there were 37 domestic commercial banks, 26 branches of foreign credit institutions and 560 co-operative banks operating in Poland.

The table below presents the number of banks and branches of foreign credit institutions conducting business activities:

	30 June 2016	2015	2014	2013
<b>Total, including:</b> .....	623	626	631	640
Domestic commercial banks .....	37	38	38	41
Branches of foreign credit institutions .....	26	27	28	28
Cooperative banks .....	560	561	565	571

Source: KNF's monthly data on the banking sector – June 2016.

The Polish banking 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. According to KNF data, in 2015, the share of banks controlled by foreign investors in the assets of the Polish banking sector was 59.0 per cent.

### **Financial situation of the Polish banking sector**

The table below presents the basic financial data for the Polish banking sector:

	As at 31 December			Change	
	2015	2014	2013	2015/2014	2014/2013
	<i>(in PLN billion)</i>			<i>(%)</i>	
Polish banks' aggregate assets.....	1,599.9	1,532.0	1,405.7	4.4	9.0
Deposits from the non-financial sector .....	938.8	854.1	775.4	9.9	10.1
Loans to non-financial sector .....	961.8	895.4	837.8	7.4	6.9

Source: KNF

### **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 at 31 December 2015 amounted to 89 per cent. of Poland's GDP compared with the Eurozone average of approximately 296 per cent.

As at 31 December 2015, total assets of the Polish banking sector were 4.4 per cent. higher than at the end of 2014 and amounted to PLN 1,599.9 billion.

### **Loans**

In 2015, the credit growth rate for both businesses and households accelerated, partly due to a general improvement in economic conditions, including the decrease of unemployment, as well as prevailing low interest rates.

	As at 31 December			Change (%)	
	<i>(in PLN billion)</i>				
	2015	2014	2013	2015/2014	2014/2013
Loans to the non-financial sector, of which.....	961.8	895.4	837.8	7.4	6.9
to businesses and non-commercial institutions .....	333.3	306.6	283.2	8.7	8.3
to households: .....	628.5	588.9	554.6	6.7	6.2

Source: KNF

Amounts due from households constitute the majority of the amounts due from non-financial entities. As at the end of 2015, amounts due from households comprised 65.3 per cent. of the gross amounts due from the non-financial sector and 39.3 per cent. of the banks' total assets. In 2014 and 2013, amounts due from households also constituted the majority of the amounts due from non-financial entities.

In 2015, the housing loan growth rate in the household segment was higher than in 2014 (6.7 per cent. in 2015, as compared to 6.2 per cent. in 2014) mainly as a result of the weakening Polish currency which compensated for the slightly declining growth rate with regards to housing loans in PLN.

### **Deposits**

Despite prevailing low interest rates, the value of deposits has grown since 2013. The main reason for this growth was the increase in salaries, which had a positive influence on the financial condition of households and businesses. The table below presents the deposit base of the non-financial sector:

Deposits of the non-financial sector	As at 31 December			Change (%)	
	<i>(in PLN billion)</i>				
	2015	2014	2013	2015/2014	2014/2013
Deposits of the non-financial sector, of which: .....	938.8	854.1	775.4	9.9	10.1

<b>Deposits of the non-financial sector</b>	<b>As at 31 December</b> (in PLN billion)			<b>Change (%)</b>	
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015/2014</b>	<b>2014/2013</b>
from businesses.....	253.3	229.4	209.7	10.4	9.4
from households.....	665.7	606.4	548.2	9.8	10.6
from non-commercial institutions.....	19.7	18.3	17.5	7.7	4.6

Source: KNF

### **Financial results**

The table below shows the financial results of the Polish banking sector:

	<b>For the year ended 31 December</b> (in PLN billion)			<b>Change (%)</b>	
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015/2014</b>	<b>2014/2013</b>
Profit on banking activities .....	56.0	57.7	55.5	-2.9	4.0
Net profit/(loss).....	11.2	15.9	15.2	-29.6	4.6
ROE (%).....	6.8%	9.9%	10.1%	-31.3	-2.0

Source: KNF

In 2014, the level of net profit in the Polish banking sector increased to PLN 15.9 billion in 2014 from 15.2 billion in 2013, despite a reduction in base interest rates and a fall in the commission margins. The profit from banking activities was supported by an improvement in cost effectiveness. In 2014, profit from banking activities was 4.0 per cent. higher than in 2013, with net profit being 4.6 per cent. higher.

2015 brought a strong reduction in the financial results of the Polish banking sector. New regulations and actions taken by the public authorities (e.g. reducing interchange fees and establishing the Borrowers Support Fund), higher Bank Guarantee Fund contributions (caused by bankruptcy of cooperative banks and higher charges) and a persisting record of low interest rates were the main drivers of lower profits on banking activities. In 2015, the net profit of the Polish banking sector decreased to PLN 11.2 billion which is 29.6 per cent. lower than in 2014.

In 2016, the Bank expects the Polish banking sector to continue to be under pressure mainly due to the changing regulatory environment (for example tax on assets of certain financial institutions, contributions to the Bank Guarantee Fund and possible statutory intervention into foreign-exchange mortgage loans).

### **Key trends in the Polish banking sector**

#### ***Convergence in the Polish banking sector***

The Bank believes there is strong potential for further growth of the banking industry in Poland. The aggregate assets of banks in the Polish banking sector as at 31 December 2015 amounted to 89 per cent. of Poland's GDP as compared with the Eurozone average of approximately 296 per cent.

#### ***Shift away from FX mortgage lending***

The KNF recommendations, coupled with a higher awareness of exchange rate risks on the part of clients and banks and the Swiss National Bank's decision to abandon the minimum EUR/CHF exchange rate, caused a decline in the volume of housing loans granted in foreign currencies in the years 2013-2015. New sales are dominated by loans denominated in PLN, while sales of foreign-exchange mortgage loans are offered to selected customers only as banks seek to avoid potential difficulties in gathering foreign-exchange funding. However, as at 31 December 2015, mortgage loans denominated in foreign currencies still constituted 42.7 per cent. of the residential loans portfolio and the majority of these loans are denominated in CHF.

#### ***Capital adequacy***

Over the course of the past three years, Polish banks have maintained a strong capital base. The following table shows the capital adequacy ratios and own funds of the Polish banking sector as of the dates indicated, as reported by the KNF:

<b>As at 30 June 2016</b>	<b>As at 31 December</b>			<b>Change (%)</b>	
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2015/2014</b>	<b>2014/2013</b>

	As at 30 June 2016	As at 31 December			Change (%)	
		2015	2014	2013	2015/2014	2014/2013
Total capital ratio .....	17.4%	16.3%	14.7%	15.7%	10.9	-6.4
Own funds for capital adequacy (in PLN billion)	170.4	159.1	136.9	138.6	16.2	-1.2

Source: KNF

Two key factors have contributed to the strengthening capital base of the Polish banking sector: capital accumulation and equity issuances. In recent years Polish banks have been increasing their equity, mainly by retaining their profits.

In 2014 new capital adequacy rules were set by the CRR; those rules did not, however, introduce major changes in capital adequacy levels. At the end of 2015 the KNF introduced higher minimum capital requirements that are applicable from January 2016. The Tier 1 capital ratio was raised to 10.25 per cent. from 9 per cent. and the Total Capital Ratio was raised to 13.25 per cent. from 12 per cent.

### Asset quality

From December 2013 the quality of the loan portfolio improved with a total NPL ratio decreasing to 7.5 per cent. in 2015 from 8.5 per cent. in December 2013. This is mainly due to the sale of NPL portfolios (mainly comprising consumer loans), the reduction of the reference rates that lowered the costs of servicing loans, acceleration in economic growth and the strengthening of the credit risk management process.

The table below sets out the NPL ratios of various types of client segments in Poland:

	As at 31 December			Change (%)	
	2015	2014	2013	2015/2014	2014/2013
NPL ratio of corporate clients (%).....	10.2	11.3	11.6	-9.7	-2.6
NPL ratio of households (%).....	6.2	6.5	7.1	-4.6	-8.5
Total NPL ratio (%).....	7.5	8.1	8.5	-7.4	-4.7

Source: KNF

### Inflation rate and interest rates

Inflation in Poland (as measured by the consumer price index) ended 2015 at -0.5 per cent. on a year-on-year basis, with an annual average at -0.9 per cent. While the decline of the average inflation rate has been, for the third year in a row, driven mainly by a combination of external factors (global prices of food and fuels), underlying inflationary pressure measured by core inflation also remained subdued.

### Margins

The fall in market interest rates following the decisions of the Monetary Policy Council (*Rada Polityki Pieniężnej*, the "MPC") taken in the years 2013-2015 and the first half of 2016 had a significant effect on interest rates for deposits and loans extended to clients.

	As at 30 June 2016	As at 31 December			Change (%)	
		2015	2014	2013	2015/2014	2014/2013
Average interest on new corporate deposits in zlotys .....	1.3	1.5	1.9	2.3	-21.1	-17.4
Average interest on new household deposits in zlotys .....	1.5	1.8	2.3	2.6	-21.7	-11.5
3M WIBID (eop).....	1.51	1.53	1.86	2.47	-17.7	-24.7

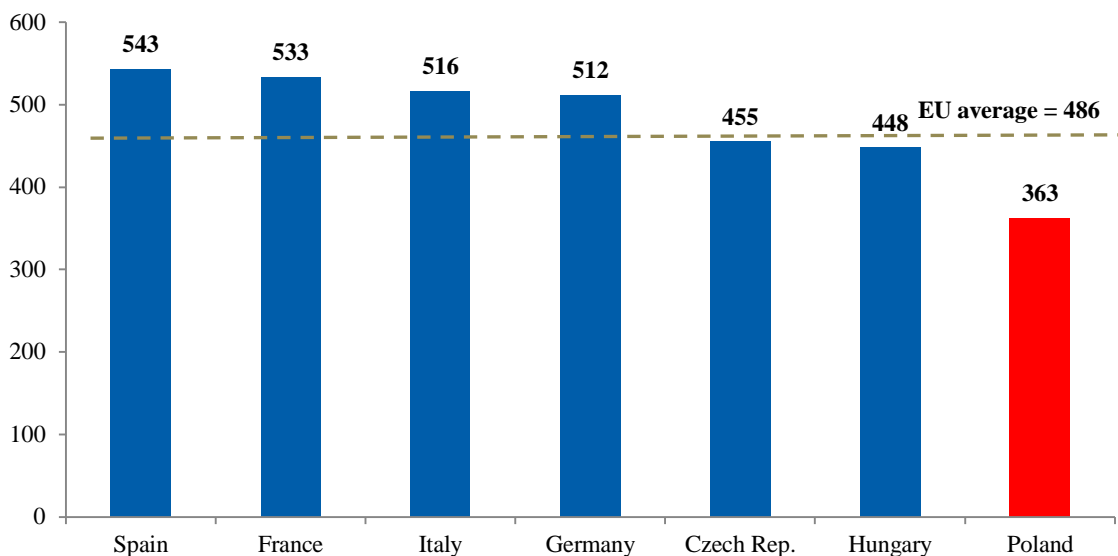
Source: NBP, Reuters

### Residential market

The Polish residential property market is still in the development phase. According to the Deloitte "Property Index" report published in July 2016 the number of dwellings per 1,000 citizens in Poland reached 363 in 2015. Even though

this number has been gradually improving, it is still much lower than the European Union average of 486 and one of the lowest in Europe.

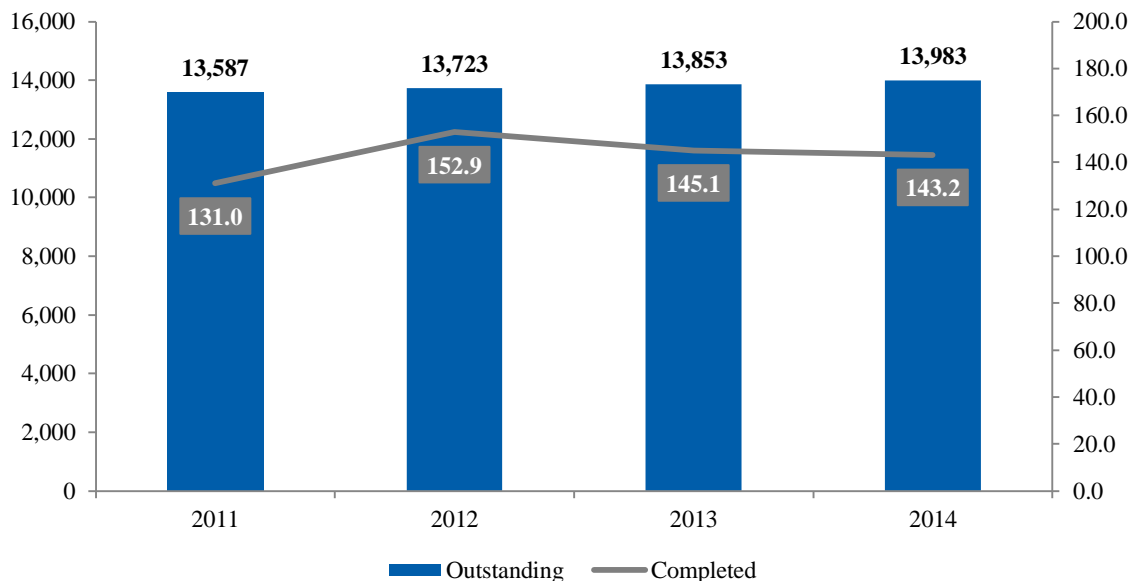
**Number of dwellings per 1,000 citizens in selected European countries for 2015**



Source: Deloitte Property Index report published in July 2016

According to GUS, the total number of dwellings in Poland as at the end of 2014 was approximately 14 million.

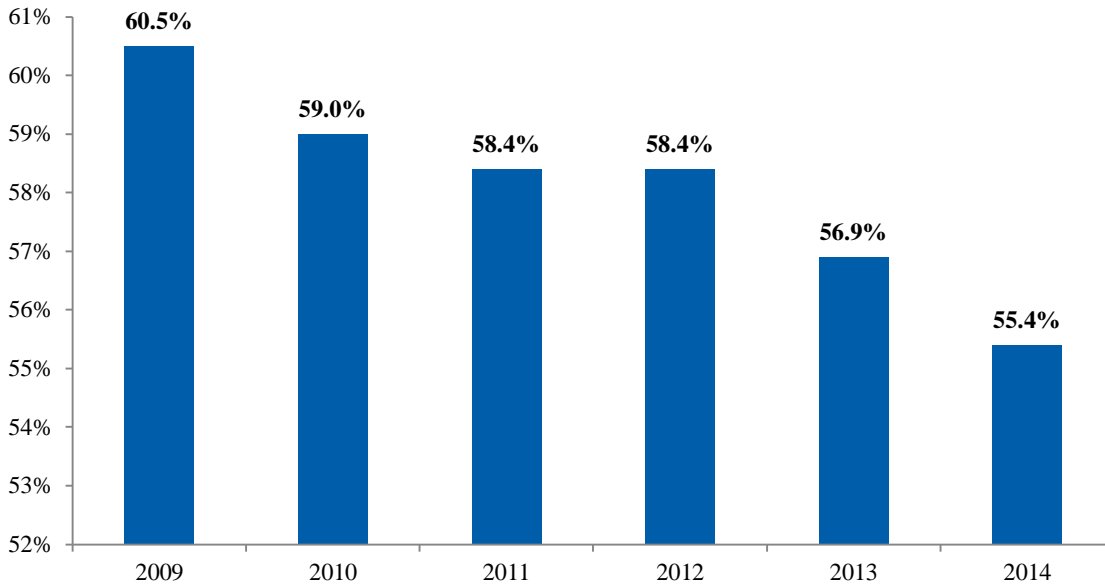
**Number of dwellings in Poland (thousand)**



Source: GUS

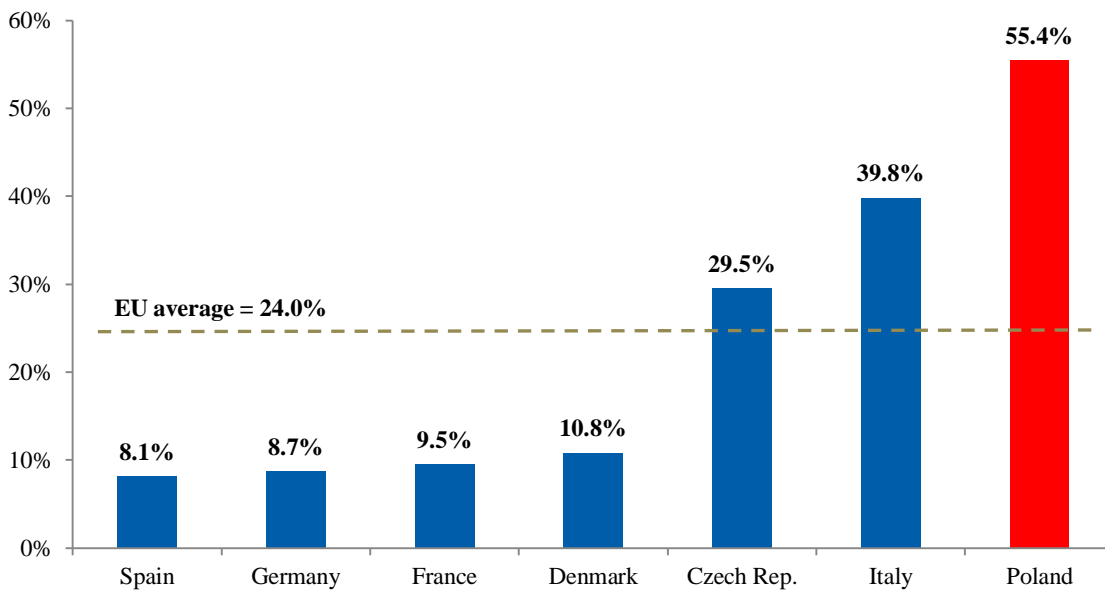
One of the indicators of housing conditions is the overcrowding rate, which is the proportion of people living in an overcrowded dwelling, as defined by the number of rooms in the household, the size of the household, the age of the household members and their family situation. As at the end of 2014, Poland's overcrowding rate was 55.4 per cent., down by 5.1 percentage points since 2009. The overcrowding rate is one of the highest in the EU, where the average overcrowding rate is 24.0 per cent. (26.6 per cent. in the case of Eurozone countries). The Bank believes that the high overcrowding rate will be one of the principal factors for increasing demand for new houses and apartments and, as a consequence, increasing demand for residential loans.

### Overcrowding rate in Poland



Source: <http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/overcrowding-rate>

### Overcrowding rate in selected European countries for 2014



Source: <http://ec.europa.eu/eurostat/web/gdp-and-beyond/quality-of-life/overcrowding-rate>

According to GUS, 73,773 dwellings were completed during the first six months of 2016, i.e., 15.3 per cent. more as compared to the first half of 2015. 50.1 per cent. of dwellings were built by individual investors and 47.1 per cent. of dwellings were built by real estate developers. 98,298 construction permits were granted in the first half of 2016, which is higher by 12.7 per cent. as compared to the same period of the previous year. The number of new dwellings under construction increased in the first half of 2016 by 7.5 per cent. to 86,305.

Certain fiscal and monetary stimuli provided by the state encourage selected groups of buyers to purchase residential property and take out loans to finance such purchases. The '*Mieszkanie dla Młodych*' (Apartment for the Young) governmental programme, launched in early 2014, encourages home-buying activity. According to the data published by Bank Gospodarstwa Krajowego ("**BGK**") the number of applications for financial support under the '*Mieszkanie dla Młodych*' programme in Warsaw, Cracow, Wrocław, the conurbation of Gdańsk, Sopot and Gdynia, Poznań, and Łódź increased in the first quarter of 2016 by 6.1 per cent. as compared to the fourth quarter of 2015. In the second quarter of 2016 the number of applications decreased by 20.0 per cent. as compared to the first quarter of 2016. The reason for the decrease was that all funds designated for the programme in 2016 were spent. In the second quarter of 2016, BGK

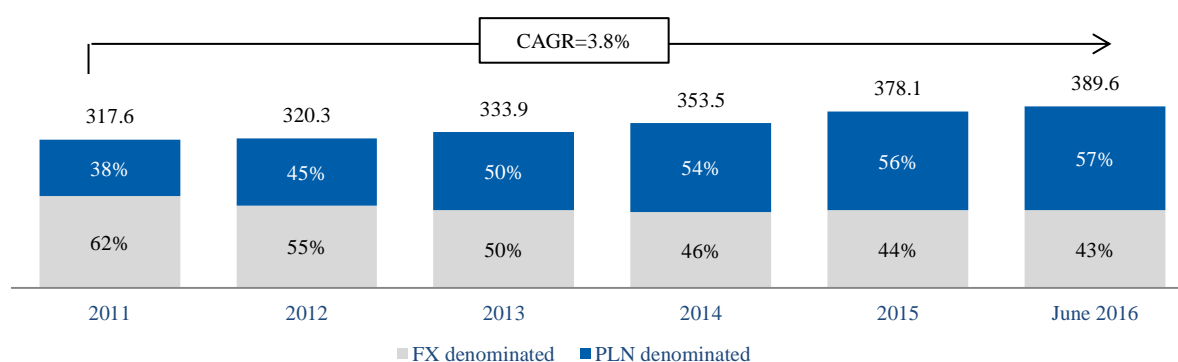
received 2,800 applications for support under the 'Mieszkanie dla Młodych' programme, which means that approximately 19 per cent. of dwellings bought during the second quarter of 2016 were financed with the support of this programme.

In June 2016 the Polish Prime Minister announced the establishment of the new programme 'Mieszkanie+' (Apartment+) aimed at improving the accessibility of dwellings through the development of apartments for rent with an affordable rent level. The programme will also support social housing and savings programmes for housing needs. As at the date of this Base Prospectus the details of the programme were not presented.

#### The Polish mortgage loan market

As at 30 June 2016, people in Poland had PLN 389.6 billion of outstanding mortgage loans, of which 57 per cent. were denominated in PLN.

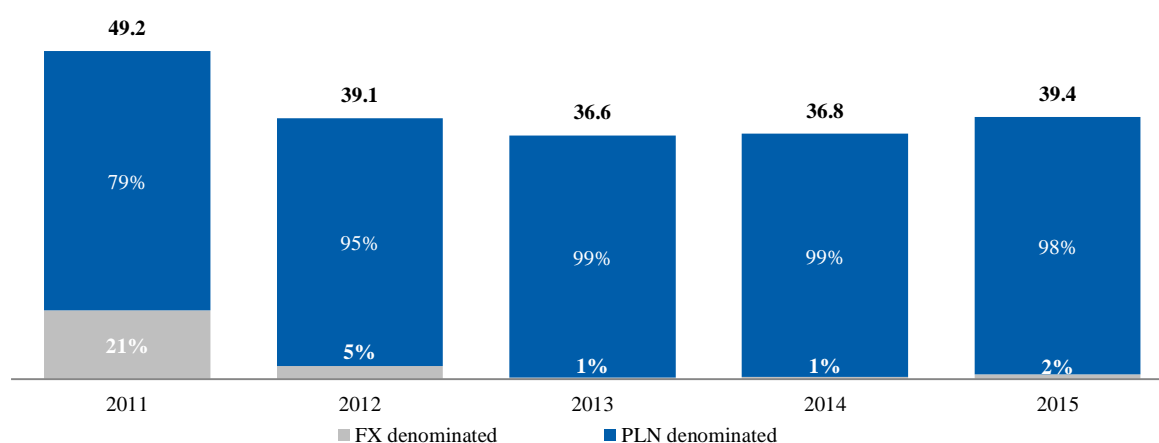
#### Outstanding value of residential mortgage loans (PLN billion)



Source: NBP

Since 2012, the residential mortgage loans are granted almost exclusively in PLN. Residential mortgage loans may also be granted in other currencies, however such loans are a rare product, offered only to customers whose income is denominated in a foreign currency.

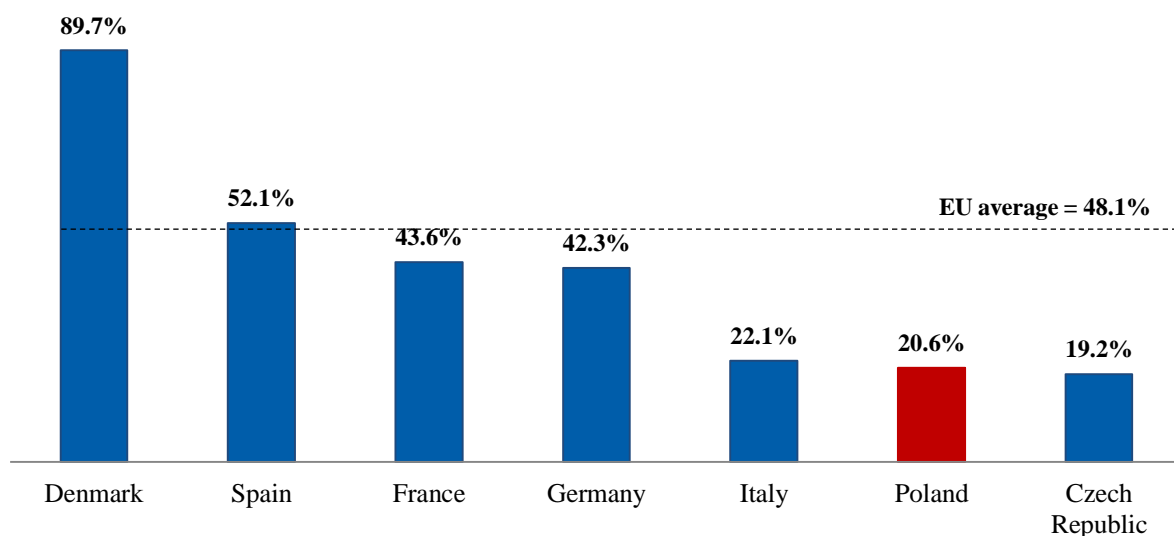
#### Value of newly signed residential mortgage loans (PLN billion)



Source: Polish Banking Association

With a ratio of the principal amount of outstanding residential loans to GDP of 20.6 per cent. in 2015, Poland was among the European countries with the smallest ratio of mortgage loans to GDP and below the EU average of 48.1 per cent.

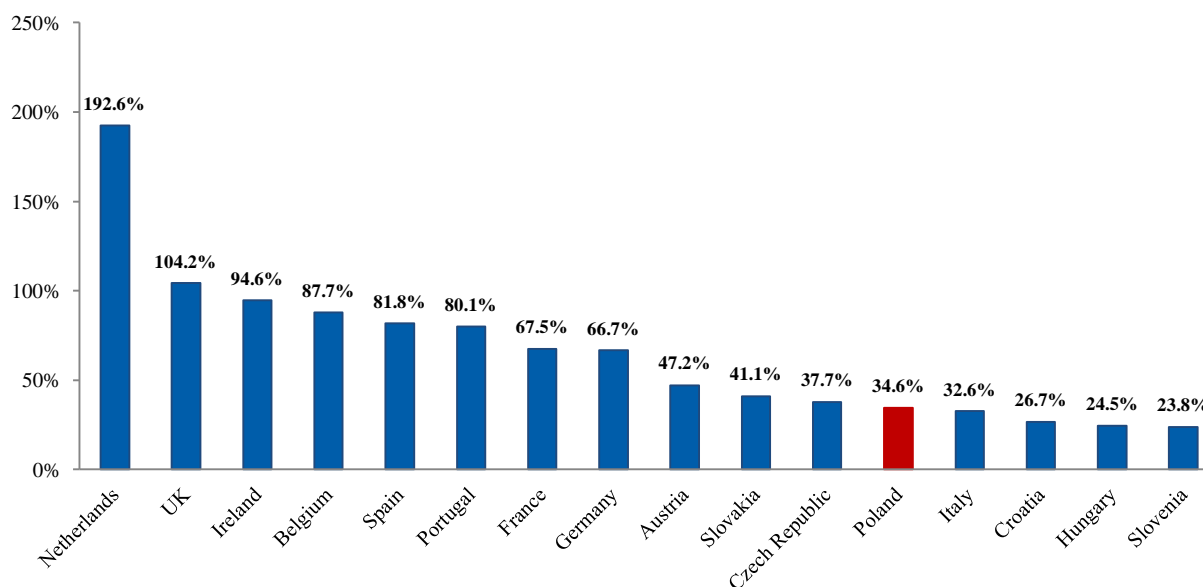
### Total Outstanding Residential Loans to GDP ratio (% , 2015)



Source: European Mortgage Federation

Residential loans to household disposable income ratio in Poland was around 35 per cent. in 2015, one of the lowest in Europe.

### Total Outstanding Residential Loans to Household Disposable Income (% , 2015)



Source: European Mortgage Federation

### Covered bonds and mortgage banks market

The Polish covered bonds market is relatively small and is characterised by moderate liquidity. As at 30 June 2016, the aggregate principal amount of outstanding covered bonds issued by Polish mortgage banks was approximately PLN 6.9 billion, a PLN 1.4 billion increase as compared to 31 December 2015. As at 30 June 2016, the principal amount of outstanding covered bonds issued by Polish mortgage banks represented 1.8 per cent. of mortgage loans granted by Polish banks.

As at the date of this Base Prospectus, there are three mortgage banks operating in Poland: the Bank, mBank Hipoteczny S.A. and Pekao Bank Hipoteczny S.A. These mortgage banks operate only in Poland and offer loans only to Polish clients.

The establishment of new mortgage banks and amendments to regulations concerning covered bonds and mortgage banks should positively affect the size and liquidity of the Polish covered bonds market. The increase in the number of



mortgage banks in Poland may result in boosting the supply of covered bonds. This will on one hand enhance the availability of covered bonds to investors and increase their role in investment portfolios, but on the other hand, it may increase the competition between issuers in the Polish covered bonds market.

## DESCRIPTION OF THE BANK

### History and general introduction

PKO Bank Hipoteczny Spółka Akcyjna is a Polish mortgage bank (*bank hipoteczny*) focusing on providing retail loan products secured by mortgages on residential property. The core business of the Bank involves the granting of mortgage loans for financing the purchase, construction, modernisation or extension of residential properties and acquiring mortgage loans secured on residential properties granted by PKO BP. The loans in the Bank's loan portfolio are denominated solely in PLN and as at the date of this Base Prospectus the Bank does not intend to grant or acquire loans denominated in currencies other than PLN (for details on the Bank's loan portfolio, see "*Business overview of the Bank*" and "*The Bank's loan portfolio*" below). The Bank is the sole entity in the Group authorised to issue covered bonds.

PKO BP is the largest bank in Poland and the sole shareholder of the Bank. As at 30 June 2016, according to Polish Bank Association, PKO BP's share in the Polish mortgage loan market was 30.3 per cent. PKO BP 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 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 at the date of this Base Prospectus (based on KNF data).

PKO BP has established the Bank as an entity through which the Group could diversify the Group's sources of funding. The Group perceives the covered bonds issued by the Bank as an important source of long-term funding for the Group. Additionally, obtaining funds through issuances of covered bonds by the Bank enables the Group to reduce the maturity mismatch between the Group's assets and liabilities. Since its establishment, the Bank has issued covered bonds under its domestic covered bond programme having an aggregate principal amount of PLN 1,030,000,000 as at the date of this Base Prospectus. For further details on covered bonds issued by the Bank, see "*Covered bonds portfolio*" below.

The articles of incorporation of the Bank were signed on 6 October 2014 and the Bank was established on 24 October 2014 for an indefinite period. The Bank is entered into the register of entrepreneurs of the National Court Register maintained by District Court Gdańsk-Północ in Gdańsk under number 0000528469. The Bank is authorised to operate as a mortgage bank under the Polish Covered Bonds Act and is supervised by the KNF. Its operating permit was issued by the KNF on 6 March 2015. The Bank's registered office is in Gdynia at ul. Jerzego Waszyngtona 17 and its telephone number is +48 58 662 92 40. Although the Bank is a member of the Group and closely cooperates with PKO BP in its business operations, the Bank is an independent legal entity with separate corporate bodies. The Bank has no subsidiaries.

As at the date of this Base Prospectus, the share capital of the Bank is PLN 700,000,000, which comprises 700,000,000 ordinary shares each with a nominal value of PLN 1.00 each. All of the Bank's share capital is owned by PKO BP.

### Ratings

#### *Ratings assigned to PKO BP*

PKO BP has been assigned ratings by Moody's as set forth in the table below:

Category	Rating	Outlook
Long-term deposit rating.....	A2	Negative
Short-term deposit rating .....	P-1	N/A
Long-term debt rating .....	A3	Stable
Long-term debt rating of the MTN programme.....	(P)A3	N/A
Short-term debt-rating .....	(P)P-2	N/A
Long-term counterparty risk assessment .....	A2(cr)	N/A
Short-term counterparty risk assessment.....	P-1(cr)	N/A

*Source: PKO BP*

#### *Ratings assigned to the Bank*

As at the date of this Base Prospectus, Moody's assigned the following ratings to the Bank and the covered bonds issued by the Bank:

Category	Rating	Outlook
Long-term covered bonds rating (the Programme) (expected) .....	Aa3	N/A

Category	Rating	Outlook
Long-term covered bonds rating (domestic programme) .....	Aa3	N/A
Long-term counterparty risk assessment .....	A3(cr)	N/A
Short-term counterparty risk assessment.....	P-2(cr)	N/A
Long-term Bank's rating.....	Baa1	Stable
Short-term Bank's rating.....	P-2	N/A

## Description of the Group and the Bank's position within the Group

### Overview

The Bank is solely owned by PKO BP and is a member of the Group. The Bank has no subsidiaries. PKO BP 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 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 at the date of this Base Prospectus (based on KNF 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 at the date of this Base Prospectus, the Group is the Polish market leader in terms of the value of loans granted to business entities. PKO BP's share in the net profit, assets and equity of the Polish banking sector for the year ended 31 December 2015 was 23.0 per cent., 16.4 per cent. and 17.4 per cent., respectively, and for the period ended 30 June 2016 it was 19.6 per cent., 16.0 per cent. and 17.7 per cent., respectively (based on KNF data).

As at 30 June 2016, PKO BP serviced approximately 9.1 million customers (including 8.6 million individual customers, 500 thousand SME clients and 14 thousand corporate clients).

In addition to products and services offered to retail and corporate banking clients, 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. PKO BP also generates income from its investment operations by investing PKO BP'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 at the date of this Base Prospectus, the operations of Kredobank do not constitute a significant portion of the Group's operations.

With 1,227 retail branches, 857 agencies and 3,200 ATMs as at 30 June 2016, PKO BP 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. As at 30 June 2016 PKO BP employed 28,867 full-time equivalent staff and employees.

As at 30 June 2016 PKO BP had market shares in the Polish banking sector of 16.4 per cent., 17.3 per cent. and 17.6 per cent. in respect of the assets, amounts due to customers and loans and advances to customers, respectively (based on KNF and NBP data).

The Group holds a leading position in the Polish housing mortgage loan market in terms of outstanding volume and new sale and such loans amounted to 67.3 per cent. and 67.1 per cent. of total loans to retail banking customers as at 30 June 2016 and 31 December 2015, respectively. PKO BP 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 foreign currencies ceased in December 2011 in PKO BP and in June 2012 in Nordea Bank Polska S.A. Due to the acquisition of Nordea Bank Polska S.A. in 2014, the share of foreign currency mortgage loans in the Group's loan portfolio has increased. For the six months ended 30 June 2016 and for the years ended 31 December 2015 and 2014, the share of foreign currency mortgage loans (excluding accrued interest and effective interest rate adjustment) was 35.8 per cent., 36.9 per cent. and 38.2 per cent., respectively. As at 30 June 2016, the amount of housing mortgage loans granted by the Group was PLN 105,734 million.

PKO BP's and the Bank's primary residential loan products consist of products offered under the brand "*Wlasny Kqt 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, PKO BP and the Bank insure the receivables under such loans during the interim period.

## **Business overview of the Bank**

### ***Spheres of activity***

The Bank's business activities as a Polish mortgage bank are subject to the Polish Covered Bonds Act. The Bank's business activities include: (i) granting mortgage loans; (ii) granting loans secured by a guarantee of the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for countries that are restructuring their external indebtedness or have restructured their external indebtedness in the last five years, loans to these entities, loans to local government units and loans secured by a guarantee from the local government units; (iii) purchasing loans of the type referred to in (i) and (ii) above from other banks; (iv) issuing mortgage covered bonds; (v) issuing debt securities; (vi) depositing debt securities; (vii) acquiring shares in other entities whose legal form ensures that the Bank's liability is limited to the value of funds invested by the Bank, if such investment supports the Bank's business activities; (viii) providing consultancy services relating to the real estate market, including services to establish the mortgage lending value of real properties; and (x) managing the receivables of the Bank and other banks under loans referred to in points (i) and (ii) above and granting these loans on behalf of other banks under agreements entered into with these banks. The Bank does not accept deposits.

The Bank focuses its business activity on granting mortgage loans for residential purposes, acquiring mortgage loans for residential purposes granted by PKO BP, issuing covered bonds to finance or refinance the mortgage loans in the Bank's portfolio and entering into derivative transactions required by law. As at the date of this Base Prospectus, the Bank does not grant or acquire commercial mortgage loans and the Bank does not purchase loans from banks other than PKO BP.

The Bank provides mortgage loans to individuals to finance their housing needs, i.e. to finance the purchase of an apartment or a house. Loans granted by the Bank are denominated solely in PLN.

The maximum amount of a loan at the time of granting the loan may not exceed:

- 100 per cent. of the mortgage lending value of the property; or
- 90 per cent. of the current or future value of the property which serves as collateral for the loan if the borrower made his own contribution towards the purchase price of the property.

Loans granted by the Bank may be secured by mortgages entered in the land and mortgage register with the highest priority. The mortgage may be established over the following types of real property:

- a house for a single family, a semi-detached house or a house for a single family with a garage or a semi-detached house with a garage; or
- flat, flat with a parking spot in a shared car park or a flat with a garage.

The value of the property, i.e. the mortgage lending value of the property, is determined in a strictly prescribed form in accordance with the "*Rules for determining the mortgage lending value of the property*", approved by the KNF.

Additionally, the Bank's claims under the loans are secured by an assignment of the borrower's pecuniary claims under the insurance policy against fire and other accidents relating to the property on which the mortgage is or will be established.

The Bank's business activity is subject to a number of restrictions and the Bank must regularly conduct several tests to confirm that its activities comply with the regulatory restrictions and requirements. The Bank follows the regulatory requirements and performs all required tests. For a description of these restrictions and tests, see "*Overview of the Polish Covered Bonds Legislation*".

From time to time the Bank may execute foreign exchange transactions and may enter into hedging transactions to hedge interest rate and foreign exchange risks. Under the Polish Covered Bonds Act, these transactions may only be entered into to support the Bank's principal business activities. Additionally, under the Polish Covered Bonds Act, the Bank must hedge its foreign exchange risk if the covered bonds issued by the Bank are denominated in a currency different from: (i) the currency of the receivables in the cover pool; or (ii) the currency of cash held by the Bank or deposited by the Bank with the NBP or the currency in which the securities held by the Bank as substitute assets are denominated.

### ***The Bank's strategic position in the Group***

PKO BP set up the Bank in order to:

- acquire long-term funding through covered bonds issued by the Bank at a cost lower than the costs of senior debt;
- release liquidity and equity to boost the Group's loan portfolio; and
- reduce the Group's exposure to liquidity risk by reducing the liquidity mismatch.

### *Cooperation between the Bank and PKO BP in mortgage loan origination and acquisition of mortgage loans*

The Bank's operations are based on maximum possible operational integration with PKO BP. The Bank benefits from the Group's leading position in the Polish residential mortgage loan market and the Group's extensive distribution network which ensures a stable flow of mortgage loans to the Bank. Additionally, the Bank has access to PKO BP's know-how resources relating to granting mortgage loans to individuals and to risk models developed by the Group. The Bank closely cooperates with PKO BP in originating new mortgage loans and acquiring mortgage loans from PKO BP. This cooperation is based on two models:

- the agency model (sale of new loans); and
- the pooling model (transfer of existing loans).

In its business activity, the Bank benefits from PKO BP's know-how and resources, made available to the Bank under the outsourcing agreement dated 16 January 2015 (the "**Outsourcing Agreement**") and the framework agreement dated 17 November 2015 (the "**Framework Agreement**"), entered into between the Bank and PKO BP.

During the proceedings at the KNF concerning the establishment of the Bank, PKO BP declared to the KNF that it will provide the Bank with financial support. PKO BP also committed to the KNF to maintain the Bank's liquidity and capital adequacy ratios above the applicable regulatory limits.

#### *The Outsourcing Agreement*

The Outsourcing Agreement covers the following areas of cooperation between the Bank and PKO BP:

- originating new mortgage loans under the agency model:
  - o the utilisation by the Bank of the Group's sales network to sell mortgage loans;
  - o both the Bank and PKO BP offer the same residential mortgage loan product dedicated to individuals; a client applying for a loan submits one credit application to both banks;
  - o information which is the basis for PKO BP's credit decision is prepared by PKO BP;
- post-sales services for loans granted by the Bank:
  - o post-sales services which have no impact on the risk associated with the loan, i.e. providing information on account balance, preparing statements from bank accounts and providing updates on upcoming payments, are outsourced to PKO BP and are performed by PKO BP branches as well as through internet banking and PKO BP's client contact centre;
- access to PKO BP's know-how and other resources:
  - o the Bank outsourced its back-office functions as well as processing settlements, payments, reconciliation of accounts and administrative support to PKO BP;
  - o both the Bank and PKO BP use the same risk evaluation tools and models for the sales and risk evaluation processes;
  - o both the Bank and PKO BP use the same IT systems in certain areas, however the systems used by each bank store separate data and have separate access controls;
  - o the Bank uses the same suppliers as PKO BP and usually benefits from supply and services agreement entered into by PKO BP for the benefit of the whole Group.

PKO BP supports the Bank in operational aspects only. The Bank independently makes all decisions relating to its business activities and its credit process.

#### *The Framework Agreement*

The Framework Agreement regulates the transfers of mortgage loans from PKO BP to the Bank. The loans are transferred in tranches and each tranche is transferred to the Bank under a separate transfer agreement. An independent expert separately evaluates each tranche of loans. The Bank must pay PKO BP the purchase price within eight months from the date of the transfer and the non-interest period is 30 days from the date of the transfer.

#### *The agency model*

The agency model is governed by the Outsourcing Agreement. Under the agency model, PKO BP sells and markets the mortgage loans originated by the Bank through the PKO BP distribution network.

The Outsourcing Agreement sets out the following criteria for loans sold through the PKO BP distribution network:

The principal amount of the loan to the market value of the property:	Maximum 90%
The principal amount of the loan to the mortgage lending value:	Maximum 100%
Title to the property:	Ownership or perpetual usufruct ( <i>użytkowanie wieczyste</i> )
Security interest:	Mortgage with the highest priority
Currency:	PLN
Purpose of the loan:	Residential

Under the agency model, a potential borrower's loan application is reviewed by both the Bank and PKO BP. If the borrower applies for a PLN-denominated loan that satisfies the above criteria, the loan is granted by the Bank. The pricing of the loans offered by the Bank is the same as pricing of the mortgage loans offered by PKO BP. Therefore, from the borrower's perspective, there is no material difference between obtaining a mortgage loan from the Bank and from PKO BP.

#### *The pooling model*

Under the pooling model, the Bank purchases from PKO BP mortgage loans originated by PKO BP. The purchase of mortgage loans from PKO BP is governed by the Framework Agreement entered into between the Bank and PKO BP on 17 November 2015. The mortgage loans which the Bank acquires from PKO BP must satisfy the following criteria:

The principal amount of the loan to the mortgage lending value:	Maximum 100%
Title to the property:	Ownership or perpetual usufruct ( <i>użytkowanie wieczyste</i> )
Security interest:	Mortgage with the highest priority
Currency:	PLN
Arrears:	None
Purpose of the loan:	Residential

#### *Post-sale and support services*

Following the sale or transfer of a mortgage loan, PKO BP is responsible for dealing with the customers, managing their loan accounts and providing information on the customers during the term of the loans (both originated by the Bank and acquired by the Bank from PKO BP). These services are conducted by PKO BP under the Outsourcing Agreement.

#### **The Bank's loan portfolio**

All loans in the Bank's cover pool are PLN-denominated mortgage loans granted to private individuals. As at 30 June 2016, the principal amount of the loans in the Bank's portfolio was PLN 4.18 billion and the principal amount of the loans in the cover pool was PLN 1,675,874 thousand. Approximately 1/5 of loans in the cover pool were originated by the Bank and the remainder of the loans in the cover pool were acquired by the Bank from PKO BP.

A vast majority of the loans in the cover pool are floating rate loans with the interest rate based on WIBOR for three months. As at 30 June 2016, the average contractual maturity of loans in the cover pool was 256.66 months (weighted average).

The Polish Covered Bonds Act sets out the detailed eligibility criteria for a loan to be included in the cover pool. For a description of this criteria see "*Overview of the Polish Covered Bonds Legislation – Composition of the cover pool*".

The Bank publishes quarterly disclosure reports (*raporty ujawnień*) regarding issuances of the mortgage covered bonds by the Bank and the structure of its loan portfolio. Please also see "*General Information – Post-issuance information*".

#### **Covered bonds portfolio**

The following table shows the outstanding covered bonds issued by the Bank as at the date of this Base Prospectus:

<u>Series</u>	<u>Currency</u>	<u>Principal</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Coupon</u>	<u>Listing</u>
1	PLN	30,000,000	11 December 2015	11 December 2020	WIBOR3M +0.75%	Warsaw
2	PLN	500,000,000	27 April 2016	28 April 2021	WIBOR3M+0.65%	Warsaw
3	PLN	500,000,000	17 June 2016	18 June 2021	WIBOR3M+0.59%	Warsaw

The PLN-denominated covered bonds were issued under the Bank's domestic issuance programme. The domestic programme was established in 2015 and the base prospectus for the domestic programme was approved by the KNF on 12 November 2015 in accordance with Directive 2003/71/EC.

#### *Overcollateralisation*

Under Polish law, the coverage for the Bank's obligations arising under the outstanding covered bonds consists of two parts: (a) core assets, i.e. mortgage loans; and (b) substitute assets. Substitute assets consist of cash and the obligations of the State Treasury of the Republic of Poland, the NBP, the European Central Bank, member states of the EEA and the OECD and their central banks as well as obligations guaranteed by these entities (for details, see "*Overview of the Polish Covered Bonds Legislation*").

#### **Other sources of financing**

Apart from issuing covered bonds, the Bank raises financing through:

- issuances of short-term bonds under the Bank's PLN 2 billion private placement programme;
- credit facilities; and
- the deferred payment of purchase price for loans acquired from PKO BP.

Under the Polish Covered Bonds Act, the Bank's obligations under outstanding bonds and loans and credit facilities cannot exceed ten times the Bank's own funds within five years from the date the Bank commenced its operations and six times the Bank's own funds after such five-year period.

As at 26 September 2016, the aggregate principal amount of bonds issued by the Bank is PLN 973,400 thousand, the principal amount of outstanding loans and credit facilities is PLN 310,927 thousand and the amount of deferred payments of purchase prices is PLN 3,252,100 thousand.

#### **Risk Management**

##### *Introduction*

Risk management is a key internal process within the Bank. It is aimed at ensuring the profitability of business activity by ensuring control of the risk level and maintaining it within the risk tolerance and system limits applied by the Bank in a changing macroeconomic and legal environment. The expected level of risk plays an important role in the Bank's planning process.

As a result of the statutory restrictions on activities that may be pursued by mortgage banks, the Bank's asset-liability structure is distinct from that which generally characterises the Polish banking system. The Bank's asset side consists predominantly of mortgage loans. The Bank's liabilities consist of covered bonds issued by the Bank, liabilities under deferred payments, bonds issued by the Bank and credit facilities granted to the Bank.

Risk management within the Bank is based on the following principles:

- the risk management process, including the loan process, is defined and regulated by strategies, policies and procedures adopted by the Bank's Management Board and Supervisory Board;
- the Bank manages all identified types of banking risks and performs an ICAAP (Internal Capital Adequacy Assessment Process) wherein:
  - the risk management process is appropriate to the scale of operations and to the significance, scale and complexity of a given risk, and tailored to new risk factors and sources on a current basis; and
  - 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 are periodically verified and validated;
- having the organisational structure that ensures the independence of the risk area, including the separation of the real estate valuation and credit decision-making processes from the Bank's business activities;

- integration with the planning and controlling systems and supporting the implementation of the Bank's strategy in compliance with the risk management strategy, particularly in terms of risk tolerance levels; and
- the risk management process is consistent with the Group's principles of risk management, including the usage of the Group's risk models, modified to reflect the nature of activities of the Bank and approved by the Bank's Management Board and Supervisory Board.

Guidelines and methodologies for measuring risk as well as assumptions for scenario analyses have been approved by the Management Board and are subject to regular review, taking into account the economic and financial environment, interest rate outlook, and the overall level of market risks affecting the Bank's on and off balance sheet transactions. The Bank's guidelines and methodologies for measuring risk are aligned with the guidelines and methodologies for measuring risk introduced by the Group.

#### *Risk management process*

The process of risk management in the Bank consists of the following elements:

- risk identification: the identification of actual and potential sources of risk and an estimation of the significance of their potential influence on the financial situation of the Bank. Within the risk identification process, types of risk perceived as significant to the Bank's activities are identified;
- risk measurement and assessment: risk measurement covers the determination of risk assessment measures adequate to the type and significance 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 risk management objectives. Within risk measurement, stress-testing is conducted on the basis of assumptions providing a fair risk assessment;
- risk forecasting and monitoring: preparing risk level forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measures from the previous period, recommendations and suggestions). Risk monitoring is performed with a frequency appropriate to the significance and volatility of a specific risk type;
- risk reporting: periodically informing the managing and supervisory bodies of the Bank about the results of risk measurement or risk assessment, actions taken and recommended actions. The scope, frequency and form of reporting are adjusted to the management level of the recipients; and
- management actions: including, in particular, issuing internal regulations, establishing levels of risk tolerance, establishing limits and thresholds, issuing recommendations, making decisions about the use of tools supporting risk management, and taking action to maintain a defined level of risk. The objective of management actions is to direct the risk management process and risk levels.

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 the most important activities conducted concerning risk management.

The Bank's Management Board is responsible for risk management, including supervising and monitoring the activities conducted by the Bank concerning risk management. The Bank's Management Board takes the most important decisions affecting the risk profile of the Bank and adopts internal regulations concerning risk management.

The risk management process is executed in three independent lines of defence. The first line of defence is internal supervision based on the limits introduced by the Bank's internal regulations. This includes internal supervision mechanisms and controls as well as ensuring compliance with applicable laws, the internal regulations of the Bank and applicable market standards.

The second line of defence is the system of assessing, monitoring, controlling and reporting the risks which may be material for the Bank as well as reporting the identified threats and non-compliance. It also covers developing the necessary internal regulations and setting out rules, methods, tools and procedures for managing risks and assessing the effectiveness of the risk management systems.

The internal audit is the third line of defence. The purpose of the internal audit is the independent review of the key elements of the Bank's risk management system and the control mechanisms introduced by the Bank.

The independence of the lines of defence is achieved by preserving organisational independence in the following areas:

- the function of the second line of defence in creating systematic solutions is independent of the function of the first line of defence;
- the function of the third line of defence is independent of the functions of the first and second lines of defence; and



- the function of managing compliance risk reports directly to the President of the Management Board of the Bank.

#### *Mortgage lending value*

Due to the asset structure of the Bank, the process of assessing the mortgage lending value of a property is critical to the operations of the Bank.

The Bank's policy with respect to credit security and its valuation is based on the Polish Covered Bonds Act, the Banking Law and the Act on Land and Mortgage Register and Mortgages dated 6 July 1982 (*Ustawa z dnia 6 lipca 1982 r. o księgach wieczystych i hipotece*). The Bank's policy also takes into account the KNF's guidelines.

The Bank has in place and applies the Mortgage Lending Value Calculation Rules approved by the KNF and issued in accordance with the Polish Covered Bonds Act and KNF recommendations.

The mortgage lending value determined by the Bank reflects the long-term risk associated with property serving as collateral for loans advanced by the Bank and is used to calculate the maximum amount of a loan secured by a mortgage over a given property or to decide whether a loan secured by this property can be purchased by the Bank.

The Bank calculates the mortgage lending value based on an expert's opinion, prepared with due care and diligence, taking into account only those characteristics of the property and expenditure necessary to build it which are permanent and can be obtained by any owner of the property assuming its reasonable use. The expert's opinion, prepared as at a specific date, presents the assumptions and parameters based on which the analysis was made, the calculation process and the proposed mortgage lending value. The opinion takes into account the analyses and forecasts of the parameters specific to a given property which are material for credit risk assessment, as well as general factors, such as population growth, unemployment rate, and regional and urban development.

The mortgage lending value of a property for loans originated by the Bank and sold through the PKO BP distribution network is determined in the following stages:

<b>Stage</b>	<b>Description</b>
Preparing the mortgage lending value valuation	The valuation is prepared by an external expert who has demonstrated to the Bank sufficient experience and skills in estimating banking risk associated with securing mortgage loans.
Reviewing the valuation	The valuation is reviewed by PKO BP under the Outsourcing Agreement.
Final review of the valuation and determining the mortgage lending value of the property	The Collateral Valuation Department, a separate unit of the Bank, conducts a final review of the valuation and determines the final mortgage lending value of the property.

The mortgage lending value of a property for loans acquired by the Bank from PKO BP is determined in the following stages:

<b>Stage</b>	<b>Description</b>
Legal due diligence of the real property	PKO BP conducts a legal due diligence of the real property encumbered with the mortgage.
Preparing a report on the property and a market report	An external expert who has demonstrated to the Bank sufficient experience and skills in estimating banking risk associated with securing mortgage loans prepares a report on the property and a market report.
Preparing the mortgage lending value valuation	The Collateral Valuation Department, a separate unit of the Bank, prepares the mortgage lending value valuation.
Final review of the valuation and determining the mortgage lending value of the property	The Collateral Valuation Department, a separate unit of the Bank, conducts a final review of the valuation and determines the final mortgage lending value of the property.

## MANAGEMENT OF THE BANK

### General

The Bank is a joint-stock company (*spółka akcyjna*) operating under Polish law. The Bank, its management and the Bank's corporate setup are governed by the Statutes of the Bank. The business address of all members of the Bank's Management Board is ul. Jerzego Waszyngtona 17, 81-342 Gdynia, Poland. The business address of all members of the Bank's Supervisory Board is ul. Puławska 15, 02-515 Warsaw, Poland.

To the best of the Bank's knowledge, there are no potential conflicts of interest between the duties of the members of the Management Board or the Supervisory Board with respect to the Bank and their private interests or other duties.

### Management structure and committees

The Management Board represents the Bank in all matters and is responsible for its day-to-day management. The Supervisory Board is responsible for overseeing the operations of the Bank. The Supervisory Board is not responsible for the management of the Bank, but certain decisions require the Supervisory Board's approval.

There are three committees within the Supervisory Board: the Audit Committee, the Remuneration Committee, and the Commercial Committee. The Audit Committee supports the Supervisory Board in reviewing the financial standing of the Bank as well as the Bank's risk management and internal audit systems. The Remuneration Committee is responsible for preparing the remuneration policy concerning the key personnel of the Bank. It also reviews the candidates for management positions at the Bank and prepares an annual assessment to confirm that the Management Board members have the skills and competencies required to hold their positions on the Management Board. The Commercial Committee supports the Supervisory Board in reviewing the outsourcing arrangements between the Bank and PKO BP. It also evaluates and approves products to be offered by the Bank and opines on the Bank's pricing policy.

### Management Board

The Management Board manages the activities of the Bank, acts on the Bank's behalf and makes decisions in all matters regarding the Bank which are not reserved for the General Meeting or the Supervisory Board. The Management Board is also responsible for making all decisions concerning issuances of covered bonds by the Bank. The operations of the Management Board are further regulated by the Management Board's by-laws.

The Management Board consists of at least three members who are appointed and dismissed by the Supervisory Board. The members of the Management Board are appointed for a joint four-year term. There are no restrictions on reappointment of members of the Management Board. As at the date of this Base Prospectus, the members of the Management Board are:

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Commencement of membership in the Management Board</u>	<u>Commencement of current term of office</u>	<u>Date of expiration of current term of office</u>
Rafał Kozłowski	1974	President of the Management Board	6 October 2014	6 October 2014	6 October 2018
Jakub Niesłuchowski	1981	Vice-president of the Management Board	1 April 2015	1 April 2015	6 October 2018
Marek Szcześniak	1977	Vice-president of the Management Board	1 June 2015	1 June 2015	6 October 2018

### *Rafał Kozłowski*

Mr Kozłowski is a graduate of the Warsaw School of Economics, the University of Warsaw and University of Illinois, where in 2008 he completed an MBA degree. He has been involved in the banking sector since 1995, and held the position of director at Bank BPH S.A., Bank Polska Kasa Opieki S.A., and PKO BP. He was also Chief Financial Officer

and a member of the Management Board of Corporation of European Pharmaceutical Distributors N.V. in Amsterdam, where he managed an international portfolio of 160 companies in Poland, Lithuania, and the United Kingdom. From 2012, he worked for PKO BP, where he was responsible for, among other things, a project related to the establishment of the Bank.

His employment record includes building and monitoring of banks' budget strategies, preparing financial analyses and stock market reports for banks' management boards, and preparing public offerings and foreign business acquisitions.

#### ***Jakub Nieluchowski***

Mr Nieluchowski is a graduate of the Warsaw School of Economics and an internationally certified Financial Risk Manager and Chartered Financial Analyst. In 2004-2015, he worked for PwC, where he ran projects related to financial risk management, bank establishment and performance measurement. His cooperation with PKO BP involved initiation and day-to-day coordination of work on establishing the Bank.

During his professional career, he provided risk management advisory services to major banks in Poland, including advice on the implementation of the IRB approach as well as the Basel II and Basel III regulatory framework. On behalf of PwC, he also conducted a number of training courses and workshops for financial institutions as well as Polish and foreign banks.

#### ***Marek Szcześniak***

Mr Szcześniak holds a degree in Finance and Banking from the Faculty of Economics and Sociology of the University of Łódź. He also completed doctoral studies at the Corporate Finance Management Department of the University of Łódź.

Since 2012, he has worked for PKO BP, as Vice-President of the Management Board and member of the Supervisory Board of Kredobank SA in Ukraine. He was also Head of PKO BP's Risk Integration Department.

Since the beginning of his professional career, he has been engaged in credit risk management in the banking sector. He has held managerial positions with BRE Bank S.A., Bank BPH S.A., Bank DnB Nord Polska S.A. and Allianz Bank Polska S.A.

Members of the Bank's Management Board are not engaged outside the Bank in any core business which would be of material importance to the Bank.

#### ***Supervisory Board***

The Bank's Supervisory Board is responsible for overseeing the operations of the Bank. The Supervisory Board appoints the members of the Management Board, approves the Bank's strategy and the Bank's financial plans. The operations of the Supervisory Board are regulated by the by-laws of the Supervisory Board. The Supervisory Board consists of between five and nine members appointed by the Bank's General Meeting for a joint four-year term. There are no limits on reappointment of members of the Supervisory Board.

As at the date of this Base Prospectus, the Supervisory Board had the following members:

<b>Name</b>	<b>Year of birth</b>	<b>Position</b>	<b>Commencement of membership</b>	<b>Commencement of current term</b>	<b>Date of expiration of the current term</b>
Jakub Papierski	1972	President	6 October 2014	6 October 2014	6 October 2018
Piotr Alicki	1964	Vice-president	6 October 2014	6 October 2014	6 October 2018
Piotr Mazur	1966	Member	6 October 2014	6 October 2014	6 October 2018
Barbara Soares da Silva	1979	Member	6 October 2014	6 October 2014	6 October 2018
Artur Osytek	1974	Member	6 October 2014	6 October 2014	6 October 2018

#### ***Jakub Papierski***

Mr Papierski is a graduate of the Warsaw School of Economics and holder of a Chartered Financial Analyst licence.

His professional career began in 1993, at Pro-Invest International, a consultancy firm. In 1995-1996, he worked for the ProCapital Brokerage House, and then for Creditanstalt Investment Bank. In March 1996, he started working for

Deutsche Morgan Grenfell/Deutsche Bank Research, where he was responsible for the banking sector in Central and Eastern Europe.

From November 2001 to September 2003, he worked for Bank Polska Kasa Opieki S.A. as executive director of the Finance Division, where he directly supervised the bank's financial and tax policies, management information systems, treasury and investment portfolio management. He was also a member of the bank's Asset-Liability Committee. In October 2003, he became President of the Management Board of Centralny Dom Maklerski Pekao S.A., and from September 2006 he also served as Deputy Chairman of the Supervisory Board of Pioneer Pekao TFI S.A. From May 2009, he was acting President of the Management Board of Allianz Bank Polska S.A., and in October 2009 he took the position of President. He has been Vice-President of the PKO BP Management Board since 2010.

In 2005-2009, Mr Papierski was Chairman of the Capital Market Leaders Academy Programme Board at the Lesław Paga Foundation, and he is currently a member of the Board.

#### ***Piotr Mazur***

Mr Mazur graduated from the Wrocław University of Economics with a degree in Organisation and Management. He has more than 20 years of experience in the banking sector, holding managerial positions in the risk, restructuring and loan areas since 2000. He has worked for international financial groups operating in Europe, the U.S. and South America, and has been a member of supervisory boards, boards of creditors and member and chairman of key risk management committees. He was involved in formulating the strategy of Bank Zachodni WBK S.A. and was directly responsible for risk management and optimising debt collection and restructuring processes. His tasks also included liaising with regulatory authorities in Poland and abroad. Mr Mazur is Vice-President of the PKO BP Management Board in charge of the Risk Management Area.

After graduating in 1991, he began his professional career with Bank BPH S.A., working in the loan area. In 1992, he joined Bank Zachodni S.A., and, following its merger with Wielkopolski Bank Kredytowy S.A., he worked for Bank Zachodni WBK S.A. From 1992-2000, he was employed in the Equity Investments Department, and between 2000 and 2005 held the position of Head of Loan Quality Control Department. Between 2005 and 2008, he was Head of Business Intelligence and Risk Management and from 2008-2010 he was Deputy Chief Risk Officer. From January 2011, he served as Chief Credit Officer, and from March 2012, he served as Deputy Chief Risk Officer. In addition, he was Chairman of Bank Zachodni WBK S.A.'s Credit Committee, Deputy Chairman of Credit Risk Forum and Deputy Chairman of Risk Model Forum.

#### ***Piotr Alicki***

Mr Alicki is a graduate of the Faculty of Mathematics and Physics of the Adam Mickiewicz University of Poznań. He has many years of experience in managing IT projects in the banking sector.

From 1990 to 1998, he worked in the IT Department of Pomorski Bank Kredytowy S.A. in Szczecin. From 1997, as Head of the IT Department, he was in charge of design, development, implementation and operation of the Bank's transaction systems. From 1999 to 2010, he was employed by Bank Polska Kasa Opieki S.A., initially as Deputy Director, and then as Head of IT Systems Development and Maintenance Department. In 2006-2010, he was responsible for the IT Division. His tasks included the execution of the IT merger of four banks (Pekao S.A., PBKS S.A., BDK S.A., PBG S.A.), implementation of the Integrated IT System, and management of IT business analyses at that bank. He also managed IT integration and migration from the Bank BPH S.A. systems to the Bank Polska Kasa Opieki S.A. systems, and was involved in the work of a team responsible for the preparation of the entire integration process. He has been Vice-President of the PKO BP Management Board since 2010.

From 1999 to 2010, Mr Alicki was engaged in the work of the Polish Bank Association (Steering Committee for Banking Infrastructure Development, Payment System Committee, Problem Committee for Banking and Financial Banking Services and Electronic Banking Council). In 2000, he became a member of the Supervisory Board of Krajowa Izba Rozliczeniowa S.A. and between 2005 and 2010 he held the position of Chairman. In 2002-2010, he represented Bank Polska Kasa Opieki S.A. at the Payment System Council at the National Bank of Poland. Since 2010, he has been a representative of PKO BP at the Council. He also sat on the Supervisory Boards of the Bank Polska Kasa Opieki S.A. Group companies.

He received the honorary medal 'For Merit in the Banking Sector of the Republic of Poland', granted by the Governor of the National Bank of Poland. He also won the '1997 IT Leader', '2010 IT Leader', and '2012 IT Leader' awards.

#### ***Barbara Soares da Silva***

Ms Soares da Silva holds a degree in Finance and Banking (specialisation in banking and financial accounting) from the Warsaw School of Economics.

She started her professional career in 2002 as an inspector with the Domestic Banks and Financial Institutions Team in PKO BP's Foreign Banking and European Integration Department. Between November 2003 and August 2005, she

worked for Telekomunikacja Polska S.A. as a specialist in the TP Group's Reporting Team, and as a specialist in the Derivative Instruments and Debt Analysis Team of the TP Group's Financial Reporting Department. From September 2005 to July 2007, she was Assistant and Senior Assistant in KPMG Audyty sp. z o.o.'s Banking and Financial Institutions Department.

In 2007, she became a certified chartered auditor in the UK (a member of the Association of Chartered Certified Accountants). Additionally, the National Chamber of Statutory Auditors is considering her application to become a qualified auditor.

In July 2007, she re-joined PKO BP where, until January 2012, she was Head of the Optimisation and Analysis Team and Expert in the Accounting and Reporting Department. Since January 2012, she has held the position of Head of the Reporting Office in the Accounting and Reporting Department.

### **Artur Osytek**

Mr Osytek holds a degree from the Faculty of Economic Sciences of the University of Warsaw, majoring in banking and finance. After graduating, he began his career with Arthur Andersen sp. z o.o., and since June 2002 with Ernst & Young Audit sp. z o.o. Between December 2004 and January 2007, he was Manager of KPMG Audyty sp. z o.o.'s Financial Institutions Group.

In June 2004, he became a qualified auditor in Poland (enlisted as a qualified auditor by the National Chamber of Statutory Auditors), and in October 2006 he qualified in the UK (a member of the Association of Chartered Certified Accountants). He is also a Certified Internal Auditor in the U.S.

In January 2007, he joined PKO BP where, until February 2008, he worked as Deputy Director of the Accounting and Tax Department. Afterwards, until November 2010, he held the position of Director of the Accounting and Tax Department. Since December 2010, he has been Director of the Accounting and Reporting Department.

Since June 2008, he has served as Chairman of the Management Board of PKO Finance AB in Stockholm. From 2008 to 2010, he was member of the Supervisory Board of Pomeranka sp. z o.o. (a property developer).

Barbara Soares da Silva and Artur Osytek are independent members of the Supervisory Board.

The independent Supervisory Board members have been elected according to the criteria to be met by independent and competent members of supervisory boards, laid out in the Act dated 7 May 2009 on Certified Auditors (the "**Act on Certified Auditors**").

### **Cover Pool Monitor**

As at the date of this Base Prospectus, upon application by the Supervisory Board, the KNF appointed Mr Tadeusz Swat as Cover Pool Monitor and Mr Grzegorz Kędzia as Deputy Cover Pool Monitor. The Cover Pool Monitor's responsibilities are described in "*Overview of the Polish Covered Bonds Legislation*" below.

#### *Tadeusz Swat*

Mr Swat graduated from the Faculty of Construction Economics of the Central School of Planning and Statistics in Warsaw (currently the Warsaw School of Economics) and completed post-graduate studies in Investment Efficiency and Banking at the same school.

He completed internships in France and the Netherlands, at institutions involved in financing residential development and carrying out residential development projects. He worked for PKO BP for over 20 years, as Deputy Department Director, Department Director and Residential Claims Centre Director, and was responsible for various aspects of financing residential properties.

#### *Grzegorz Kędzia*

Mr Kędzia graduated from the Faculty of Economics and Sociology of the University of Łódź and completed post-graduate studies in property valuation at the Warsaw University of Technology. He completed his property valuation internship at Instytut Doradztwa Majątkowego. Mr Kędzia has been involved in mortgage banking since 2001. He worked as a mortgage loan analyst for LG Petro Bank S.A. and Nordea Bank Polska S.A. From 2004 to 2015, he worked for PKO BP, where his responsibilities included creating the concept of the bank's property database and its development as well as internal processes relating to property valuation and revaluation.

## RELATED PARTY TRANSACTIONS

PKO BP maintains the Bank's current accounts.

The Bank and PKO BP cooperate in offering mortgage loans and providing post-sales services. This cooperation is governed by the Outsourcing Agreement.

Under a facility agreement dated 29 October 2015, PKO BP provided the Bank with a PLN 900,000,000 overdraft facility for three years. PKO BP also agreed to subscribe for bonds having an aggregate principal amount of up to PLN 500,000,000 to be issued under the Bank's PLN 2,000,000,000 domestic bond programme established on 30 September 2015. PKO BP is a dealer under this programme.

On 17 November 2015, the Bank and PKO BP entered into the Framework Agreement governing the acquisition of mortgage loans by the Bank from PKO BP. The initial carrying amount of the mortgage loans acquired by the Bank in 2015 was PLN 429,516 thousand. As at 30 June 2016, the initial carrying amount of the mortgage loans acquired by the Bank in 2016 was PLN 2,727,306 thousand. The payment of the purchase price for the mortgage loans is deferred and the deferral period is separately agreed between the Bank and PKO BP for each loan portfolio.

PKO BP Finat sp. z o.o., a Group company, provides accounting, personnel and payroll services to the Bank. PKO Bankowy Leasing sp. z o.o. provides the Bank with cars under car leasing agreements.

The following tables set forth the outstanding balances of the Bank's related party transactions as at 30 June 2016 and 31 December 2015:

<u>Group entity</u>	<u>Purchase of fixed assets</u>	<u>Not settled commissions for sale of loans</u>	<u>Receivables</u>	<u>Obligations</u>
<i>in PLN thousand</i>				
<i>as at 31 December 2015</i>				
PKO BP	520	3,900	18,722	479,952
PKO BP Finat sp. z o.o.	-	-	-	14
<i>as at 30 June 2016</i>				
PKO BP	3,565	4,694	3,803	2,626,407
PKO BP Finat sp. z o.o.	-	0	-	13

<u>Group entity</u>	<u>Granted off-balance sheet liabilities</u>	<u>Received off-balance sheet liabilities</u>
<i>in PLN thousand</i>		
<i>as at 31 December 2015</i>		
PKO BP	-	660,218
<i>as at 30 June 2016</i>		
PKO BP	-	882,699

<u>Group entity</u>	<u>Aggregate revenues</u>	<u>Revenues from interest and commissions</u>	<u>Aggregate costs</u>	<u>Costs from interest and commissions</u>
<i>in PLN thousand</i>				
<i>6 October 2014 - 31 December 2015</i>				
PKO BP	3,045	3,035	7,120	2,257
PKO BP Finat sp. z o.o.	-	-	147	-
PKO Bankowy Leasing sp. z o.o.	-	-	334	-
Qualia Residence sp. z o.o.	-	-	2	-
<b>Total</b>	<b>3,045</b>	<b>3,035</b>	<b>7,603</b>	<b>2,257</b>

<b>Group entity</b>	<b>Aggregate revenues</b>	<b>Revenues from interest and commissions</b>	<b>Aggregate costs</b>	<b>Costs from interest and commissions</b>
<i>1 January 2016 - 30 June 2016</i>				
PKO BP	130	35	22,044	18,869
PKO BP Finat sp. z o.o.	-	-	78	-
PKO Bankowy Leasing sp. z o.o.	-	-	158	-
<b>Total</b>	<b>130</b>	<b>35</b>	<b>22,280</b>	<b>18,869</b>

All transactions entered into by the Bank with related parties are on arms' length terms.

## OVERVIEW OF LEGAL REGULATIONS CONCERNING THE BANKING SECTOR

*The following description is of a general nature and sets out certain features of Polish law concerning the banking sector as at the date of this Base Prospectus. It does not purport to be, and is not, a complete description of all aspects of the Polish legislative and regulatory framework pertaining to banking activities.*

### Specific legal requirements for banks

Engaging in banking activities involves meeting multiple regulatory obligations, most of which follow directly from the provisions of the Banking Act dated 29 August 1997 (*Ustawa z dnia 29 sierpnia 1997 r. Prawo bankowe*) (the "**Banking Act**"), and from resolutions, ordinances and recommendations issued by the KNF. The most important of these obligations relate to banks' own funds, the capital adequacy ratio, solvency ratio, exposure concentration, risk management systems and financial management conducted by banks.

Banks have a duty to protect banking secrecy. Regulations on personal data protection are particularly important for the functioning of banks in order to protect individual customers. Personal data may be processed exclusively in compliance with detailed regulations, using technical and organisational resources which ensure the protection of personal data against unauthorised processing, including making it available to third parties.

Banks must also comply with regulations for the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

Certain restrictions also apply if banks retain any third parties for the performance of banking activities for and on behalf of the bank or for the performance of any banking-related operations.

Agreements concluded by banks with their customers are subject to detailed regulations (see also "*Consumer protection*" below).

### Banking supervision exercised by the KNF

In Poland, banking supervision is exercised by the KNF and covers in particular:

- assessing the financial position of banks, including analysing liquidity, the quality of assets, solvency and the financial results of banks;
- estimating, maintaining and reviewing internal capital;
- auditing the quality of risk management systems, and in particular the risk management system and internal control system;
- auditing compliance of the bank's activities with the appropriate regulations; and
- monitoring and controlling the bank's compliance with the exposure concentration limits and standards for the risk acceptable in banks' operations as determined by KNF.

The KNF has wide powers and legal instruments which enable it to carry out supervision over banks (including the possibility to conduct inspections).

### Other supervisory authorities

Some areas of banking operations are subject to the supervision of other public administration authorities, the most important of which are as follows:

- the President of the Office for Protection of Competition and Consumers with respect to protecting market competition and consumers' collective rights;
- the General Inspector for Personal Data Protection with respect to collecting, processing, managing and protecting personal data; and
- the minister responsible for financial institutions (the Minister of Finance) and the General Inspector for Financial Information with respect to the prevention of money laundering and financing of terrorism.

### Bank Guarantee Fund

The Bank Guarantee Fund (the "**BGF**") covers the monetary assets deposited in bank accounts or receivable in respect of claims confirmed by documents issued by banks with a guarantee system. Participation in the Bank Guarantee Fund is mandatory for all Polish banks and in certain instances for branches of foreign banks operating in Poland. Banks covered by the guarantee system make mandatory annual payments to the Bank Guarantee Fund and are obliged to set up a guaranteed funds protection fund. The mandatory guarantee system ensures that if a bank becomes insolvent, the funds



deposited in bank accounts, up to an amount specified in the regulations, are returned. As at the date of this Base Prospectus, funds up to the amount equivalent to EUR 100,000 per single person in respect of deposits in all accounts in a given bank are fully covered by the guarantee system. Funds deposited in particular by government administration authorities, other banks, credit institutions, insurance companies, investment and pension funds are not covered by the guarantee system.

### **Consumer protection**

The Consumer Credit Act dated 12 May 2011 (as amended), the Civil Code regulations and other consumer protection laws impose on Polish banks several obligations related to agreements signed with natural persons who perform actions which are not directly related to their business or professional activities (consumers). The most important of those are the requirements to inform the consumer about the cost of extended credit and loans and to include specified terms in the consumer loan agreement as well as the prohibition from including specific clauses which are unfavourable to consumers in agreements. If a customer loan agreement does not meet certain requirements of the Consumer Credit Act, the borrower is authorised under the law to repay the loan in principal amount with interest accrued until the prepayment date. In some circumstances, the borrower may be authorised to repay only the principal amount, without interest, fees and any other amounts due to the bank under the loan agreement.

There is a cap for the maximum interest rates which may be charged by a bank under a loan agreement. As at the date of this Base Prospectus, this cap is two times the sum of the applicable reference rate of the NBP and 3.5 per cent. The maximum interest rate on overdue principal is two times the sum of the applicable reference rate of the NBP and as at 27 September 2016 was 5.5 per cent.

### **Personal data protection**

In light of the large number of individuals serviced by banks, all the regulations concerning personal data protection are of particular importance to banking operations. Personal data may be processed exclusively in compliance with specific regulations, while applying technical and organisational means that ensure the protection of personal data, particularly from disclosure to any unauthorised parties. Additionally, the persons to which such data relates should have the right to access all of their personal data and to correct it.

## OVERVIEW OF THE POLISH COVERED BONDS LEGISLATION

*The following description is of a general nature and sets out certain features of Polish law governing the issuance of covered bonds as at the date of this Base Prospectus. It does not purport to be, and is not, a complete description of all aspects of the Polish legislative and regulatory framework pertaining to the Covered Bonds.*

### Introduction

As at the date of this Base Prospectus, the main act of law governing the covered bonds in Poland is the Polish Covered Bonds Act. The Polish Covered Bonds Act was adopted on 29 August 1997 and came into force on 1 January 1998. The Polish Covered Bonds Act was significantly amended on 24 July 2015. These amendments came into force on 1 January 2016. Other laws and regulations that also apply to mortgage banks and covered bonds are the Bonds Act, the Banking Act, the Bankruptcy Law as well as the decrees issued by the Minister of Finance and the recommendations issued by the KNF.

### Mortgage banks

In Poland, only specialised mortgage banks may issue covered bonds. As at the date of this Base Prospectus, all mortgage banks operating in Poland are subsidiaries of a bank and a separate legal entity. Establishing a mortgage bank requires a permit from the KNF and mortgage banks' activities are subject to KNF supervision.

### Mortgage banks' lending activity

In accordance with the Polish Covered Bonds Act, the lending activities of the mortgage banks cover: (i) granting mortgage loans; (ii) granting loans secured by a guarantee of the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for countries that are restructuring their external indebtedness or have restructured their external indebtedness in the last five years, loans to these entities, loans to local government units and loans secured by a guarantee from the local government units; and (iii) purchasing loans of the type referred to in (i) and (ii) above from other banks.

Under the Polish Covered Bonds Act, the amount of the mortgage bank's receivables under mortgage loans, in the part exceeding 60 per cent. of the mortgage lending value of the property, may not exceed 30 per cent. of the total amount of the mortgage bank's receivables under the mortgage loans. The amount of a single mortgage loan, on the day the bank grants or acquires the loan, may not exceed the mortgage lending value of the secured property.

### Covered bonds

Covered bonds (*listy zastawne*) are debt securities issued exclusively by mortgage banks under the Polish Covered Bonds Act. There are two types of covered bonds: mortgage covered bonds (*hipoteczne listy zastawne*) and public covered bonds (*publiczne listy zastawne*). For a description of assets constituting the basis for issuing mortgage covered bonds and public covered bonds, see "*Core assets*" below.

The covered bonds constitute direct, unconditional and unsubordinated obligations of the Bank, and rank *pari passu* among themselves and all other obligations of the Bank which have the same priority as the covered bonds. Any obligations of the Bank arising from the covered bonds are obligations of the Bank the repayment of which can be realised from any assets of the Bank, subject to a special regime that applies in respect of the obligations arising from the covered bonds on the Bank's bankruptcy. The assets which satisfy the relevant criteria set out in the Polish Covered Bonds Act and which cover the obligations of the Bank arising from the covered bonds are referred to in this Base Prospectus as the cover pool. The Polish Covered Bonds Act sets out the criteria that certain assets must meet to be eligible to constitute cover for covered bonds.

Under the Polish Covered Bonds Act, the title to assets in the cover pool is held by the Bank and these assets remain on the Bank's balance sheet. Subject to certain exceptions in the course of the bankruptcy proceedings (described in detail in the "*Bankruptcy and Insolvency*" section), the holders of the covered bonds do not have direct access to the assets in the cover pool.

In accordance with the Polish Covered Bonds Act, the mortgages established to secure loans included in the cover pool must have the highest priority. This means that, on enforcement of the Bank's claims secured by a mortgage, the Bank's claims will be satisfied after the satisfaction of the enforcement costs, alimonies, and the statutory minimum wage for a three-month period, pensions due as compensation for an illness, inability to work, disability or death but ahead of the other creditors of the Bank.

The aggregate principal amount of outstanding covered bonds may not exceed 40 times the mortgage bank's own funds increased by the general risk reserves created by the mortgage bank.

## Composition of the cover pool

### *General*

A mortgage bank maintains separate cover pools for mortgage covered bonds and public covered bonds. There is only one cover pool for each type of covered bond, so that holders of all mortgage covered bonds have the benefit of the same cover pool and holders of all public covered bonds have the benefit of the same cover pool. The cover pool must comply with the requirements concerning, among others, the value of the assets, set out in the Polish Covered Bonds Act.

Additionally, a mortgage bank must maintain a cover pool register (*rejestr zabezpieczenia listów zastawnych*) for each cover pool indicating the assets constituting the cover pool. A mortgage bank enters both core and substitute assets as well as the assets in the liquidity buffer in the cover pool register. For a description of assets in the liquidity buffer, please see "*Liquidity buffer*" below.

The value of a loan disclosed in the cover pool register is up to the amount of the loan indicated in the relevant loan agreement for the loans originated or acquired by the mortgage bank. Within three months from the end of each financial year, a mortgage bank will announce in "*Monitor Sądowy i Gospodarczy*" the aggregate value of assets entered in the register as at the end of the financial year.

There are two types of assets in the cover pool: the core assets and the substitute assets. At least 85 per cent. of the assets in the cover pool must be core assets. Mortgage banks are subject to a mandatory overcollateralisation requirement, so that at all times the value of the assets in the cover pool must be at least 110 per cent. of the aggregate principal amount of the outstanding covered bonds. If the assets in the cover pool are denominated in a currency different from the currency of the covered bonds, the mortgage bank is required to enter into transactions hedging the currency risk.

A mortgage bank cannot dispose of the assets included in the cover pool without the prior written consent of the Cover Pool Monitor. Generally, a mortgage bank can use the assets in the cover pool as collateral only for the covered bonds. The only exceptions are establishing collateral for hedging transactions entered into by the mortgage bank and entered in the cover pool register and collateral established in favour of settlement systems of which a mortgage bank is a member.

### *Core assets*

For the mortgage covered bonds, the core assets consist of mortgage loans, both originated by the mortgage bank and acquired by the mortgage bank from other banks.

The mortgage bank may apply the proceeds from the issuance of covered bonds towards refinancing the mortgage loans in the cover pool. Refinancing in relation to a single loan cannot exceed 80 per cent. of the mortgage lending value for residential properties and 60 per cent. of the mortgage lending value for other properties.

A mortgage securing a loan to be included in the cover pool must have the highest priority. The mortgage bank may disburse the funds to the borrower before the mortgage is entered in the land and mortgage register if the bank received interim security.

Loans secured by mortgages over real property on which construction works are pending cannot exceed 10 per cent. of the aggregate principal amount of loans in the cover pool. Loans secured by mortgages over real property on which there are no buildings, but which is designated for construction in the applicable zoning plan, cannot exceed 10 per cent. of this limit.

For public covered bonds, the core assets are: (i) loans secured by a guarantee of the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years; (ii) loans to the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years; (iii) loans to local government units; and (iv) loans secured by a guarantee from the local government units.

### *Substitute assets*

The substitute assets, for both mortgage covered bonds and public covered bonds, are securities issued or guaranteed by the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years, cash deposited by the mortgage bank with the NBP and cash held by the mortgage bank.

### *Liquidity buffer*

A mortgage bank has to maintain a liquidity buffer. The value of the assets in the liquidity buffer must be at least the amount of interest payable under the outstanding covered bonds in the next six months. The only assets that can be included in the liquidity buffer are: (i) securities issued or guaranteed by the State Treasury of the Republic of Poland, the NBP, the European Central Bank, governments and central banks of the EU and OECD member states, except for states which are restructuring their external indebtedness or have restructured their external indebtedness in the last five years; (ii) cash deposited by the mortgage bank with the NBP; and (iii) cash held by the mortgage bank. The assets included in the liquidity buffer cannot be used as a base for issuing covered bonds.

### *Derivatives*

When calculating the value of the cover pool and the liquidity buffer the value of hedging arrangements to which the mortgage bank is a counterparty is also taken into account provided that the following conditions are met:

- the purpose of the hedging arrangement and the assets and liabilities to be hedged by that contract were formally designated before the hedging arrangement was concluded;
- the hedging instrument and the hedged assets or liabilities provided for in the hedging arrangement have similar characteristics, including, in particular, with regard to the nominal values, maturities, and the effects of interest rate or exchange rate changes; and
- the degree of certainty as to the expected cash flows from the hedging arrangement is significant.

### **Valuation of assets in the cover pool**

As required by the Polish Covered Bonds Act, a mortgage bank should determine the mortgage lending value of a real property in a prudent and cautious manner. The mortgage lending value of a property is determined on the basis of valuation prepared by the mortgage bank or by a separate entity. The Cover Pool Monitor and the KNF may review the valuation. The detailed principles of determining the mortgage lending value of a real property are issued by the management board of a mortgage bank and are subject to the KNF's approval. Under Recommendation F issued by the KNF, if the valuation is conducted by the mortgage bank, it should be conducted by a separate organisational unit within the mortgage bank, independent from the units responsible for selling mortgage loans and handling the loan application process. Additionally, Recommendation F provides that a simplified valuation procedure may be adopted for credit exposures whose value does not exceed PLN 300,000 for properties located in Warsaw, Cracow, Poznań, Wrocław, Gdańsk, Sopot or Gdynia and PLN 200,000 for properties located elsewhere. For more information on the valuation process please see "*Risk Management – Mortgage lending value*".

### **The role of the Cover Pool Monitor**

The Polish Covered Bonds Act governs the appointment and the responsibilities of the Cover Pool Monitor and the Deputy Cover Pool Monitor.

The Cover Pool Monitor monitors whether:

- there is appropriate coverage for the outstanding covered bonds;
- the mortgage lending value of the property was established in accordance with rules of establishing the mortgage lending value of the property adopted by the mortgage bank;
- the mortgage bank maintains the required overcollateralisation level and liquidity buffer;
- the results of the liquidity test and the coverage test confirm that the claims of the holders of the covered bonds can be satisfied in full;
- the mortgage bank maintains the cover pool register in accordance with the applicable regulations; and
- the mortgage bank maintains the appropriate cover pool and makes the required entries in the cover pool register.

The Cover Pool Monitor must notify the KNF if it identifies any non-compliance by the mortgage bank with the applicable regulations or if the result of the coverage test or the liquidity test is negative. On a monthly basis, the Cover Pool Monitor must provide the KNF with a copy of the cover pool register for the preceding month countersigned by the Cover Pool Monitor.

There must be one Cover Pool Monitor and at least one Deputy Cover Pool Monitor at a mortgage bank. Additional Deputy Cover Pool Monitors may be appointed if it is required due to the scale of the mortgage bank's operations. The Cover Pool Monitors and the Deputy Cover Pool Monitors are individuals who are citizens of an EU member state, have a university degree and can guarantee the proper performance of their obligations.

The Cover Pool Monitor and the Deputy Cover Pool Monitors are appointed by the KNF, upon application from the mortgage bank's supervisory board, for a six-year term and may be appointed for one additional term.

The Cover Pool Monitor and Deputy Cover Pool Monitors are independent in performing their duties.

### Monitoring the cover pool

The mortgage bank conducts the collateralisation review (*rachunek zabezpieczeń*). The mortgage bank monitors daily the satisfaction of the overcollateralisation requirements and verifies whether the mortgage bank's interest income from assets in the cover pool is not lower than interest payable under the outstanding covered bonds. Additionally, each mortgage bank has to perform two periodic tests: the coverage test and the liquidity test.

The coverage test verifies whether the value of the assets in the cover pool allows for full satisfaction of all claims under the outstanding covered bonds. Under the decree of the Minister of Finance dated 30 December 2015, a mortgage bank should perform the coverage test using the following formula:

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$$\text{core assets} + \text{substitute assets} + \text{hedging instruments} + \text{liquidity buffer}$$

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$$\text{principal amount of outstanding covered bonds} + \text{costs of liquidating bankruptcy asset pool} + \text{due and unpaid interest}$$

The purpose of the liquidity test is to verify that the value of the assets in the cover pool is sufficient for full satisfaction of all claims under the outstanding covered bonds even if the maturity of the covered bonds is extended in bankruptcy proceedings. Under the decree of the Minister of Finance, a mortgage bank should perform the liquidity test for a six-month period and a 12-month period.

The liquidity test for the six-month period is conducted using the following formula:

$$\begin{aligned} & (\text{Substitute assets} + \text{liquidity buffer} + \text{net proceeds under hedging instruments for the next six months}) - \\ & (\text{Interest payable in the next six months} + \\ & \text{principal amount of covered bonds that fall due in the next six months} + \\ & \text{cost for the next six months of liquidating bankruptcy asset pool}) \end{aligned}$$

The liquidity test for the 12-month period is conducted using the following formula:

$$\begin{aligned} & (\text{Substitute assets} + \text{liquidity buffer} + \text{net proceeds under hedging instruments for the next 12 months} + \\ & \text{interest under receivables in the cover pool for the next 12 months} + \\ & \text{repayment of principal of receivables in the cover pool for the next 12 months}) - \\ & (\text{Interest payable in the next 12 months} + \\ & \text{principal amount of covered bonds that fall due in the next 12 months} + \\ & \text{obligations towards holders that became due but were not paid before the date of declaration of bankruptcy} + \\ & \text{costs for the next 12 months of liquidating bankruptcy asset pool}) \end{aligned}$$

The liquidity test should be performed by taking into account interest and principal amount payable in respect of covered bonds: (i) in the next six months; and (ii) in the next 12 months.

In conducting the tests, the mortgage bank should take into account foreign exchange and interest rate differences if such differences were not hedged with appropriate hedging transactions. The tests are conducted by reference to the market conditions as at the day of the test and by reference to adverse market conditions.

The liquidity test must be performed at least every three months and the coverage test must be performed every six months. The test results are positive if they demonstrate that as at the date of conducting the tests, the assets entered in the cover pool register were sufficient to satisfy the claims of holders of the covered bonds in full. The tests results are verified by the Cover Pool Monitor. If the result of any test is negative, the Cover Pool Monitor must notify the KNF.

## BANKRUPTCY AND INSOLVENCY

### Remedy Programme

If a mortgage bank demonstrates a loss or there is a risk that the mortgage bank may become insolvent or illiquid, the mortgage bank's management board must promptly notify the KNF and provide the KNF with a proposed remedy programme (*plan postępowania naprawczego*) and ensure its implementation.

If the remedy programme is not sufficient or is not performed properly, the KNF may:

- order the mortgage bank to stop granting loans to the bank's shareholders, the members of the bank's management board and supervisory board, and the bank's employees;
- request the mortgage bank's management board to convene a general meeting of the shareholders to ascertain the situation of the mortgage bank, adopt a decision on covering the balance sheet loss and take other decisions, including a decision on increasing the mortgage bank's share capital within six months from the date of the KNF's request; or
- request the mortgage bank to decrease certain variable elements of the remuneration of individuals holding managerial positions in the mortgage bank or to suspend payment of these variable elements for the period for which a person held his position, but no longer than three years.

The KNF may also appoint a trustee (*kurator*) to oversee the execution of the remedy programme. The trustee may participate in the meetings of the mortgage bank's governing bodies and has access to all information necessary to perform his duties. The trustee may also file with the relevant court an objection against the decisions of the mortgage bank's management board and supervisory board.

If the mortgage bank's management board does not provide the KNF with the remedy programme or the performance of the programme is insufficient to remedy the situation of the bank, the KNF may decide to appoint a receiver (*zarząd komisaryczny*). The receiver replaces the management board and the supervisory board and takes over the management of the mortgage bank. The receiver prepares a remedy programme and, after agreeing the programme with the KNF, executes it.

From 9 October 2016, the remedy programme will be replaced with a recovery plan (*plan naprawy*). If a mortgage bank is in breach of the capital adequacy requirements, there is a threat that a mortgage bank might breach the capital adequacy requirements, the financial position of the mortgage bank deteriorated materially, the mortgage bank demonstrates a loss, there is a threat that the mortgage bank may demonstrate a loss, there is a risk that the mortgage bank may become insolvent or illiquid, the leverage ratio is increasing, the value of non-performing loans or the concentration of exposure is increasing the mortgage bank should notify the KNF and BGF and implement a recovery plan.

The KNF may:

- request the mortgage bank to implement the recovery plan;
- order the mortgage bank to stop granting loans to the bank's shareholders, the members of the bank's management board and supervisory board, and the bank's employees;
- request the mortgage bank to decrease certain variable elements of the remuneration of individuals holding managerial positions in the mortgage bank or to suspend payment of these variable elements;
- request the mortgage bank's management board to convene a general meeting of the shareholders to ascertain the situation of the mortgage bank, adopt a decision on covering the balance sheet loss and take other decisions, including a decision on increasing the mortgage bank's own funds;
- request the mortgage bank to dismiss a person holding a managerial position at the mortgage bank;
- order the mortgage bank to prepare and implement a restructuring plan (*plan restrukturyzacji*);
- request the mortgage bank to amend its business strategy; or
- request the bank to amend its constitutional documents or the organisational structure.

The KNF may also appoint a trustee (*kurator*) to oversee the execution of the recovery plan. The trustee may participate in the meetings of the mortgage bank's governing bodies and has access to all information necessary to perform his duties. The trustee may also file with the relevant court an objection against the decisions of the mortgage bank's management board and supervisory board.

If the measures ordered by the KNF are insufficient or the implementation of the recovery plan is insufficient to remedy the situation of the bank, the KNF may decide to appoint a receiver (*zarząd komisaryczny*). The receiver replaces the management board and the supervisory board and takes over the management of the mortgage bank. The receiver prepares a recovery plan and, after agreeing the plan with the KNF, executes it.

### **Takeover and Liquidation**

If, after six months from convening an extraordinary general meeting of the shareholders referred to in "*Remedy programme*" above, the loss of the mortgage bank exceeds half of the mortgage bank's own funds, the KNF may:

- issue a decision on takeover of the bank by another bank; or
- revoke the bank's banking licence and order its liquidation.

The KNF may also issue a decision on takeover of the bank by another bank if there is a risk of insolvency of a bank or the bank's own funds are at levels lower than required to establish a bank. The KNF's right to issue a decision on takeover of the mortgage bank will expire on 9 October 2016.

#### *Takeover*

On the day indicated in the KNF's decision on takeover of the bank, the management board and receiver of the bank subject to takeover are dissolved and other corporate bodies are suspended. All commercial proxies and powers of attorney granted by the bank subject to takeover expire. The bank that takes over the mortgage bank acquires all of its assets and becomes a party to all legal relationships of the mortgage bank.

The assets of the mortgage bank are then used to satisfy the claims of the mortgage bank's creditors. The claims of the shareholders of the mortgage bank are satisfied pro rata to the mortgage bank's capital they held from the mortgage bank's assets that remained after the satisfaction of the mortgage bank's creditors. The shareholders of the mortgage bank may also receive shares in the share capital of the bank that took over the mortgage bank.

#### *Liquidation*

The liquidation of a bank is conducted by a liquidator (*likwidator*) appointed by the KNF. Upon the liquidator's appointment, the management board of the bank is dismissed and the supervisory board is suspended. The liquidator takes over the management of the bank and represents the bank in all matters. The purpose of the liquidation proceedings is to collect the bank's outstanding claims, liquidate its assets and terminate the bank's operations. The claims of the holders of the covered bonds and the counterparties to eligible hedging are satisfied from the assets in the cover pool ahead of claims of other creditors of the mortgage bank. The claims of the bank's shareholders are satisfied after the satisfaction of the claims of the other creditors of the bank. Once the liquidator completes the liquidation, the liquidator files a report with the KNF and applies to the court maintaining the register of entrepreneurs (*rejestr przedsiębiorców*) to delete the bank from the register of entrepreneurs. The bank ceases to exist on the day it is deleted from the register of entrepreneurs.

### **Bankruptcy**

#### *General*

If, according to the balance sheet prepared as at the last day of the relevant reporting period, the assets of the bank are not sufficient to satisfy the bank's obligations, the management board, the receiver or the liquidator must promptly notify the KNF. The KNF will take a decision on whether to suspend the bank's operations and appoint a receiver if a receiver was not previously appointed. The KNF will also decide on a takeover of the bank by another bank or file a bankruptcy petition with the relevant court. The KNF's right to issue a decision on takeover of the mortgage bank will expire on 9 October 2016. The KNF is the sole entity authorised to file a bankruptcy petition concerning a bank. A creditor of a bank, including a holder of debt securities issued by a bank, cannot file such petition and any petition for a bank's bankruptcy filed by an unauthorised entity will be dismissed by the court without reviewing the merits of the petition.

Before declaring a bank's bankruptcy, the bankruptcy court will question a representative of the KNF, the members of the bank's management board and receiver, and the liquidator regarding the grounds for declaring the bank bankrupt and the candidates for the bankruptcy receiver (*syndyk*).

On the day the bank is declared bankrupt, the management and supervisory bodies of the bank are dissolved. The receivership and the appointment of the liquidator expire. Additionally, the rights of the members of the bank's corporate bodies to receive severance payments and remuneration for the period after the declaration of bankruptcy expires.

Additionally, on the day the bank is declared bankrupt:

- bank account agreements are terminated and interest on deposits is calculated until the date of declaration of bankruptcy; and
- loan agreements are terminated if the funds were not disbursed prior to the date of declaration of bankruptcy.

*Position of holders of covered bonds*

On the declaration of a mortgage bank's bankruptcy, the following assets will constitute a separate bankruptcy asset pool:

- the assets in the cover pool, including the rights under the hedging arrangements which comply with the requirements described in "Overview of the Polish covered bonds legislation – Composition of the cover pool – Derivatives";
- the assets in the liquidity buffer;
- proceeds from payments under receivables in the cover pool; and
- assets acquired by the mortgage bank in exchange for assets in the cover pool.

If there is doubt whether a mortgage bank's asset should be included in the separate bankruptcy asset pool, for the purpose of the bankruptcy proceedings it is included in the bankruptcy estate up to its value indicated in the cover pool register.

If there is any surplus left in the separate bankruptcy asset pool after satisfying the claims of the holders of the covered bonds, it is added to the general bankruptcy estate of the mortgage bank.

In principle, the mortgage bank's creditors cannot set-off their claims against the mortgage bank with the mortgage bank's claims against these creditors included in the separate bankruptcy asset pool. The only exceptions are:

- set-off of claims under hedging transactions indicated in the cover pool register;
- settlement of claims between the mortgage bank and the payment and settlement system of which the mortgage bank is a member as well as settlement of financial collateral granted by the mortgage bank.

The rules concerning satisfaction of claims of the holders of covered bonds on a mortgage bank's bankruptcy also apply to satisfaction of claims of counterparties to hedging transactions entered into by the mortgage bank which are entered in the cover pool register.

The bankruptcy court will appoint, upon consultation with the KNF, a trustee (*kurator*) who will represent the holders of the covered bonds in the bankruptcy proceedings. The holders of the covered bonds may also participate in the bankruptcy proceedings after receiving consent from the judge-commissioner (*sędzia komisarz*) conducting the proceedings.

The bankruptcy court will also appoint a bankruptcy receiver. The bankruptcy receiver takes over the management of the mortgage bank's assets from the bank's management and should liquidate the bankrupt bank's assets. From his appointment, the bankruptcy receiver acts in his own name, but on behalf of the bankrupt bank.

Within 21 days from the day of declaration of the mortgage bank's bankruptcy, the trustee will report to the bankruptcy estate:

- the aggregate principal amount of the outstanding covered bonds which became due before the date of declaration of bankruptcy;
- the aggregate amount of all interest outstanding under the covered bonds; and
- the aggregate principal amount all outstanding covered bonds due after the date of declaration of bankruptcy, interest due after the date of declaration of bankruptcy and any applicable premiums.

On the date of declaration of bankruptcy, the maturity of all outstanding covered bonds is extended by 12 months. The obligations towards holders of the covered bonds which became due before the declaration of bankruptcy and which were not paid are satisfied within 12 months from the date of the declaration of bankruptcy, but no earlier than the day falling after the results of the coverage test and the liquidity test are announced. Due interest under the covered bonds is paid in the manner set out in the terms and conditions of the covered bonds.

Within three months from the date the bank was declared bankrupt, the bankruptcy receiver is required to conduct the coverage test and the liquidity test (for a detailed description of the tests, please see "*Overview of the Polish Covered Bonds Legislation – Monitoring the cover pool*"). The results of the tests are positive if the separate bankruptcy asset pool is sufficient to satisfy the claims of the holders of all outstanding covered bonds. The test results are published by the judge-commissioner.



If the results of both tests are positive, the claims under the covered bonds are satisfied in accordance with the terms and conditions of the covered bonds, taking into account the extension of maturity of the covered bonds by 12 months. In this scenario the receiver may enter into hedging transactions.

Within two months from the date the test results are announced, a meeting of holders of the covered bonds may request the receiver, by way of resolution adopted with a majority of two-thirds of votes of holders of the outstanding covered bonds, to sell all receivables and rights in the separate bankruptcy asset pool:

- to another mortgage bank together with transferring to the purchaser all obligations of the bankrupt bank under the covered bonds; or
- to another bank or another mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under the covered bonds.

A meeting of the holders of the covered bonds may be convened if a request for convening the meeting is made within a month from the date the test results are announced. If this resolution is adopted, interest under the covered bonds until the date of sale of the assets is paid from the assets in the separate bankruptcy asset pool.

If the proceeds from the sale of assets in the separate bankruptcy asset pool reduced by the interest under the outstanding covered bonds payable in the next six months and the amount of claims of holders of the covered bonds which became due before the date of declaration of bankruptcy and which were not paid before that date, are at least five per cent. of the principal amount of the outstanding covered bonds, the claims of the holders of the covered bonds may be satisfied pro rata before the extended maturity date. These proceeds will be paid to the holders of the covered bonds on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

If the results of the coverage test are positive and the results of the liquidity test are negative, the maturity date of the covered bonds, including the covered bonds which became due before the date of declaration of bankruptcy, is extended to the date falling three years after the latest maturity date of a mortgage bank's receivables in the cover pool. If there is an excess in proceeds under the loans received by the bank, after deducting interest payable in the next six months and the costs of bankruptcy proceedings of at least five per cent. of the principal amount of the outstanding covered bonds, the holders of the covered bonds shall receive payments under the covered bonds before the extended maturity date. These payments will be made pro rata on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

A meeting of the holders of the covered bonds may, within three months from the date of announcing the results of the tests, adopt a resolution on disapplying the extension of the maturity date or on the sale of the assets in the cover pool. The assets in the cover pool may be sold to another bank which is not a mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under the covered bonds. The assets in the cover pool, possession of which is not restricted to banks, may also be sold to an entity which is not a bank.

If the results of the coverage test are negative, the maturity date of the covered bonds, including the covered bonds which became due before the date of declaration of bankruptcy, is extended to the date falling three years after the latest maturity date of a mortgage bank's receivable in the cover pool. If there is an excess in proceeds under the loans received by the bank, after deducting interest payable in the next six months and the costs of bankruptcy proceedings, of at least five per cent. of the principal amount of the outstanding covered bonds, the holders of the covered bonds shall receive payments under the covered bonds before the extended maturity date. These payments will be made on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

A meeting of the holders of the covered bonds may however, adopt a resolution on disapplication of the extension of the maturity date or on sale of the assets in the cover pool. The assets in the cover pool may be sold to another bank which is not a mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under the covered bonds. The assets in the cover pool, possession of which is not restricted to banks, may also be sold to an entity which is not a bank.

The order of priority of satisfaction of claims from the separate bankruptcy asset pool is as follows:

- costs of liquidating the separate bankruptcy asset pool which include the trustee's fee, interest and other ancillary payments under the covered bonds; and
- the outstanding principal amount of the covered bonds.

If the separate bankruptcy asset pool is not sufficient to satisfy the claims of the holders of the covered bonds, these claims will be satisfied from the general bankruptcy estate. The funds from the general bankruptcy estate designated for satisfying the claims of the holders of the covered bonds will be transferred to the separate bankruptcy asset pool.

## Implementation of BRRD

The Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 in Poland establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") was implemented in Poland by the Act on the Banking Guarantee Fund, Deposits Guarantee Scheme and Compulsory Restructuring dated 10 June 2016 (the "**Resolution Act**"). The Resolution Act comes into force on 9 October 2016.

Under the Resolution Act, the BGF will become the resolution authority and will be granted broad powers with respect to the Polish banks and other financial institutions (a "**Resolution Entity**"). The BGF can either initiate resolution proceedings concerning a Resolution Entity or decide to apply the bail-in tools concerning its capital instruments if (1) the threat of that entity's insolvency cannot be ruled out by steps taken by it or its supervisory authorities, or (2) initiating such BGF's actions are in the public interest.

BGF can apply the following resolution tools with respect to the Resolution Entity:

- sale of business;
- bridge institution;
- asset separation; and
- bail-in.

The above tools may be applied separately or in any combination save that asset separation can only be applied in conjunction with another resolution tool.

In addition to the resolution tools, the Resolution Act grants certain resolution powers to BGF, including:

- the right to suspend the termination rights of a party to an agreement with the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs;
- the right to suspend the termination rights of a party to an agreement with a subsidiary of the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs, provided that certain conditions are met;
- the right to suspend the performance of any due obligations of the Resolution Entity under an agreement until midnight on the business day following the date on which the publication notice of that suspension occurs; and
- the right to suspend the rights of a secured creditor to enforce security interests concerning any assets of the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs.

The above suspension rules will not apply to certain types of claims specified in detail in the Resolution Act.

If the BGF decides that a mortgage bank's liabilities under the covered bonds should be transferred to another entity, this transfer should not limit the rights of the holders of the covered bonds or affect the collateralisation of the covered bonds. Additionally, the covered bonds and hedging instruments entered in the cover pool register which value does not exceed the value of the cover pool, cannot be subject to conversion or write-down.

A party to an agreement with the Resolution Entity cannot terminate that agreement due to BGF's declaration of the initiation of the Resolution Proceedings or due to BGF's performance of its rights within the resolution proceedings, assuming that all the principal obligations under that agreement to make payments or deliveries or provide collaterals continue to be performed.

Under the Resolution Act, the BGF will also be authorised to file a motion to declare a mortgage bank bankrupt.

## TAXATION

### Poland

#### *General Information*

The following is a discussion of certain Polish tax considerations relevant to an investor resident in Poland or which is otherwise subject to Polish taxation. This statement should not be deemed to be tax advice. It is based on Polish tax laws and, as its interpretation refers to the position as at the date of this Base Prospectus, it may thus be subject to change including a change with retroactive effect. Any change may negatively affect the tax treatment, as described below. This description does not purport to be complete with respect to all tax information that may be relevant to investors due to their personal circumstances. Prospective purchasers of the Covered Bonds are advised to consult their professional tax adviser regarding the tax consequences of the purchase, ownership, disposal, redemption or transfer without consideration of any Covered Bonds. The information provided below does not cover tax consequences concerning income tax exemptions applicable to specific taxable items or specific taxpayers (e.g. domestic or foreign investment funds).

The reference to "interest" as well as to any other terms in the paragraphs below means "interest" or any other term as understood in Polish tax law.

#### *Polish tax resident individuals (natural persons)*

Under Article 3.1 of the Personal Income Tax Act dated 26 July 1991 (the "**PIT Act**"), natural persons, if resident in the territory of Poland, are liable for tax on their total income (revenue) irrespective of the location of the sources of revenue (unlimited obligation to pay tax). Under Article 3.1a of the PIT Act, a resident of Poland is a natural person who: i) has the centre of personal or economic interest (centre of interest) in territory of Poland or ii) stays in the territory of Poland for over 183 days in a given tax year. This rule, however, may be overridden by the provisions of the applicable tax treaty.

#### *Interest income*

Under Article 30a.7 of the PIT Act, interest income does not cumulate with general income subject to the progressive tax rate, but under Article 30a.1.2 of the PIT Act it is subject to a 19 per cent. flat rate tax.

Under Article 41.4 of the PIT Act, the interest payer, other than an individual not acting within the scope of his/her business activity, should withhold the 19 per cent. Polish tax upon any interest payment. Under Article 41.4d of the PIT Act, the entities operating securities accounts for the individuals, acting as tax remitters, should withhold this interest income if such interest income (revenue) has been earned in the territory of Poland and is connected with securities registered in the said accounts, and the interest payment to the individual (the taxpayer) is made through said entities. There are no regulations on where interest income is earned. In practice, unless specific circumstances indicate otherwise, it should be considered that interest income is earned at the jurisdiction of the debtor (with respect to the Covered Bonds – in Poland). Although this is not expressly regulated in the tax law, in practice, foreign interest payers and foreign entities operating securities accounts do not act as tax remitters of Polish withholding tax.

Separate, specific rules apply to interest income on securities held on omnibus accounts (within the meaning of the provisions of the Act on Trading in Financial Instruments dated 29 July 2005, the "**Omnibus Accounts**"). Under Article 41.10 of the PIT Act, insofar as securities registered in omnibus accounts are concerned, the entities operating Omnibus Accounts through which the amounts due are paid are liable to withhold the flat-rate income tax on interest income. The tax is charged on the day of placing the amounts due at the disposal of the Omnibus Account holder.

Pursuant to Article 30a.2a of the PIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter (under Article 41.10 of the PIT Act the entity operating the Omnibus Account) from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder.

Under Article 45.3b of the PIT Act, if the tax is not withheld, the individual is obliged to settle the tax himself/herself by 30 April of the following year.

#### *Other income*

Income other than interest derived by a Polish tax resident individual from financial instruments held as non-business assets, qualifies as capital income according to Article 17 of the PIT Act. This income does not cumulate with the general income subject to the progressive tax scale but is subject to a 19 per cent. flat rate tax. The costs of acquiring the Covered Bonds are recognised at the time the corresponding revenue is achieved. In principle, this income should be settled by the

taxpayer by 30 April of the year following the year in which the income was earned. No tax or tax advances are withheld by the person making the payments.

#### *Covered Bonds held as business assets*

If an individual holds the securities as business assets, in principle, interest and capital gains income should be subject to tax in the same way as other business income. The tax, at 19 per cent. flat rate or the 18 per cent. to 32 per cent. progressive tax rate depending on the choice and meeting of certain conditions by the individual, should be settled by the individual himself/herself.

#### ***Polish tax resident corporate income taxpayers***

Under Article 3.1 of the Corporate Income Tax Act dated 15 February 1992 (the "**CIT Act**"), the entire income of taxpayers who have their registered office or management in the territory of Poland is subject to tax obligation in Poland, irrespective of where the income is earned.

A Polish tax resident corporate income taxpayer is subject to income tax in respect of the Covered Bonds (including any capital gains and on interest/discount), following the same principles as those which apply to any other income received from business activity. As a rule, for Polish income tax purposes interest is recognised as revenue on a cash basis, i.e. when it is received and not when it has accrued. In respect of capital gains, the cost of acquiring the securities will be recognised at the time the revenue from the disposal of securities for remuneration is achieved. The taxpayer itself (without the involvement of the tax remitter) settles tax on interest (discount) or capital gains on securities, which is aggregated with other income derived from business operations conducted by the taxpayer.

The appropriate tax rate will be the same as the tax rate applicable to business activity, i.e. 19 per cent. for a corporate income taxpayer.

Although no Polish withholding tax should apply on interest payable to Polish corporate income taxpayers, under specific rules applying to interest income on securities held on Omnibus Accounts, under Article 26.2a of the CIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. If such tax is withheld with respect to Polish tax resident corporate income taxpayer, with respect to refund of such tax, the entity should contact its tax adviser.

#### ***Non-Polish tax residents: natural person or corporate income taxpayers***

Under Article 3.2a of the PIT Act, natural persons, if they do not reside in the territory of Poland, are liable to pay tax only on income (revenue) earned in the territory of Poland (limited obligation to pay tax).

Under Article 3.2 of the CIT Act, in the case of taxpayers who do not have their registered office or management in the territory of Poland, only that income is subject to tax obligation in Poland, which is earned by them in Poland.

#### ***Interest income***

Under Article 21.1.130a) of the PIT Act, interest or discount on Covered Bonds earned by natural persons referred to in Article 3.2a of the PIT Act (i.e. non-residents in Poland) is exempt from Polish income tax.

Under Article 17.1.50a) of the CIT Act, interest or discount on Covered Bonds earned by the taxpayers referred to in Article 3.2 of the CIT Act (i.e. non-residents in Poland) is exempt from Polish income tax.

Although no Polish withholding tax should apply on interest payable to non-Polish tax residents (natural persons or corporate income taxpayers), under specific rules applying to interest income on securities held on Omnibus Accounts there is a risk that such tax would be withheld. Under Article 26.2a of the CIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. Under Article 30a.2a of the PIT Act, with respect to income (revenue) from interest transferred to taxpayers holding rights attached to securities registered in Omnibus Accounts whose identity has not been revealed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat-rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the Omnibus Account holder. If such tax is withheld with respect to non-Polish tax resident taxpayer, with respect to refund of such tax, the entity should contact its tax adviser.

### ***Other income***

Non-Polish tax resident individuals and corporate income taxpayers are subject to Polish income tax only with respect to their income earned in Poland. There are no explicit regulations on where income from Covered Bonds is earned. With respect to capital gains income, there are arguments to consider that such income is earned in Poland (therefore taxed in the same way as indicated above for the Polish tax residents) unless Covered Bonds are sold on a foreign (non-Polish) stock exchange. However, most of the tax treaties concluded by Poland provide for a tax exemption with respect to Polish income tax on capital gains derived from Poland by a foreign tax resident. In order to benefit from a tax treaty, a foreign investor should be able to produce a relevant certificate of its tax residency (to prove that it can benefit from the relevant tax treaty).

If a foreign recipient of income acts through a permanent establishment in Poland to which income is related, as a matter of principle it should be treated in the same manner as a Polish tax resident.

### ***Tax on civil law transactions***

Under Article 1.1.1.a of the Tax on Civil Law Transactions Act dated 9 September 2000 (the "**PCC Act**"), agreements for sale or exchange of assets or proprietary rights are subject to tax on civil law transactions. Such transactions are taxable if their subjects are:

- assets located in Poland or proprietary rights exercisable in Poland;
- assets located abroad or proprietary rights exercisable abroad if the acquirer's place of residence or registered office is located in Poland and the civil law transaction was carried out in Poland.

Although this is not regulated by the law, in practice Covered Bonds being issued by a Polish entity, should be considered as rights exercisable in Poland.

Neither an issuance of Covered Bonds nor a redemption of Covered Bonds is subject to tax on civil law transactions.

Tax on the sale of Covered Bonds is 1% of their market value. It is payable within 14 days after the sale or exchange agreement has been entered into. However, if such agreement has been entered into in notarial form, the tax due should be withheld and paid by the notary public. Tax on sale of Covered Bonds is payable by the entity acquiring the Covered Bonds. In the case of exchange agreements, both parties jointly and severally are liable to settle the tax.

Under Article 2.4 of the PCC Act, as a rule, PCC does not apply to civil law activities: (i) to the extent such activity is charged with VAT (in any EU country), or (ii) if at least one of the parties to the transaction is exempt from VAT (in any EU country).

Under Article 9.9 of the PCC Act, PCC exemption applies to sale of property rights constituting financial instruments (such as Covered Bonds): a) to investment companies and foreign investment companies; b) via investment companies or foreign investment companies; c) as part of organised trading; and d) outside organised trading by investment companies and foreign investment companies, if those rights were acquired by those companies under organised trading (within the meaning of the provisions of the Act on Trading in Financial Instruments).

### ***Remitter's liability***

Under Article 30 of the Tax Code dated 29 August 1997, a tax remitter failing to fulfil its duty to calculate, withhold or pay tax to a relevant tax authority is liable for the tax that has not been withheld or that has been withheld but not paid, up to the value of all its assets. The tax remitter is not liable if the specific provisions provide otherwise or if tax has not been withheld due to the taxpayer's fault. In such a case, the relevant tax authority will issue a decision concerning the taxpayer's liability.

### ***Luxembourg***

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Covered Bonds should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

## ***Withholding Tax***

### *Non-resident holders of Covered Bonds*

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident holders of Covered Bonds.

### *Resident holders of Covered Bonds*

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Covered Bonds, nor on accrued but unpaid interest in respect of Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident holders of Covered Bonds.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of currently 10%. Such 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. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of currently 10%.

## SUBSCRIPTION AND SALE

Subject to the provisions of the programme agreement dated 28 September 2016 (the "**Programme Agreement**") between the Bank and Société Générale, Deutsche Bank Aktiengesellschaft, J.P. Morgan Securities plc, PKO BP and Landesbank Baden-Württemberg (together with any further financial institution appointed as a dealer under the Programme Agreement, the "**Dealers**"), the Covered Bonds may be sold by the Bank to the Dealers, who shall act as principals in relation to such sales. However, the Bank has reserved the right to issue Covered Bonds directly on its own behalf to subscribers who are not Dealers and which agree to be bound by the restrictions set out below. The Programme Agreement also provides for Covered Bonds to be issued in Tranches which are jointly and severally underwritten by two or more Dealers or such subscribers.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Covered Bonds. The Dealer Agreement may be terminated in relation to all the Dealers or any of them by the Bank or, in relation to itself and the Bank only, by any Dealer, at any time on giving not less than ten business days' notice.

### United States of America

The Covered Bonds have not been and will not be registered under the U.S. Securities Act of 1933 as amended (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 accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has offered and sold the Covered Bonds of any identifiable Tranche, and will offer and sell the Covered Bonds of any identifiable Tranche (i) as part of their distribution at any time and (ii) otherwise until 40 days after completion of the distribution of such tranche as determined, and such completion is notified to each relevant Dealer, by the Issuing and Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager, only in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, each Dealer has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Covered Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer has agreed to notify the Issuing and Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager when it has completed the distribution of its portion of the Covered Bonds of any identifiable Tranche so that the Issuing and Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager may determine the completion of the distribution of all Covered Bonds of that Tranche and notify the other relevant Dealers (if any) of the end of the restricted period. Each Dealer agrees that, at or prior to confirmation of sale of Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Covered Bonds from it during the restricted period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of this tranche of Securities as determined, and notified to [Relevant Dealer], by the [Issuing and Principal Paying Agent/Lead Manager], except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used above have the meanings given to them by Regulation S.

Each Dealer has represented and agreed that it has not entered and will not enter into any contractual arrangement with respect to the distribution or delivery of Covered Bonds within the United States of America, except with its affiliates or with the prior written consent of the Bank.

Covered Bonds in bearer form 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 U.S. Internal Revenue Code and regulations thereunder.

Covered Bonds, other than Covered Bonds with an initial maturity of one year or less, will be issued in accordance with the provisions of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D) or substantially identical provisions (the "**D Rules**"), or in accordance with the provisions of U.S. Treasury Regulation Section 1.163-5 (c)(2)(i)(C) or substantially identical provisions (the "**C Rules**"), as specified in the Final Terms.

In addition, in respect of Covered Bonds issued in accordance with the D Rules, each Dealer has represented and agreed that:

- (a) to the extent permitted under U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D) or substantially identical provisions, (i) it has not offered or sold, and during the restricted period will not offer or sell, Covered Bonds in bearer form to a person who is within the United States or its possessions or to a United States person, and (ii)

such Dealer has not delivered and will not deliver within the United States or its possessions definitive Covered Bonds in bearer form that are sold during the restricted period;

- (b) it has and throughout the restricted period will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Covered Bonds in bearer form are aware that such Covered Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (c) if such Dealer is a United States person, it has represented that it is acquiring the Covered Bonds in bearer form for purposes of resale in connection with their original issuance and if such Dealer retains Covered Bonds in bearer form for its own account, it will do so only in accordance with the requirements of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D)(6) or substantially identical provisions; and
- (d) with respect to each affiliate that acquires Covered Bonds in bearer form from such Dealer for the purpose of offering or selling such Covered Bonds during the restricted period, such Dealer either (i) has repeated and confirmed the representations and agreements contained in sub-clauses (a), (b) and (c) on such affiliate's behalf or (ii) has agreed that it will obtain from such affiliate for the benefit of the Bank the representations and agreements contained in sub-clauses (a), (b) and (c).

Terms used in the above paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules.

In addition, where the C Rules are specified in the relevant Final Terms as being applicable to any Tranche of Covered Bonds, Covered Bonds in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver, directly or indirectly, Covered Bonds in bearer form within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of Covered Bonds in bearer form, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either such Dealer or purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of Covered Bonds in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Each issuance of index- or currency-linked Covered Bonds shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Bank as a term of the issuance and purchase or, as the case may be, subscription of such Covered Bonds. Each Dealer agrees that it shall offer, sell and deliver such Covered Bonds only in compliance with such additional U.S. selling restrictions.

The Bank may agree with one or more Dealers for such Dealers to arrange for the sale of Covered Bonds under procedures and restrictions designed to allow such sales to be exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession or distributes the Base Prospectus or any other offering material.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent 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 Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto 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 Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 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 Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Bank 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 Covered Bonds to the public**" in relation to any Covered Bonds 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 Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have 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 Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as 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 where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Bank;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an 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 Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

### **Poland**

The Base Prospectus has not been and will not be approved by the KNF and it does not constitute an offering of the Covered Bonds to the public in Poland. Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that the Covered Bonds may not be publicly offered in Poland, as defined in the Polish Act on Public Offerings, the Conditions Governing the Introduction of Financial Instruments to Organized Trading System and Public Companies dated 29 July 2005 (as amended) as communication made in any form and by any means, directed at 150 or more people or at any unnamed addressee containing information on the securities and the terms of their acquisition sufficient to enable an investor to decide on the their acquisition. The notification of the Base Prospectus has been made to the KNF solely for the admission of the Covered Bonds to trading on a regulated market in Poland.

### **General**

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required. Each Dealer has represented and agreed that it will comply with all relevant laws and directives in each jurisdiction in which it purchases, offers, sells, or delivers Covered Bonds or has in its possession or distributes the Base Prospectus or any other offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Covered Bonds under the laws and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, in all cases at its own expense, and neither the Bank nor any other Dealer shall have responsibility therefor.

These selling restrictions may be modified by the agreement of the Bank and the Dealers, inter alia, following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates or in a supplement to this Base Prospectus.

## GENERAL INFORMATION

### Authorisation

No governmental consents, approvals or authorisations in Poland in connection with the issue of the Covered Bonds and the performance by the Bank of its obligations under the Covered Bonds will be required to be complied with.

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by the resolution of the Management Board of the Bank No. 95/2016 dated 4 August 2016. The issuance of each Series of the Covered Bonds will be authorised by a separate resolution of the Management Board of the Bank.

### Listing and admission to trading of Covered Bonds

Application may be made to list Covered Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and/or the Warsaw Stock Exchange and to admit to trading the Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*) and/or on the Regulated Market of the Warsaw Stock Exchange (*Gielda Papierów Wartościowych w Warszawie S.A.*). Each of the Luxembourg Stock Exchange's Regulated Market and the Warsaw Stock Exchange's Regulated Market is a regulated market for the purposes of the Market and Financial Instruments Directive 2004/39/EC. The Programme provides that Covered Bonds may be listed on further stock exchanges, as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series, as specified in the relevant Final Terms. Covered Bonds may further be issued under the Programme without being listed on any stock exchange.

Covered Bonds which are unlisted or to be listed or admitted to trading, as the case may be, on another stock exchange or market may be issued under this Programme but only, in the case of Covered Bonds listed or admitted to trading on another stock exchange or market, if the Bank ensures that all laws and regulations are complied with including, among others, any applicable requirements for notifications of competent authorities and other requirements as implemented from the Prospectus Directive in the relevant Members State of the EEA.

The applicable Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

### Documents Available

For a period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available (in the case of (d) below, for inspection only) from the registered office of the Bank and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with English translations thereof) of the Bank;
- (b) the audited financial statements of the Bank in respect of the financial period from 6 October 2014 until 31 December 2015 (with English translations thereof), together with the audit reports prepared in connection therewith;
- (c) the reviewed interim financial statements as at and for the six months ended 30 June 2016 and six months ended 30 June 2015 (with English translation thereof), together with the review report prepared in connection therewith;
- (d) the Programme Agreement and the Agency Agreement;
- (e) a copy of this Base Prospectus;
- (f) any future base prospectuses, offering circulars, prospectuses, information memoranda, supplements and Final Terms (save that the Final Terms relating to a Covered Bond which is neither admitted for trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a Holder of such Covered Bond and such Holder must produce evidence satisfactory to the Bank and the Paying Agent as to its holding of Covered Bonds and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and
- (g) in the case of each issue of Covered Bonds listed on an EEA Stock Exchange and subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

For the avoidance of doubt the content on the websites available via hyperlinks included in this Base Prospectus does not form a part of this Base Prospectus with the exception of hyperlinks to the electronic addresses where information incorporated by reference is available.

## **Clearing Systems**

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code, the International Securities Identification Number (ISIN) and the alphabetical code of each Series of Covered Bonds will be set out in the relevant Final Terms.

If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

## **Conditions for determining price**

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Bank and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

## **Significant or Material Change**

There has been no significant change in the financial position of the Bank since 30 June 2016 and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2015.

## **Litigation**

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Covered Bonds (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this Base Prospectus which may have or have in such period had a significant effect on the financial position or profitability of the Bank.

## **Auditors**

The Bank's accounts for the financial year ended on 31 December 2015 have been audited by Justyna Zań, certified auditor, member of the National Chamber of Certified Auditors (*Krajowa Izba Biegłych Rewidentów*), licence no. 12750, acting on behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., an entity authorised to audit financial statements entered on the list kept by the National Chamber of Certified Auditors under no. 3546, in accordance with International Financial Reporting Standards and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. rendered an unqualified audit report on such accounts of the Bank.

The Bank's accounts for the six months ended 30 June 2016 and six months ended 30 June 2015 have been reviewed by Justyna Zań, certified auditor, member of the National Chamber of Certified Auditors, licence no. 12750, acting on behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., an entity authorised to audit financial statements entered on the list kept by the National Chamber of Certified Auditors under no. 3546, in accordance with International Financial Reporting Standards.

## **Yield**

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds and will not be an indication of future yield.

## **Co-Arrangers and/or Dealers transacting with the Bank**

Certain of the Co-Arrangers, the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Bank and its affiliates in the ordinary course of business. Except as discussed in the relevant Final Terms, certain Co-Arrangers, Dealers and their affiliates may be customers of, and borrowers from the Bank and its affiliates. In addition, certain Co-Arrangers, Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Co-Arrangers, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Co-Arrangers, the Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Co-Arrangers, Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Co-Arrangers, the Dealers and their affiliates may also make investment recommendations and/or

publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**Post-issuance information**

In connection with the issuance of mortgage covered bonds by the Bank and in accordance with Article 129 section 7 of the CRR, the Bank publishes regular disclosure reports (*raporty ujawnień*) detailing the Bank's issuances of the mortgage covered bonds and cover pool register. The abovementioned disclosure reports (*raporty ujawnień*) are published on the Bank's website <http://www.pkobh.pl/relacje-inwestorskie/raporty/raporty-ujawnien/>.

## **BANK**

**PKO Bank Hipoteczny Spółka Akcyjna**  
ul. Jerzego Waszyngtona 17  
81-342 Gdynia  
Poland

## **DEALERS**

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