



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 Article 31 of the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "**Prospectus Regulation**"). The CSSF only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the Bank or of the quality of the Covered Bonds that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Covered Bonds. Article 6(4) of the Luxembourg Prospectus Law (*loi du 16 juillet 2019 relative aux prospectus pour valeurs mobilières*) provides that, by approving this Base Prospectus, in accordance with Article 20 of the Prospectus Regulation, the CSSF does not engage in any economic or financial opportunity of the operations or activities or the quality and solvency of the Bank. 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 regulated market of the Luxembourg Stock Exchange and the regulated market of the Warsaw Stock Exchange are regulated markets for the purposes of the Directive 2014/65/EU of the European Parliament and of the Council of May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/U (as amended, "**MIFID II**").

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) in the European Economic Area (the "**EEA**") 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 the Warsaw Stock Exchange, the Bank applied for a notification of this Base Prospectus pursuant to Article 25 of the Prospectus Regulation 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.

This Base Prospectus is valid for 12 months from its date. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid.

Moody's Deutschland GmbH ("**Moody's**") is established in the European Union and is registered under the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (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 (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) 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.

Interest amounts payable under the Floating Rate Covered Bonds may be calculated by reference to EURIBOR, LIBOR, WIBOR, SONIA or SOFR as specified in the relevant Final Terms. As at the date of this Base Prospectus, SONIA and SOFR do not fall within the scope of Regulation (EU) 2016/1011 (the "**Benchmark Regulation**"). As of the date of the Base Prospectus the administrators of LIBOR and EURIBOR are included in the ESMA's register of administrators under Article 36 of the Benchmark Regulation. As of the date of this Base Prospectus, GPW Benchmark S.A. is included in the ESMA's register of administrators under Article 36 of the Benchmark Regulation but it has not yet obtained the status of administrator of WIBOR; however, GPW Benchmark S.A. may operate as an administrator of selected capital market reference indices, including the benchmarks previously developed by the Warsaw Stock Exchange (*Gielda Papierów Wartościowych w Warszawie S.A.*). Moreover, on 6 December 2019, GPW Benchmark S.A. ("**GPW Benchmark**") submitted an application to the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*; the "**KNF**") to authorise the performance of the function of administrator of, inter alia, WIBOR and is awaiting the above-mentioned permit. In accordance with the transitional provisions of the Benchmark Regulation, the Bank, as of the date of this Prospectus, may use the benchmarks developed by GPW Benchmark. The regulatory status of any administrator under the Benchmark Regulations is a matter of public record and save as required by the applicable law, the Bank does not intend to provide any updates or prepare any supplement to reflect any changes in the regulatory status of any administrator.

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.

Arranger and Dealer

PKO Bank Polski

This Base Prospectus and any supplement hereto will be published in electronic form on the website of the Luxembourg Stock Exchange under www.bourse.lu, and 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.

The date of this Base Prospectus is 21 August 2020 and it remains valid for 12 months from its date, i.e., until 21 August 2021.

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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 8 of the Prospectus Regulation.

This Base Prospectus should be read and understood in conjunction with any supplement thereto and with all the documents incorporated herein by reference (see "*Document Incorporated by Reference*" below). 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 is solely responsible for the information in this Base Prospectus and the Final Terms for the Covered Bonds issued under Programme from time to time. The Bank hereby declares that, to the best of its knowledge, the information contained in this Base Prospectus for which it is responsible, is in accordance with the facts and contains no omission likely to affect its import.

This Base Prospectus contains selected macroeconomic, industry and statistical data as well as data relating to the PKO BP group (the "**Group**") which has been derived from publicly available sources, including official industry sources and other third-party sources, such as financial statements of the Group which do not form part of this Base Prospectus. Such information, data and statistics have been accurately reproduced and, as far as the issuer is aware and is able to ascertain from information published by the third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information, data and statistics may be based on a number of assumptions and estimates and may be subject to rounding.

This Base Prospectus shall replace the base prospectus dated 28 August 2019 prepared by the Bank with respect to the Programme.

The requirement to publish a prospectus under Prospectus Regulation only applies to the Covered Bonds, which are to be admitted to trading on a regulated market in the EEA.

Neither Powszechna Kasa Oszczędności Bank Polski S.A. ("**PKO BP**", the "**Arranger**" and together with any further financial institution appointed as a dealer under the Programme Agreement, the "**Dealers**"), 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 representation, warranty, or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or 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 Arranger 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 Arranger 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 Arranger 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 Arranger 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.

Restrictions on Distribution

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 Arranger 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 Arranger 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, Italy and Belgium (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 (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Regulation 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 Arranger or any other Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation, in each case, in relation to such offer. Neither the Bank nor the Arranger 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 Arranger or any other Dealer to publish or supplement this Base Prospectus for such offer.

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.

General investment considerations

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 the 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.

All references in this Base Prospectus to "U.S. dollars" or "USD" 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 30 June 2020, the euro/PLN spot exchange rate published by the National Bank of Poland was EUR 1.00 = PLN 4.4660.

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) mean mortgage covered bonds in bearer form.

Stabilisation

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Final Terms may over-allot 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, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds.

Any such stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) 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).

Important – EEA Retail Investors

If the Final Terms in respect of any Covered Bonds includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("EEA"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97/EU (as amended or superseded, the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market

The Final Terms in respect of any Covered Bonds may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Covered Bonds and which channels for distribution of the Covered Bonds are appropriate, and may outline further details in connections therewith. Any person subsequently offering, selling or recommending the Covered Bonds (a "distributor") should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the "MiFID Product Governance Rules"), any Dealer subscribing for any Covered Bonds is a manufacturer in respect of such Covered Bonds, but otherwise neither the Arranger nor the Dealer nor any of its respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

Forward-Looking Statements

This Base Prospectus includes "forward-looking statements". All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the Bank's financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Bank, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in

which the Bank will operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to, those discussed in the section entitled "Risk Factors". These forward-looking statements speak only as at the date of this Base Prospectus or as at such earlier date at which such statements are expressed to be given. Subject to any continuing disclosure obligation under applicable law (including, without limitation, the obligation to prepare a supplement to this Base Prospectus pursuant to Article 23 of the Prospectus Regulation), the Bank expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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.
Issuer Legal Entity Identifier (LEI):	259400ALN6AM4REPEA 16
Description:	Programme for the issuance of Covered Bonds (<i>hipoteczne listy zastawne</i>).
Arranger:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.
Dealers:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna 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. Covered Bonds having a maturity of less than one year 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> ". Money market instruments having a maturity at issue of less than 12 months will not be issued under this Base Prospectus.
Principal Paying Agent:	Société Générale Luxembourg.
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"> (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 (ii) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (iii) on such other basis as may be agreed between the Bank and the relevant Dealer. <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 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 Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (<i>likwidacja</i>), merger (<i>połączenie</i>), division (<i>podział</i>) and transformation (<i>przekształcenie formy prawnej</i>) in this paragraph shall have the meaning as prescribed under Polish law.</p>

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 holders of the 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 holders of the outstanding covered bonds issued by the Bank in full taking into account the Extended Maturity Dates of the 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*".

Compulsory write-down or conversion (bail-in):	Pursuant to the provisions of the Polish Act on Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring dated 10 June 2016 (as further amended) (<i>ustawa z dnia 10 czerwca 2016 r. o Bankowym Funduszu Gwarancyjnym, systemie gwarantowania depozytów oraz przymusowej restrukturyzacji (z późniejszymi zmianami)</i>) (the " Resolution Act "), secured liabilities comprising a separate and secured cover pool, such as the obligations of the Bank under the Covered Bonds, shall not be subject to compulsory write-down or conversion into equity up to the amount which is fully covered. It means, however, that such compulsory write-down or conversion to equity may apply to such obligations of the Bank under the Covered Bonds, but only to the extent the value of the Cover Pool is not sufficient to satisfy all claims under such 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 EUR100,000 (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 <i>pari passu</i> among themselves. The Covered Bonds are covered in accordance with the Polish Covered Bonds Act and rank <i>pari passu</i> 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> " below.
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 2014/65/EU. 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 that are neither listed nor admitted to trading on any market may also be issued under the Programme.

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, Clearstream, Luxembourg and any other clearing system as may be specified in the relevant Final Terms. The Common Code and the International Securities Identification Number (ISIN) of each Series of the Covered Bonds will be set out in the relevant Final Terms, as more fully described under "*Form of the Covered Bonds*".
- 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 25 of the Prospectus Regulation 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, Italy, Belgium 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: The Terms and Condition provide the meeting of the Covered Bond Holders that may consider any matter affecting their interests under the Covered Bonds, including the sanctioning by a resolution of a modification of the Conditions.
- For further details, see Condition 12 "*Meetings of Covered Bond Holders Modification, Waiver And Substitution*" of the Terms and Conditions 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:

Issuing and Principal Paying Agent:	Société Générale Luxembourg
Calculation Agent:	Société Générale Luxembourg
Luxembourg Listing Agent:	Société Générale Luxembourg

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 CRA Regulation, certain institutions as further determined pursuant to Article 4(1) of CRA 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 CRA 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 CRA 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 CRA Regulation.

ESMA publishes on its website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) 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 current ratings of the Bank may be found on the Bank's website at: www.pkobh.pl.

Prospectus

This Base Prospectus and any supplement(s) hereto will be published in electronic form on the website of the Luxembourg Stock Exchange at: www.bourse.lu, and 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.

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 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.

Cover Pool Monitor

Monitoring of certain regulatory requirements by the Bank in respect of the Cover Pool maintained by the Bank relating to the Covered Bonds, is carried out by the independent Covered Pool Monitor and Deputy Covered Pool Monitor, appointed by the KNF (see "*The role of the cover pool monitor*")

RISK FACTORS

In purchasing the 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 risks which individually or together could result in the Bank becoming unable to make all payments due. The Bank has identified in this Base Prospectus a number of risks which could materially adversely affect its business and ability to make payments due. Risks which are material for the purpose of assessing the market risks associated with the Covered Bonds 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.

The risks below have been classified into the following categories:

Risks relating to the Bank's operations;

Risks relating to the Bank's financial positions, in terms of compositions and exposures;

Risks related to the regulatory, political, economic, operational and competitive environment of the Bank;

Risks relating to the Cover Pool; and

Risks relating to the Covered Bonds.

Risks relating to the Bank's operations

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 them. However, the Bank's credit risk may increase if the collateral it holds cannot be enforced or is enforced at a price lower than the full amount due and payable under the relevant mortgage loan.

If sale prices of residential real property in Poland substantially decline for any reason, the value of the Bank's security might be adversely affected and, in cases of foreclosure, the Bank may not be able to recover the entire amount of a loan if the borrower is unable to repay it. The Bank cannot guarantee that if the residential real estate market in Poland deteriorates significantly, the ability to enforce its security in a timely and effective manner would not deteriorate as well. This could have an adverse effect on the Bank's business, financial condition and the results of its operations.

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 or the Bank's inability 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 provisions and/or capital requirements.

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

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.

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, changes in the personal or financial condition of the borrowers or other, similar factors.

Decrease of the borrowers' ability to duly perform their obligations under the mortgage loans due to any of the factors specified above or increase in the delinquency rates and prepayment rates may have an adverse effect on the business and profitability of the Bank.

The Bank is dependent on PKO BP

The Bank is dependent on its parent company, PKO BP, in a number of areas, including: (i) sales of mortgage loans to retail customers through PKO BP's sales network, (ii) post-sale services, (iii) sharing IT systems with PKO BP and (iv) 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.

Moreover, the financial problems faced by the Group's, including the Bank's, customers could also adversely affect the Bank's business, financial condition and results of operations. Market turmoil and economic deterioration could adversely affect the respective liquidity, businesses and/or financial conditions of the Group's, including the Bank's borrowers, which could in turn impair the Group's, including the Bank's loan portfolio and other financial assets and result in reduced demand for the Group's, including the Bank's products.

Any negative future changes affecting PKO BP's operations, the financial situation of its customers, PKO BP's 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.

The Bank's operations might be affected by the COVID-19 outbreak

The COVID-19 outbreak, which has spread globally in recent months, has disrupted various markets and resulted in uncertainty about the development of the economies affected by the outbreak. The Bank could be affected by the COVID-19 outbreak through its direct and indirect impact on, among others, the customers or other counterparties of the Bank, both in Poland and abroad. Among others, the Bank expects customers' financial standing to deteriorate. Moreover, the Bank expects an increase in the cost of risk, the scale of which is currently difficult to estimate reliably. The exact long-term ramifications of the COVID-19 outbreak are uncertain and, as of the date of this Prospectus, it is difficult to predict the further spread or duration of the pandemic. Risks related to economic development in Poland have also had occurred and, despite the recent periods of moderate stabilisation of the pandemic, may continue to have, a negative impact on economic activity and the financial markets in Poland. If these conditions continue to persist, or should there be any further turbulence in financial markets, this could have a material adverse effect on the Group's ability to access capital and liquidity on financial terms acceptable to the Issuer.

Some specific measures that have been taken to mitigate the adverse economic effects caused by the COVID-19 pandemic may affect the Bank's business and financial condition. For example, the Bank estimates that the Monetary Policy Council's (the "MPC") decisions made in March, April and May 2020 that resulted in a gradual reduction of the NBP reference rate down to 0.1 per cent, may result in a reduction of the net profit achieved by the Bank and the interest margin ratio.

Towards the end of the first quarter of 2020, in connection with the epidemiologic situation in Poland, the Bank introduced special solutions for mortgage borrowers and allowed them to suspend the repayment of up to three consecutive loan instalments in 2020. In the second quarter of 2020, the Bank extended the possibility of suspending the repayment of loans to up to six instalments. Moreover, the Bank adopted "Uniform rules for offering assistance tools by banks", which, in their nature, represent a non-legislative moratorium within the meaning of 10(a) of EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. Assistance measures introduced by the Bank consist in deferring the repayment of principal or principal and interest instalments; as requested by a customer in an application, for the period of up to six months.

On 24 June 2020, the Act dated 19 June 2020 on Interest Rate Subsidies on Bank Loans Granted to Entrepreneurs Affected by COVID-19 and the Simplified Procedure for Approval of Arrangements in Connection with COVID-19 came into force. Among others, this act grants borrowers who have lost their jobs or main source of income the right to suspend, for a period of no longer than three months, the repayment of a loan granted on the basis of a contract signed before 13 March 2020 if the loan matures after 13 September 2020.

The Bank's costs resulting from write-downs in respect of credit losses amounted to PLN 19.6 million in the first half of 2020. As at 30 June 2020, an additional write-down for expected deterioration in the quality of the loan portfolio of PLN 10.8 million was also recognized in connection with the COVID-19 pandemic. The Bank took into account, in particular, adverse macroeconomic scenarios which assume economic recession and an increase in unemployment as a baseline.

Due to the dynamics of the situation connected with the COVID-19 pandemic, the development of which is dependent on external factors beyond the Bank's control, the Bank is not able to definitively determine the impact of this situation on its current and future financial results and the amount of financial ratios.

Any of those factors 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 may fail to meet its main objectives

One of the Bank's main business objectives is to grant residential mortgage loans financed primarily with proceeds from covered bond issuances. The Bank's current intention is to maintain its current share in the mortgage loan and covered bonds market. 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 depends mainly on the condition of the residential mortgage loans market in Poland. Any shifts in the market environment, particularly those with a significant 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.

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

The Bank is exposed to operational risks related to its operational activities and data security. 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, software bugs, errors by the Bank's staff, crimes to which the Bank may fall victim (such as cyber-attacks and other security breaches), 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.

The Bank's risk management strategies may not be sufficient and expose it to unidentified or unanticipated risks

Although the Bank invests substantial time and effort in the development, implementation and monitoring of risk management strategies and techniques, it may nevertheless fail to adequately manage risks under certain circumstances, particularly when it is confronted with risks that it has not identified or anticipated before. The risk assessment methods and procedures applied by the Bank in the course of its operations, including in particular risk assessment models supporting the Bank's decision-making processes, may prove insufficient. If the measures to assess and mitigate risks are insufficient, the Bank may experience material unexpected losses.

The Bank is exposed to the risk of a counterparty defaulting on its obligations prior to maturity when the Bank has an outstanding claim against that counterparty, particularly in case where the collateral held by the Bank cannot be realised or is liquidated at prices sufficient to recover the full amount of the counterparty exposure.

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

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 sales of property by court enforcement officers.

Additionally, the Act on Mortgage Credit and Supervision over Mortgage Credit Intermediaries and Agents dated 23 March 2017 (*ustawa z dnia 23 marca 2017 r. o kredycie hipotecznym oraz o nadzorze nad pośrednikami kredytu hipotecznego i agentami*, the "**Mortgage Credit Act**") introduced certain restrictions on the ability of banks to enforce mortgages over real estate.

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.

A high proportion of long-term mortgages in the Bank's loan portfolio makes it difficult for the Bank to adjust its loan margins to market terms while any deterioration of residential real estate prices and decrease in value of collateral provided to the Bank may negatively affect the Bank's business, financial condition and/or the results of its operations

In accordance with Polish law, the Bank is not able to unilaterally change the terms of granted loans and advances to individuals, including credit margins. As a result, the Bank is limited in its ability to change its credit portfolio margins through the generation of new mortgage loans and advances reflecting current credit margins in the market compared with other financial institutions operating on the Polish market, which have credit portfolios with a larger proportion of short-term loans.

Moreover, the Bank was not allowed to recover the cost of the Polish banking tax from its clients with respect to the portfolio of mortgage loans originating before the introduction of the banking tax. This limited ability to re-price its loan portfolio may adversely affect the business, financial condition and results of operations of the Bank.

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

The Bank operates in a heavily regulated sector and is subject to compliance risks in several forms. The most eminent compliance risks identified relate to potential judicial or regulatory penalties resulting from non-compliance with applicable law, including AML/CTF and data protection regulations or from fraudulent activities. Frequent changes and unclear interpretation of such regulations may increase the probability of imposing of any sanctions, fines or penalties on the Bank. Any such sanctions, fines or penalties resulting from non-compliance of the Bank with applicable law may damage Bank's reputation and have an adverse effect on the business, financial condition and results of operations of the Bank.

The Bank faces litigation risk

The Bank 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 judgement 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 judgement 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 judgements 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 judgements 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.

Risks relating to the Bank's financial positions, in terms of compositions and exposures

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. For example, just as other mortgage banks, the Bank cannot accept deposits. 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 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.

Moreover, on 11 September 2019, the Court of Justice of the European Union issued a preliminary ruling in Case C-383/18 relating to the question whether under Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC, creditors are obliged to partially reimburse consumer loan costs unrelated to the duration of a credit agreement in case of the early repayment of loans. According to this ruling, if a loan is repaid before its maturity date, a creditor should reduce pro rata any loan-related costs (including interest, commissions, taxes and any other kind of fees which a consumer is required to pay in connection with a loan agreement). It is likely that this preliminary ruling will be treated as precedent by Polish courts.

Prepayments of mortgage loans may have an 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. These factors include also changes to the monetary policies resulting from the recent COVID-19 global outbreak (for further details, refer to the risk factor "*The Bank's operations might be affected by the COVID-19 outbreak*").

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 with 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.

Risk relating to the regulatory, political, economic and competitive environment of the Bank

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 29.43 per cent. of 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 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 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.

Growing competition in the Polish mortgage market may affect the Bank's profitability

The Bank operates in the Polish mortgage market which is subject to growing competition resulting from such market's continuous development. As at the date of this Base Prospectus, there are four mortgage banks operating in Poland (i.e. the Bank, mBank Hipoteczny S.A., Pekao Bank Hipoteczny S.A. and ING Bank Hipoteczny S.A.). In June 2020, the KNF allowed Bank Millennium S.A. to establish a mortgage bank which will operate under the business name "Millennium Bank Hipoteczny Spółka Akcyjna" and which will be the fifth mortgage bank operating in Poland. In addition, Santander Bank Polska S.A. applied for permission to establish a mortgage bank; however, this process has been suspended. 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

The performance of the European markets and economies could deteriorate significantly as a result of the difficulties related to the potential re-emergence of the sovereign debt crisis, the consequences of the United Kingdom's exit from the European Union and certain doubts over the stability of the financial system in the Eurozone. Further developments in the Eurozone will depend on many political and economic factors including, amongst others, the effectiveness of measures taken by the European Central Bank (the "ECB") and the European Commission in connection with the sovereign debt in certain European countries and the role of the euro as the common currency in the face of a diverse economic and political situation in individual Eurozone countries.

Adverse macroeconomic conditions or negative developments in the financial markets or legal and political environment could have an adverse effect on the Bank's business, financial condition and results of operations. 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.

Effect of government policy and regulation

The Bank is 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 financial sector such as changes to the Polish pension system, introduction of the employee capital plans or changes in the securities law. 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 financial sector are difficult to predict, and these changes might have an adverse effect on the Bank's business and/or increase its compliance costs.

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 significant reduction in PKO BP's or the Bank's or the Covered Bonds' 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. Any negative change or withdrawal of the credit rating of the Covered Bonds may have an adverse effect on their value.

Significant decline of 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 significant 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.

Properties securing mortgage loans are exposed to catastrophes and natural disasters

The Bank insures the properties which are mortgaged in the Bank's favour in accordance with the market practice. It is possible that such insurance may not cover all risks to which a property is exposed. 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.

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

Holders of all mortgage covered bonds issued by the Bank and the counterparties to eligible hedging arrangements share the same Cover Pool

The Bank maintains the Cover Pool for all mortgage covered bonds issued by the Bank, including the Covered Bonds. The Act on Covered Bonds and Mortgage Banks (*ustawa z dnia 29 sierpnia 1997 r. o listach zastawnych i bankach*

hipotecznych, 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 an issue-by-issue or a programme-by-programme basis).

This means that holders of all mortgage covered bonds issued by the Bank, as well as counterparties to the eligible hedging arrangements, have a claim against the same assets in the Cover Pool. This may have adverse effect on the investment in the Covered Bonds and investors' return on the Covered Bonds.

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 sufficient number of 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 overcollateralization requirements. It cannot be excluded that some of the loans in the cover pool might not satisfy all statutory criteria. In such case the Bank may need to replenish the assets in the cover pools in order to comply with the regulatory requirements concerning the cover pools which can be done through adding additional eligible loans or by supplying substitute liquid assets. Breach of regulatory requirements concerning the cover pool may also result in disciplinary action from the KNF, including fines, removal of board members and (in extreme circumstances) commencement of compulsory restructuring.

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 to 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.

Moreover, there is a risk that Bank will not be able to enter into a replacement swap after the applicable Extended Maturity Date. Such event may have an adverse effect on the Bank's financial position and ability to perform its obligations under the Covered Bonds.

Risks relating to the Covered Bonds

The Covered Bonds are not subject to early redemption in case of an event of default

The Covered Bonds Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date. This also includes non-payment or delay in payment of the interest under the Covered Bonds. Such Covered Bond Holders are therefore limited to collection and enforcement of any claims not satisfied at Maturity Date.

The Covered Bonds may be subject to mandatory bail-in tool

The obligations of the Bank under the Covered Bonds may be subject to compulsory write-down or conversion into equity to the extent the value of the Cover Pool is not sufficient to satisfy all claims under the mortgage covered bonds issued by the Bank. Such event may have adverse effect on the investment in the Covered Bonds and investors' return on the Covered Bonds.

The application of the net proceeds of Covered Bonds with a specific use of proceeds, such as 'Green Covered Bonds' may not meet investor expectations or be suitable for an investor's investment criteria

The relevant Final Terms relating to any specific Tranche of Covered Bonds may provide that it will be the Bank's intention to apply the proceeds from an offer of those Covered Bonds specifically to refinance existing loans in the cover pool or acquire new loans which, in each case, are secured over energy efficient residential buildings ("**Green Mortgage Loans**" and the Covered Bonds issued thereunder, "**Green Covered Bonds**").

The Green Mortgage Loans will be included in the cover pool together with other mortgage loans, which are not Green Mortgage Loans. Accordingly, prospective investors will have a claim against the entire cover pool, without having preferential claim on the Green Mortgage Loans over and above other investors.

While it is the intention of the Bank to apply the net proceeds of any Green Covered Bonds and obtain and publish the relevant evaluation the manner described in "Use of Proceeds", there can be no assurance that the Bank will be able to do this. Any negative change or withdrawal of such evaluation may have a material adverse effect on the value of such Green Covered Bonds and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

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 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.

Any of the above may have an adverse effect to the value of the investor's investment in the Covered Bonds or its return on the Covered Bonds.

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 and the investors may receive no or negative returns on Covered Bonds.

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

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.

The changes in market interest rate may adversely affect the value of Fixed Rate Covered Bonds.

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 EURIBOR, LIBOR, WIBOR, SONIA or SOFR 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*").

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).

The regulation and reform of "benchmarks" may adversely affect the value of Covered Bonds linked to or referencing such "benchmarks"

EURIBOR, LIBOR, WIBOR and other interest rate indices which are deemed to be benchmarks (each a "**Benchmark**" and together the "**Benchmarks**") to which the interest of notes bearing or paying a floating or other variable rate of interest may be linked, have become the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Covered Bonds linked to or referencing such a "benchmark".

The Benchmark Regulation could have a material impact on any Covered Bonds linked to or referencing EURIBOR, LIBOR, WIBOR or other similar interest rate indices, in particular, if the methodology or other terms of EURIBOR, LIBOR, WIBOR or other similar interest rate indices are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of EURIBOR, LIBOR, WIBOR or other similar interest rate indices.

The general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks" (including EURIBOR, LIBOR and WIBOR): (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Covered Bonds linked to or referencing EURIBOR, LIBOR or WIBOR or other Benchmarks.

Given that the Benchmark Regulation does not apply to central banks and that the Sterling Overnight Index Average ("SONIA") and the Secured Overnight Financing Rate ("SOFR") are or will be administered by the Bank of England and the Federal Reserve Bank of New York, respectively, SONIA and SOFR do not fall within the scope of the Benchmark Regulation as at the date of this Prospectus. In case the administrator of any of these reference rates changes in the future, such reference rate might fall within the scope of the Benchmark Regulation.

Future unavailability or discontinuance of LIBOR, EURIBOR or WIBOR may adversely affect the value of Floating Rate Covered Bonds which reference, respectively, LIBOR, EURIBOR or WIBOR

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on Floating Rate Covered Bonds which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Covered Bonds. Depending on the manner in which the LIBOR rate is to be determined under the Terms and Conditions, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Covered Bonds which reference LIBOR.

Due to the uncertainty concerning the ongoing reform of EURIBOR replacement, the increased regulatory scrutiny of benchmarks generally and the potential for further regulatory developments, there is a risk that the relevant EURIBOR replacement or fallback provisions included in the Terms and Conditions may not operate as intended at the relevant time. These factors could also increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any applicable regulations or requirements and, in consequence, discourage market participants from continuing to administer or contribute to benchmarks. Any such consequence could have a material adverse effect on the value of and return on the Covered Bonds, which reference EURIBOR.

According to the Benchmark Regulation, subject to a transitional period, a supervised entity (such as the Bank) may use a benchmark in the EU if it is developed by an administrator established or resident in the EU and entered in a register kept by ESMA. WIBOR is a key benchmark since the entry into force of Commission Implementing Regulation (EU) 2019/482, i.e., since 26 March 2019. Key benchmarks may be used by supervised entities during a transitional period, until 31 December 2021 or until the date of authorisation or refusal to authorise or register the entity developing the benchmark as the benchmark manager. As of the date of this Base Prospectus, GPW Benchmark is included in the ESMA's register of administrators under Article 36 of the Benchmark Regulation but it has not yet obtained the status of administrator of WIBOR; however, GPW Benchmark may operate as an administrator of selected capital market reference indices, including the benchmarks previously developed by the Warsaw Stock Exchange. Moreover, on 6 December 2019, GPW Benchmark submitted an application to the KNF to authorise its performance of the function of administrator of WIBOR, among others, and is awaiting the above-mentioned permit.

The Benchmark Regulation may have a significant impact on the Covered Bonds with a variable interest rate, for which the interest rate is determined by reference to the WIBOR rate, in particular, if the methodology for calculating this rate or other rules for its development change in order to adapt them to the requirements of the Benchmark Regulation or the WIBOR rate is no longer published. These changes may have the effect of lowering or increasing the level of the reference index which forms the basis for setting the interest rate for Floating Rate Covered Bonds.

Any of the above or any other significant changes to LIBOR, WIBOR, EURIBOR or any other applicable Benchmark could have a material adverse effect on the value of, and the amount payable under the relevant Covered Bonds.

Risk associated with SONIA as a reference rate

Investors should be aware that the market continues to develop in relation to SONIA as a reference rate in the capital markets and its adoption as an alternative to Sterling LIBOR. In particular, market participants and relevant working groups are exploring alternative reference rates based on SONIA. The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Terms and Conditions of the Covered Bonds. It may be difficult for investors in Covered Bonds which reference a SONIA rate to reliably estimate the amount of interest which will be payable on such Covered Bonds. Further, if the Covered Bonds become due and payable, the rate of interest payable shall

be determined on the date the Covered Bonds became due and payable. Therefore, investment in the Covered Bonds, which reference Sonia, may have increased risk and uncertainty in comparison with other floating rate Covered Bonds.

The use of SOFR as a reference rate is subject to important limitations

On 22 June 2017, the Alternative Reference Rates Committee ("ARRC") convened by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York identified SOFR as the rate that represented best practice for use in certain new U.S. dollar derivatives and other financial contracts. The Federal Reserve Bank of New York notes that the use of SOFR is subject to important limitations and disclaimers. SOFR is published based on data received from other sources. There can be no guarantee that SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of investors in the respective Covered Bonds. If the manner in which SOFR is calculated is changed, that change may result in a reduction of the amount of interest payable on the Covered Bonds and the trading prices of the Covered Bonds. SOFR has been published by the Federal Reserve Bank of New York since April 2018. Investors should not rely on any historical changes or trends in SOFR as an indicator of future changes in SOFR. Also, since SOFR is a relatively new market index, the Covered Bonds will likely have no established trading market when issued. As a result, the trading prices of the Covered Bonds may be lower than those of indexed debt securities issued subsequently. Similarly, if SOFR does not prove to be widely used in securities like the Covered Bonds, the trading price of the Covered Bonds may be lower than those of debt securities linked to indices that are more widely used. Investors in the Covered Bonds may not be able to sell the Covered Bonds at all or may not be able to sell the Covered Bonds at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk.

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.

Eurosystem Eligibility

The applicable Final Terms will indicate whether the Covered Bonds, are intended or not intended, to be 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. Therefore, it cannot be excluded that Covered Bonds will not satisfy such criteria which may have adverse effect to the investor's demand for Covered Bonds.

The Risk Factors described above are the risks the Bank considers to be material for the taking of an informed investment decision in respect of the Covered Bonds based on the probability of their occurrence and the expected magnitude of their negative impact. Additional risks and uncertainties may also arise or become more material after the date of this Prospectus which could also have a material impact on the Bank's business operations in the future.

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 for the year ended 31 December 2018 (https://www.pkobh.pl/media_files/cc9b8afe-0fee-4d9e-9378-00df36a08815.pdf):
- (i) income statement – page 3;
 - (ii) statement of comprehensive income – page 4;
 - (iii) statement of financial position – page 5;
 - (iv) statement of changes in equity – page 6;
 - (v) statement of cash flows – page 7; and
 - (vi) notes to the financial statements – pages 9 – 98;

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Commission Regulation (EC) 2019/980;

- (b) the English translation of the audit report prepared in connection with the audited financial statements of the Bank for the year ended 31 December 2018 (https://www.pkobh.pl/media_files/e07b6aa1-9832-4536-8af6-c0762989bdcf.pdf);
- (c) the English translation of the audited financial statements of the Bank for the year ended 31 December 2019 (https://www.pkobh.pl/media_files/37d91308-f9ab-41ea-bebf-a030989c41f0.pdf):
- (i) income statement – page 3;
 - (ii) statement of comprehensive income – page 4;
 - (iii) statement of financial position – page 5;
 - (iv) statement of changes in equity – page 6;
 - (v) statement of cash flows – page 7; and
 - (vi) notes to the financial statements – pages 9 – 94;

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Commission Regulation (EC) 2019/980;

- (d) the English translation of the audit report prepared in connection with the audited financial statements of the Bank for the year ended 31 December 2019 (https://www.pkobh.pl/media_files/c5d3b639-7ef6-47a6-8530-9d49386bc97c.pdf);
- (e) the English translation of the reviewed condensed interim financial statements of the Bank for the six-month period ended 30 June 2019 (https://www.pkobh.pl/media_files/01aa8aa0-feaf-496d-8b43-fde59f775b52.pdf):
- (i) income statement – page 3;
 - (ii) statement of comprehensive income – page 4;
 - (iii) statement of financial position – page 5;
 - (iv) statement of changes in equity – page 6;
 - (v) statement of cash flows – page 7; and
 - (vi) notes to the condensed interim financial statements – pages 9 – 75;

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Commission Regulation (EC) 2019/980;

- (f) the English translation of the review report prepared in connection with the reviewed condensed interim financial statements of the Bank for the six-month period ended 30 June 2019 (https://www.pkobh.pl/media_files/a81ad934-f233-4537-aebc-3760012fe372.pdf)

- (g) the English translation of the reviewed condensed interim financial statements of the Bank for the six-month period ended 30 June 2020 (https://www.pkobh.pl/media_files/e223c473-5b53-4a41-bd87-afabc8feac0.pdf):
- (i) income statement – page 3;
 - (ii) statement of comprehensive income – page 4;
 - (iii) statement of financial position – page 5;
 - (iv) statement of changes in equity – page 6;
 - (v) statement of cash flows – page 7; and
 - (vi) notes to the condensed interim financial statements – pages 9-45;

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Commission Regulation (EC) 2019/980; and

- (h) the English translation of the review report prepared in connection with the reviewed condensed interim financial statements of the Bank for the six-month period ended 30 June 2020 (https://www.pkobh.pl/media_files/42aa6bc0-cf07-4a14-aa7a-f64c73f432b7.pdf).

Pursuant to Article 19(1) of the Prospectus Regulation, any non-incorporated parts of a document referred to herein are either deemed not relevant for the investor or covered in another part of the Base Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus. 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. 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. In any case, the Bank is free in the use of the proceeds from each issue of the Covered Bonds. This also applies in the case of so-called "Green Covered Bonds" which serve the refinancing of eligible assets as further specified in the 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;
- (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 systems 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.

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Covered Bonds are not intended to be offered, sold or otherwise made available to and[, with effect from such date,] should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended or re-enacted, "**MiFID II**"); (ii) a customer within the meaning of Directive 2016/97/EU (as amended or superseded, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation 2017/1129/EU (as amended, the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.]

[MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Covered Bonds has led to the conclusion that: (i) the target market for the Covered Bonds is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**MiFID II**")] [MiFID II]; and (ii) all channels for distribution of the Covered Bonds to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Covered Bonds (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Covered Bonds (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[Date]

PKO BANK HIPOTECZNY S.A.

Legal entity identifier (LEI): 259400ALN6AM4REPEA16

a joint stock company (*spółka akcyjna*) with its registered office in Gdynia, Poland at Waszyngtona 17 St., 81-342 Gdynia, entered into the register of entrepreneurs of the National Court Register (*Krajowy Rejestr Sądowy*) kept by the District Court for Gdańsk-Północ in Gdańsk, VIII Commercial Division of the National Court Register, under KRS number 000528469, REGON number 222181030 and NIP number 2040004548

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]
under the EUR4,000,000,000**

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 21 August 2020 [and the supplement[s] to it dated [] [and []], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Regulation (Regulation 2017/1129/EC) (the "**Prospectus Regulation**") as amended 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 8 of the Prospectus Regulation 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 Luxembourg (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 exceeding €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/SONIA/SOFR]] +/- [] per cent.
Floating Rate]
[Zero Coupon]
(see paragraph [10]/[11]/[12(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/SONIA/SOFR]] +/- [] per cent.
Floating Rate]
[Zero Coupon]
(see paragraph [10]/[11]/[12(a)] below)
8. Change of Interest Basis [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [10/11] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [10/11] applies] [Not Applicable]
9. Date of Management Board approval for issuance of Covered Bonds obtained: [] [and []], respectively]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

10. Fixed Rate Covered Bond Provisions [Applicable [until/from [] to []]/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum in arrears 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]]
11. Floating Rate Covered Bond Provisions [Applicable [until/from [] to []]/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) Relevant 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]/[SONIA]/[SOFR]].
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 and the date falling "p" London Banking Days prior to the start of each Interest Period if SONIA)
- Relevant Screen Page: []
(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
(In the case of WIBOR, reference should be either to Reuters Screen WIBOR or WIBOR=)
- Observation Look-back Period [•]/[Not Applicable] (which shall not, without the prior written agreement of the [Calculation] Agent, be less than five [Banking Days])
(In the case of SONIA: "p" London Banking Days)

- 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)*
- (N.B. The fallback provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)*
- ISDA Benchmarks Supplement: [Applicable]/[Not Applicable]
- (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)]
12. Zero Coupon Covered Bond Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Accrual Yield: [] per cent. per annum
- (b) Reference Price: []

PROVISIONS RELATING TO REDEMPTION

13. Final Redemption Amount of each Covered Bond: [] per Calculation Amount
(N.B.: the Final Redemption Amount shall be at least equal to the nominal value of each Covered Bond)

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

14. 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

15. Type of Covered Bonds: Mortgage covered bonds (*hipoteczne listy zastawne*)

16. 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 (NGCB): [Yes/No]

Signed on behalf of the Bank:

By:

Duly authorised

PKO BANK HIPOTECZNY S.A.

By:

Duly authorised

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 (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation.]/[Not Applicable.]
- [Need to include a brief explanation of the ratings if this has previously been published by the rating provider.]
- (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 the fees [of [*insert relevant fee disclosure*]] 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 23 of the Prospectus Regulation.)]*

4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND EXPENSES RELATING TO ADMISSION TO TRADING

- (i) Reasons for the offer []/[Not Applicable]
- (See ["Use of Proceeds"] wording in Base Prospectus— if reasons for offer are different from Bank's general corporate purposes include those reasons here.)*
- (ii) Estimated net proceeds []
- (If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)*
- (iii) Estimated expenses relating to the admission to trading []/[Not Applicable]

5. YIELD (Fixed Rate Covered Bonds only)

- Indication of yield: []/[Not Applicable]

6. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- (iii) CFI: []/[Not Applicable]
- (iv) FISN: []/[Not Applicable]

(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")

- (v) Any clearing system(s) other than Clearstream Luxembourg [./and], Euroclear Bank SA/NV. and the relevant identification number(s): [Not Applicable/*give name(s) and number(s)*]
- (vi) Delivery: Delivery [free of/against] payment
- (vii) Names and addresses of additional Paying Agent(s) (if any): []/[Not Applicable]
- (viii) 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.]

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]]
- (vii) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]
(If the Covered Bonds clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Covered Bonds may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)
- (viii) Prohibition of Sales to Belgian Consumers: [Applicable/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 1,611,300,000 paid in full, NIP number 204-000-45-48, with the corporate website 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) and are issued in accordance with 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**") and the Act dated 15 January 2015 on Bonds (*ustawa z dnia 15 stycznia 2015 r. o obligacjach*) (the "**Polish Act on Bonds**").

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 21 August 2020 and made between the Bank and Société Générale Luxembourg 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 during regular business hours 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 are 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 Regulation 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). 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**", "**EUR**" and "**€**" 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. All references in the Conditions to "**U.S. dollars**" or "**USD**" refer to United States dollars, all references to "**PLN**" and "**Złoty**" refer to Polish zloty and all references to "**Swiss Francs**" and "**CHF**" refer to the currency of Switzerland.

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 of 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 SA/NV ("**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 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 of 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, unless otherwise specified in the Final Terms).

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:

- (i) if "**Actual/Actual (ICMA)**" is specified in the applicable Final Terms:
 - (A) 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
 - (B) 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;
- (ii) 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 after 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 after 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 Relevant Business Centre(s) 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 (the "**Rate of Interest**").

- (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 ("**ISDA Definitions**") (as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series (as specified in the Final relevant Terms), and if specified in the relevant Final Terms, as supplemented by the ISDA Benchmarks Supplement) as published by the International Swaps and Derivatives Association, Inc. 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 sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions and "**ISDA Benchmarks Supplement**" means the Benchmark Supplement (as amended and updated as at the date of the issue of the first Tranche of the Covered Bonds of the relevant Series (as specified in the relevant Final Terms) published by the International Swaps and Derivatives Associations, Inc.

- (B) Screen Rate Determination for Floating Rate Covered Bonds (other than Floating Rate Covered Bonds that reference SOFR or SONIA).

Subject to Condition 3(b)(ix) (*Benchmark Replacement*), where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, and if a Reference Rate and a Relevant Screen Page are so specified and the Reference Rate so specified is not SOFR or SONIA, 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 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.

- (C) Provisions relating to Floating Rate Covered Bonds which reference SONIA

If the relevant Final Terms specifies the Rate of Interest applicable to the Covered Bonds as being Floating Rate and the Reference Rate specified in the applicable Final Terms is SONIA, the Rate of Interest applicable to the relevant Covered Bonds for the relevant Interest Period will, subject as provided below, be Compounded Daily SONIA plus or minus the applicable relevant margin (for the purposes of this Condition 3(b)(ii)(C), the "Relevant Margin") specified in the relevant Final Terms, all as determined by the Calculation Agent.

For the purposes of this Condition 3(b)(ii)(C):

"**Compounded Daily SONIA**" means, with respect to an Interest Period, the rate of return of a daily compound interest investment (with the daily Sterling overnight reference rate as reference rate for the calculation of interest) and will be calculated by the Calculation Agent, as follows, and the resulting percentage will be rounded, if necessary, to the fourth decimal place, with 0.00005 being rounded upwards:

$$\left[\prod_{i=1}^{d_0} \left(1 + \frac{SONIA_{i-pLBD} \times n_i}{365} \right) - 1 \right] \times \frac{365}{d}$$

"**d**" means, for any Interest Period, the number of calendar days in such Interest Period;

"**d₀**" means, for any Interest Period, the number of London Banking Days in such Interest Period;

"**i**" means, for any Interest Period, a series of whole numbers from one to **d₀**, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in such Interest Period to, and including, the last London Banking Day in such Interest Period;

"**London Banking Day**" or "**LBD**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"**n_i**" means, for any London Banking Day "**i**", the number of calendar days from, and including, such London Banking Day "**i**" up to, but excluding, the following London Banking Day;

"**Observation Look-back Period**" has the meaning given to it in the relevant Final Terms;

"**Observation Period**" means, in respect of an Interest Period, the period from, and including, the date which is "p" London Banking Days prior to the first day of such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding the date which is "p" London Banking Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" London Banking Days prior to such earlier date, if any, on which the Covered Bonds become due and payable);

"**p**" means the whole number specified as the Observation Look-back Period in the applicable Final Terms, such number representing a number of London Business Days and which shall not be specified in the applicable Final Terms as less than five without the prior agreement of the Calculation Agent;

"**SONIA**" means the Sterling Overnight Index Average;

"**SONIA_i**" means, in respect of any London Banking Day, "i", a reference rate equal to the daily SONIA rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page on the London Banking Day immediately following such London Banking Day; and

"**SONIA_{i-pLBD}**" means, in respect of any London Banking Day falling in the relevant Interest Period, the SONIA rate for the London Banking Day falling "p" London Banking Days prior to the relevant London Banking Day "i".

Subject to Condition 3(b)(ix) (*Benchmark replacement*), if, in respect of any London Banking Day in the relevant Observation Period, the SONIA rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA rate shall be: (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA rate to the Bank Rate over the previous five London Banking Days on which a SONIA rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate.

In the event that the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be (i) that determined as at the last preceding Interest Determination Date (though substituting, where a different Relevant Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Relevant Margin relating to such Interest Period, in place of the Relevant Margin relating to that last preceding Interest Period) or (ii) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to such Series of Covered Bonds for the first Interest Period had the Covered Bonds been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Relevant Margin applicable to the first Interest Period).

If the relevant Series of Covered Bonds become due and payable in accordance with Condition 5 (*Redemption and Purchase*), the final Interest Determination Date shall, notwithstanding any Interest Determination Date specified in the applicable Final Terms be deemed to be the date on which such Covered Bonds became due and payable and the Rate of Interest on such Covered Bonds shall, for so long as any such Covered Bonds remain outstanding, be that determined on such date.

(D) Provisions relating to Floating Rate Covered Bonds which reference SOFR

If the relevant Final Terms specifies the Rate of Interest applicable to the Covered Bonds as being Floating Rate and the Reference Rate specified in the applicable Final Terms is SOFR, the Rate of Interest applicable to the relevant Covered Bonds for the relevant Interest Period will, subject as provided below, be Weighted Average SOFR plus or minus the applicable relevant margin (for the purposes of this condition 3(b)(ii)(D), the "**Relevant Margin**") specified in the relevant Final Terms, all as determined by the Calculation Agent.

For the purposes of this Condition 3(b)(ii)(D):

"**Federal Reserve's Website**" means the website of the Board of Governors of the Federal Reserve System, currently at <http://www.federalreserve.gov>, or any successor website of the Board of Governors of the Federal Reserve System;

"**New York City Banking Day**" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York City;

"New York Federal Reserve's Website" means the website of the Federal Reserve Bank of New York, currently at <http://www.newyorkfed.org/>, or any successor website of the Federal Reserve Bank of New York;

"OBFR Index Cessation Date" means, in respect of an OBFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the Overnight Bank Funding Rate) ceases to publish the Overnight Bank Funding Rate, or the date as at which the Overnight Bank Funding Rate may no longer be used;

"OBFR Index Cessation Event" means the occurrence of one or more of the following events:

- (1) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the Overnight Bank Funding Rate) announcing that it has ceased or will cease to publish or provide the Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide an Overnight Bank Funding Rate;
- (2) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the Overnight Bank Funding Rate) has ceased or will cease to provide the Overnight Bank Funding Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Overnight Bank Funding Rate;

"SIFMA" means the Securities Industry and Financial Markets Association or any successor thereto;

"SOFR" means, with respect to any SOFR Reset Date:

- (1) the Secured Overnight Financing Rate published at 5:00 p.m. (New York time) on the New York Federal Reserve's Website on such SOFR Reset Date for trades made on the related SOFR Determination Date;
- (2) if the rate specified in (1) above does not so appear, and a SOFR Index Cessation Event and SOFR Index Cessation Date have not both occurred, the Secured Overnight Financing Rate published on the New York Federal Reserve's Website for the first preceding U.S. Government Securities Business Day for which the Secured Overnight Financing Rate was published on the New York Federal Reserve's Website;
- (3) if the rate specified in (1) above does not so appear, and a SOFR Index Cessation Date has occurred and if the Bank determines that a SOFR Index Cessation Event has occurred, the rate that was notified to the Calculation Agent by the Bank as being the rate that was recommended as the replacement for the Secured Overnight Financing Rate by the Federal Reserve Board and/or the Federal Reserve Bank of New York or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York for the purpose of recommending a replacement for the Secured Overnight Financing Rate (which rate may be produced by the Federal Reserve Bank of New York or other designated administrator, and which rate may include any adjustments or spreads as also notified to the Calculation Agent by the Bank) or, if no such rate has been notified by the Bank to the Calculation Agent as being recommended within one U.S. Government Securities Business Day of the SOFR Index Cessation Date, the Overnight Bank Funding Rate (published on the New York Federal Reserve's Website at or around 5:00 p.m. (New York time) on the relevant New York City Banking Day) for any SOFR Reset Date falling on or after the SOFR Index Cessation Date (it being understood that the Overnight Bank Funding Rate for any such SOFR Reset Date will be for trades made on the related SOFR Determination Date); or
- (4) if the Calculation Agent is required to use the Overnight Bank Funding Rate in paragraph (3) above and the OBFR Index Cessation Date has occurred and if the Bank determines that an OBFR Index Cessation Event has occurred, then for any SOFR Reset Date falling on or after the later of the SOFR Index Cessation Date and the OBFR Index Cessation Date, the short-term interest rate target set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Reset Date, or if the Federal Open Market Committee has not set a single rate, the mid-point of the short-term interest rate target range set by the Federal Open Market Committee, as published on the Federal Reserve's Website and as prevailing on such SOFR Reset Date (calculated as the arithmetic average of the upper bound of the target range and the lower bound of the target range);

"SOFR Determination Date" means, with respect to any SOFR Reset Date and with respect to (x) the Secured Overnight Financing Rate and (y) the Overnight Bank Funding Rate: (i) in the case of (x), the

first U.S. Government Securities Business Day immediately preceding such SOFR Reset Date; and (ii) in the case of (y), the first New York City Banking Day immediately preceding such SOFR Reset Date;

"**SOFR Index Cessation Date**" means, in respect of a SOFR Index Cessation Event, the date on which the Federal Reserve Bank of New York (or any successor administrator of the Secured Overnight Financing Rate), ceases to publish the Secured Overnight Financing Rate, or the date as at which the Secured Overnight Financing Rate may no longer be used;

"**SOFR Index Cessation Event**" means the occurrence of one or more of the following events:

- (1) a public statement by the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate) announcing that it has ceased, or will cease to publish or provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide a Secured Overnight Financing Rate; or
- (2) the publication of information which reasonably confirms that the Federal Reserve Bank of New York (or a successor administrator of the Secured Overnight Financing Rate) has ceased, or will cease, to provide the Secured Overnight Financing Rate permanently or indefinitely, provided that, at that time, there is no successor administrator that will continue to publish or provide the Secured Overnight Financing Rate;

"**SOFR Reset Date**" means each U.S. Government Securities Business Day during the relevant Interest Period, provided, however, that if the SOFR Index Cessation Date has occurred and if the Bank determines that a SOFR Index Cessation Event has occurred, it shall mean: (i) in respect of the period from, and including, the first day of the Interest Period in which the SOFR Index Cessation Date falls (such Interest Period, the "**Affected Interest Period**") to, but excluding, the SOFR Index Cessation Date (such period, the "**Partial SOFR Period**"), each U.S. Government Securities Business Day during the Partial SOFR Period; (ii) in respect of the period from, and including, the SOFR Index Cessation Date to, but excluding, the Interest Payment Date in respect of the Affected Interest Period (such period, the "**Partial Fallback Period**"), each New York City Banking Day during the Partial Fallback Period; and (iii) in respect of each Interest Period subsequent to the Affected Interest Period, each New York City Banking Day during the relevant Interest Period;

"**U.S. Government Securities Business Day**" means any day except a Saturday, a Sunday or a day on which SIFMA recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities; and

"**Weighted Average SOFR**" means the arithmetic mean of the SOFR in effect for each SOFR Reset Date during the relevant Interest Period, calculated by multiplying the relevant SOFR by the number of SOFR Reset Dates such SOFR is in effect, determining the sum of such products and dividing such sum by the number of SOFR Reset Dates in the relevant Interest Period, provided, however, that the last four SOFR Reset Dates of such Interest Period shall be a "**Suspension Period**". During a Suspension Period, the SOFR for each day during that Suspension Period will be the value for the SOFR Reset Date immediately prior to the first day of such Suspension Period.

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

If the applicable Final Terms specify 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 specify 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 or the Calculation Agent (as the case may be), 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.

If interest is required to be calculated by the Agent for a period other than an Interest Period or if no Fixed Coupon Amount or Broken Amount is specified in the relevant Final Terms, the amount of interest (the "**Interest Amount**") payable per Calculation Amount shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product thereof 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 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 23 April 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.

(ix) Benchmark replacement

In addition, notwithstanding the foregoing provisions in this Condition 3, but subject, where the Reference Rate specified in the relevant Final Terms is SOFR, to the operation of the fallback provisions specified in the definition of SOFR in Condition 3(b)(ii)(D), if the Bank (in consultation with the Calculation Agent) determines that a Benchmark Event has occurred when any Rate of Interest (or the relevant component part thereof) remains to be determined by such Reference Rate, then the following provisions shall apply:

- (A) the Bank shall use reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in good faith and in a commercially reasonable manner) no later than three Business Days prior to the Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Covered Bonds;
- (B) if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Bank (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
- (C) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 3(b)(ix)); provided, however, that if sub-paragraph (B) applies and the Bank is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the Rate of Interest for the initial Interest Period) (subject, where applicable, to substituting the Margin that applied to such preceding Interest Period for the Margin that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (B) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 3(b)(ix));
- (D) if the Independent Adviser or the Bank determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Bank (as applicable), may also specify changes to these Conditions, including but not limited to, the Day Count Fraction, Relevant Screen Page, Business Day

Convention, Business Day, Interest Determination Date, and/or the definition of Reference Rate applicable to the Covered Bonds, and the method for determining the fallback rate in relation to the Covered Bonds, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Bank (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Calculation Agent and/or Agent shall, provided that such amendments do not (without its consent) either increase its obligations or duties, or decrease its rights or protections, at the direction and expense of the Bank, agree and effect such consequential amendments to the Agency Agreement, and these Conditions as may be required in order to give effect to this Condition 3(b)(ix). Consent of the relevant Covered Bond Holders shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other steps by the Calculation Agent and/or Agent (if required). Notwithstanding any other provision of this Condition 3, if in the Calculation Agent's or Agent's (as the case may be) opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 3, the Calculation Agent or Agent (as the case may be) shall promptly notify the Bank thereof and the Bank may (but shall not be obliged to) direct the Calculation Agent or the Agent (as the case may be) in writing as to which alternative course of action to adopt. If the Calculation Agent or Agent (as the case may be) is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Bank thereof and the Calculation Agent and Agent (as the case may be) shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so; and

- (E) the Bank shall promptly, following the determination of any Successor Rate or Alternative Reference Rate (as applicable), give notice thereof to the Calculation Agent, the Agent, and the Covered Bond Holders, which shall specify the effective date(s) for such Successor Rate or Alternative Reference Rate (as applicable) and any consequential changes made to these Conditions,

"Adjustment Spread" means a spread (which may be zero, positive or negative) or formula or methodology for calculating a spread, which the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to Covered Bond Holders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as applicable) and is the spread, formula or methodology which:

- (A) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body, or
- (B) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as applicable); or
- (C) if no such customary market usage is recognised or acknowledged, the Independent Adviser (in consultation with the Bank) or the Bank in its discretion (as applicable) determines (acting in good faith and in a commercially reasonable manner) to be appropriate;

"Alternative Reference Rate" means the rate that the Independent Adviser or the Bank (as applicable) determines has replaced the relevant Reference Rate in customary market usage in the international debt capital markets for the purposes of determining rates of interest in respect of bonds denominated in the Specified Currency and of a comparable duration to the relevant Interest Period, or, if the Independent Adviser or the Bank (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Bank (as applicable) determines in its discretion (acting in good faith and in a commercially reasonable manner) is most comparable to the relevant Reference Rate;

"**Benchmark Event**" means:

- (A) the Reference Rate ceases to be published or ceases to exist;
- (B) a public statement by the administrator of the Reference Rate that it will, by a specified date within the following six months, cease publishing the Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Reference Rate);
- (C) a public statement by the supervisor of the administrator of the Reference Rate that the Reference Rate has been or will, by a specified date within the following six months, be permanently or indefinitely discontinued;
- (D) a public statement by the supervisor of the administrator of the Reference Rate that the Reference Rate will be prohibited from being used or that its use will be subject to restrictions or adverse consequences, in each case within the following six months; or
- (E) it has or will become unlawful for any Agent, Calculation Agent or the Bank to calculate any payments due to be made to any Covered Bond Holder using the Reference Rate;

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international debt capital markets, in each case appointed by the Bank at its own expense;

"**Relevant Nominating Body**" means, in respect of a reference rate:

- (A) the central bank for the currency to which the reference rate relates, any central bank which is responsible for supervising the administrator of the reference rate, or any other relevant supervisory or regulatory authority or national legislative body of the country for the currency to which the reference rate relates; or
- (B) any working group or committee sponsored by, chaired or co-chaired by, or constituted at the request of (a) the central bank for the currency to which the reference rate relates, (b) any central bank which is responsible for supervising the administrator of the reference rate, (c) any other relevant supervisory or regulatory authority or national legislative body of the country for the currency to which the reference rate relates, (d) a group of the aforementioned central banks or other authorities, or (e) the Financial Stability Board or any part thereof; and

"**Successor Rate**" means the rate that the Independent Adviser or the Bank (as applicable) determines is a successor to, or replacement of, the Reference Rate which is formally recommended by any Relevant Nominating Body

(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 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.

(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 (which shall be at least equal to the nominal value of each Covered Bond) 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), Condition 5(g) and Condition 5(h), unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Bank at its Final Redemption Amount

(which shall be at least equal to the nominal value of each Covered Bond) 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**" means the assets which are the basis for the issuance of mortgage covered bonds by the Bank and are entered into the cover pool register (*rejestr zabezpieczenia listów zastawnych*) created for mortgage covered bonds;

"**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 holders of the outstanding covered bonds issued by the Bank in full taking into account the maturity of the 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 of 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*);

"**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;

"**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 holders of the outstanding covered bonds issued by the Bank (including the outstanding Covered Bonds) 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; 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 holders of the 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 the 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 the 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 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 the 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 the outstanding covered bonds of the Bank, the Bankruptcy Receiver may, at its discretion, repay the principal under the Covered Bonds (provided that payments are made *pro rata* to holders of the 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 holders of the 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 holders of the outstanding covered bonds issued by the Bank in full taking into account the maturity of the 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) display 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 holders of the 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 purchase Covered Bonds at any price in the open market or otherwise for the purpose of redemption or depositing them under the care of the Cover Pool Monitor insofar it is connected with the Bank's fulfilment of the requirements referred to in Article 18 of Polish Covered Bonds Act.

(e) *Cancellation*

Except for the Covered Bonds purchased for the purpose of depositing them under the care of the Cover Pool Monitor, 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 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.

(h) *Compulsory write-down or conversion (bail-in)*

Pursuant to the provisions of the Polish Act on Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring dated 10 June 2016 (*ustawa z dnia 10 czerwca 2016 r. o Bankowym Funduszu Gwarancyjnym, systemie gwarantowania depozytów oraz przymusowej restrukturyzacji*) secured liabilities comprising a separate and secured pool, such as obligations of the Bank under the Covered Bonds, shall not be subject to compulsory write-down or conversion into equity up to the amount by which all amounts due and payable in respect of such Covered Bonds is fully covered by the Cover Pool. However, to the extent the value of the Cover Pool is not sufficient to satisfy all claims under the Covered Bonds, the Covered Bonds may be subject to compulsory write-down or conversion to equity to the extent that the value of the Cover Pool is not sufficient to satisfy all claims in respect of amounts due and payable under such Covered Bonds.

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 Covered Bond Holders 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(c)); 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.

Notwithstanding any other provision of these Conditions, in no event will the Bank be required to pay any additional amounts in respect of the Covered Bonds for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 to 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

As used herein:

- i. "**Tax Jurisdiction**" means Poland or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which payments made by the Bank of principal and interest on the Covered Bonds become generally subject; 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 six years (except for claims for payment of interest which become time-barred after three years) and the end of the prescription period falls on the last day of the calendar year.

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. 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 its own name enforce its 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 to 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 that the Covered Bond Holders are admitted to trading on a regulated market) or (in all other cases) in Warsaw, Poland. Unless otherwise provided below, 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 the provisions of the Covered Bonds except as described in point (a) and (b) below, 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 of particular Series shall be binding on all the Covered Bond Holders of that 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 the 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 the 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 38.4 million residents, remains the largest accession member of the EU and the fifth largest EU country by population (following the United Kingdom's withdrawal from the EU on 31 January 2020). With a GDP of EUR 529.0 billion in 2019 (according to Eurostat), it is the fifth largest EU economy and the 22nd 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 4.1 per cent. over the six-year period ending on 31 December 2019 (according to OECD). In 2019, the GDP growth rate in Poland was 4.0 per cent, substantially higher than the average for the EU, which recorded a 1.5 per cent. increase in GDP. In 2020, mainly due to the COVID-19 outbreak in Poland, the GDP is expected to decline by 3.4 per cent, the first decline since the 1990s; however, in 2021 GDP is expected to recover faster than the pace of the GDP decrease in 2020.

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

	For the year ended 31 December	
	2019	2018
Real GDP growth (%).....	4.0	5.1
Individual consumption growth (%).....	3.8	4.5
CPI Inflation rate on a year-on-year basis (%).....	2.3	1.7
Average wage growth (%).....	4.8	7.0
Harmonised unemployment rate (%).....	3.3	3.8
Exports growth (%).....	5.5	6.3
Imports growth (%).....	2.6	7.1
Budget deficit/GDP (domestic definition, %).....	47.9	0.4
Government debt/GDP (domestic definition, %).....	43.6	48.9
Reference rate (%).....	1.50	1.50
PLN/EUR(average).....	4.29	4.26

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

The Polish banking sector

Structure of the Polish banking sector

According to the KNF, as at 31 December 2019, the total number of banks and branches of foreign credit institutions operating in Poland was 600: there were 30 domestic commercial banks, 32 branches of foreign credit institutions and 538 co-operative banks operating in Poland.

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

	2019	2018
Total, including:	600	612
Domestic commercial banks.....	30	32
Branches of foreign credit institutions.....	32	31
Cooperative banks.....	538	549

Source: KNF's information on situation in the banking sector in 2019 – June 2020.

The Polish banking sector is characterised by a significant presence of international banks, and currently six out of the ten largest commercial banks (by assets) are controlled by foreign parents. According to KNF data, in 2019, the share of banks controlled by foreign investors in the assets of the Polish banking sector was 46.3 per cent.

The level of concentration in the Polish banking sector is relatively high. According to the KNF data as at 31 December 2019, the share of the top five banks in total banking assets stood at 50.1 per cent. (compared to 49.9 per cent. as at the end of December 2018), while their share in non-financial sector deposits amounted to 57.7 per cent. (compared to 57.6 per cent. as at the end of 2018).

Amongst the other factors having an impact on competition is a consolidation trend in recent years. For example, in 2013, the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A., the acquisition of Dexia Kommunalkredit Bank Polska S.A. by Getin Noble Bank S.A., and the acquisition of the retail operations of DnB Nord Polska S.A. by Getin Noble Bank S.A.; in 2014, the merger of Nordea Bank Polska S.A. with PKO BP, the taking of control over Santander Consumer Bank

by Bank Zachodni WBK S.A.; and, in 2015, the merger of Bank BGŻ S.A. with BNP Paribas S.A. and the acquisition of Meritum Bank ICB S.A. by Alior Bank S.A.; in 2016, the merger of BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. and the merger of Alior Bank S.A. with core business of BPH. Finally, in December 2017 Deutsche Bank AG sold its Polish retail operations (core DB Polska without CHF portfolio and DB Securities) to Bank Zachodni WBK S.A. On 10 April 2018, Raiffeisen Bank International AG sold the core banking operations of Raiffeisen Bank Polska S.A. by way of demerger to Bank BGŻ BNP Paribas S.A. In November 2018, Millennium Bank S.A., majority owned by Portugal's BCP, agreed to buy Euro Bank S.A., the Polish business of France's Société Générale. In 2019 Commerzbank AG announced its plan to sell its stake in mBank S.A.; however, in 2020 Commerzbank AG abandoned this plan for unspecified period of time.

The Polish banking sector is expected to continue to experience consolidation in the medium term. A number of smaller market players generate relatively low revenues, which will be subject to rising pressure. This may force further consolidation if profitability is eroded. Given pressure on the revenue side (low interest rates, regulatory measures) and additional burdens (Polish banking tax, higher capital requirements), some banks will strive to increase their scale of operations to achieve a satisfactory return on equity.

As a result of changes in the shareholding structure of Polish commercial banks, in particular the takeover of Bank Polska Kasa Opieki S.A. by Polish capital (PZU S.A. and PFR S.A.) in 2017, the share of foreign ownership in the banking assets in the country has declined markedly. As at 31 December 2019, 46.3 per cent. of the total assets of the Polish banking sector belonged to foreign-owned banking groups compared to 46.4 per cent. at the end of 2018 and 65.0 per cent. at the end of 2011 (Source: KNF data).

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
	<i>(in PLN billion)</i>		<i>(%)</i>
	2019	2018	2019/2018
Polish banks' aggregate assets.....	2,000.5	1,893.7	5.6
Deposits from the non-financial sector.....	1,269.8	1,158.6	9.6
Loans and advance payments to the non-financial sector	1,099.7	1,045.6	5.2

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 2019 amounted to 89.6 per cent. of Poland's GDP compared with the Eurozone average of approximately 269.9 per cent.

As at 31 December 2019, total assets of the Polish banking sector were 5.6 per cent. higher than at the end of 2018 and amounted to PLN 2,000.5 billion.

Loans

In 2019, 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>			2019/2018	2018/2017
	2019	2018	2017		
Loans to the non-financial sector, of which.....	1,136.8	1,088.8	1,026.7	4.5	6.0
to businesses and non-commercial institutions.....	383.9	373.1	347.9	2.9	7.3
to households.....	745.3	707.9	671.9	5.3	5.4

Source: KNF

Amounts due from households constitute the majority of the amounts due from non-financial entities. As at the end of 2019, amounts due from households comprised 66 per cent. of the gross amounts due from the non-financial sector and 37.2 per cent. of the banks' total assets. In 2018, amounts due from households also constituted the majority of the amounts due from non-financial entities.

In 2019, the growth rate of the loans to households was slightly lower than in 2018 (5.3 per cent. in 2019, as compared to 5.4 per cent. in 2018). The value of housing loans increased by PLN 37.4 billion in 2019. This is mainly a result of good

market conditions. The good financial position of households, supported by an increase in wages and salaries and low unemployment, determined demand for housing loans in PLN and for consumer loans.

Deposits

Despite prevailing low interest rates, the value of deposits has grown since 2018. 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 selected data on the deposit base of the non-financial sector:

Deposits of the non-financial sector	As at 31 December (in PLN billion)		Change (%)
	2019	2018	2019/2018
Deposits from businesses.....	322.9	293.6	10.0
Deposits from households.....	919.9	838.8	9.7

Source: KNF

Financial results

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

	For the year ended 31 December (in PLN billion)		Change (%)
	2019	2018	2019/2018
Profit on banking activities.....	70.6	64.6	9.3
Net profit/(loss).....	14.2	13.0	9.0
ROE (%).....	6.9%	6.5%	N/A

Source: KNF

In 2019, the net profit of the banking sector significantly increased to PLN 14.2 billion, 9.0 per cent. higher than in 2018. According to KNF, the growth of the financial results in 2019 was a consequence of the increase in total operating income, including the increase of dividend income and interest income.

In 2018, the net profit of the Polish banking sector decreased to PLN 13.0 billion constituting a 5.1 per cent. decrease in comparison to the previous year. The decrease of net profit was a result of the growth of impairment costs in a single bank.

Key trends in the Polish banking sector

Convergence in the Polish banking sector

The aggregate assets of banks in the Polish banking sector as at 31 December 2019 amounted to 89.6 per cent. of Poland's GDP for the year as compared to the average in the Eurozone, which was 269.9 per cent. (ECB data as at the end of 2019).

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:

	As at 31 December		Change (%)
	2019	2018	2019/2018
Total capital ratio.....	19.1%	19.0%	N/A
Own funds for capital adequacy (in PLN billion).....	210.8	203.7	3.4

Source: KNF

Two key factors have contributed to the strengthening of the 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.

Higher minimum capital requirements that have been applicable since January 2016. The Tier 1 capital ratio in 2019 was slightly decreased from 17.13 per cent. to 17.07 per cent. and the total capital ratio increased from 19.05 to 19.12 per cent. In 2019, the growth of the banks' own funds was higher than the growth of total amount of risk exposures.

Asset quality

As at 31 December 2019, the NPL ratio decreased to 6.6 per cent from 6.8 per cent as at 31 December 2018. This is mainly due to the sale of NPL portfolios (mainly comprising consumer loans), acceleration in the economic growth and the increase in the granted loans.

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

	As at 31 December	
	2019	2018
NPL ratio of corporate clients (%).....	8.4	8.7
NPL ratio of households (%).....	5.7	5.9
Total NPL ratio (%).....	6.6	6.8

Source: KNF

Inflation rate and interest rates

Inflation in Poland (as measured by the consumer price index) was constantly rising in 2019 (prices rose by 3.4 per cent. year on year on average) and in December 2019 reached 3.4 per cent. year on year. Inflation is expected to accelerate through 2020 reflecting both higher core inflation and rising food prices. However, the inflation projection by the NBP shows, that the risk of CPI exceeding the target remains low due to forecasted moderation of GDP growth and low inflation in the external environment. The recent changes caused by the COVID-19 pandemic are expected to deepen and lead to further economic disruption.

Margins

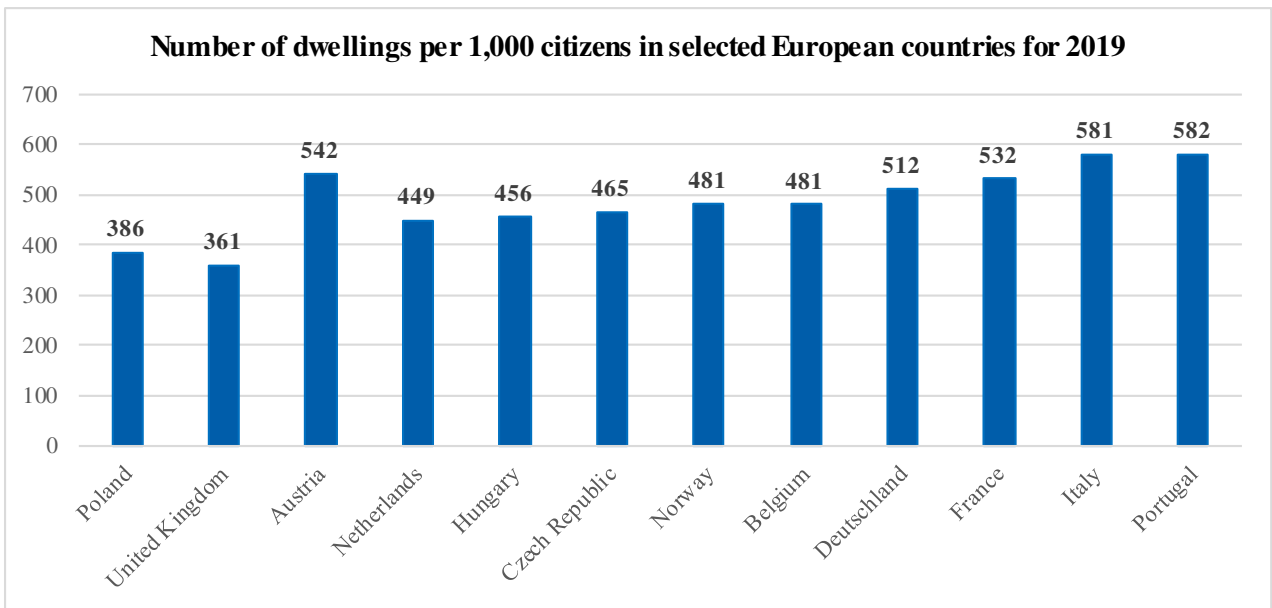
The fall in market interest rates following the decisions of the MPC made in the years 2014-2015 had a significant effect on interest rates for deposits and loans extended to clients. Additionally, in 2016 the interest rates on new deposits were affected by changes in the banks' pricing policies resulting from the introduction of the Polish Banking Tax. The decisions of the MPC to reduce interest rates even further made in March, April and May 2020, may have a similar result.

	As at 31 December	
	2019	2018
Average interest on new corporate deposits in zlotys.....	0.91	1.11
Average interest on new household deposits in zlotys.....	1.24	1.83
3M WIBID (eop).....	1.2	1.52

Source: NBP, Reuters

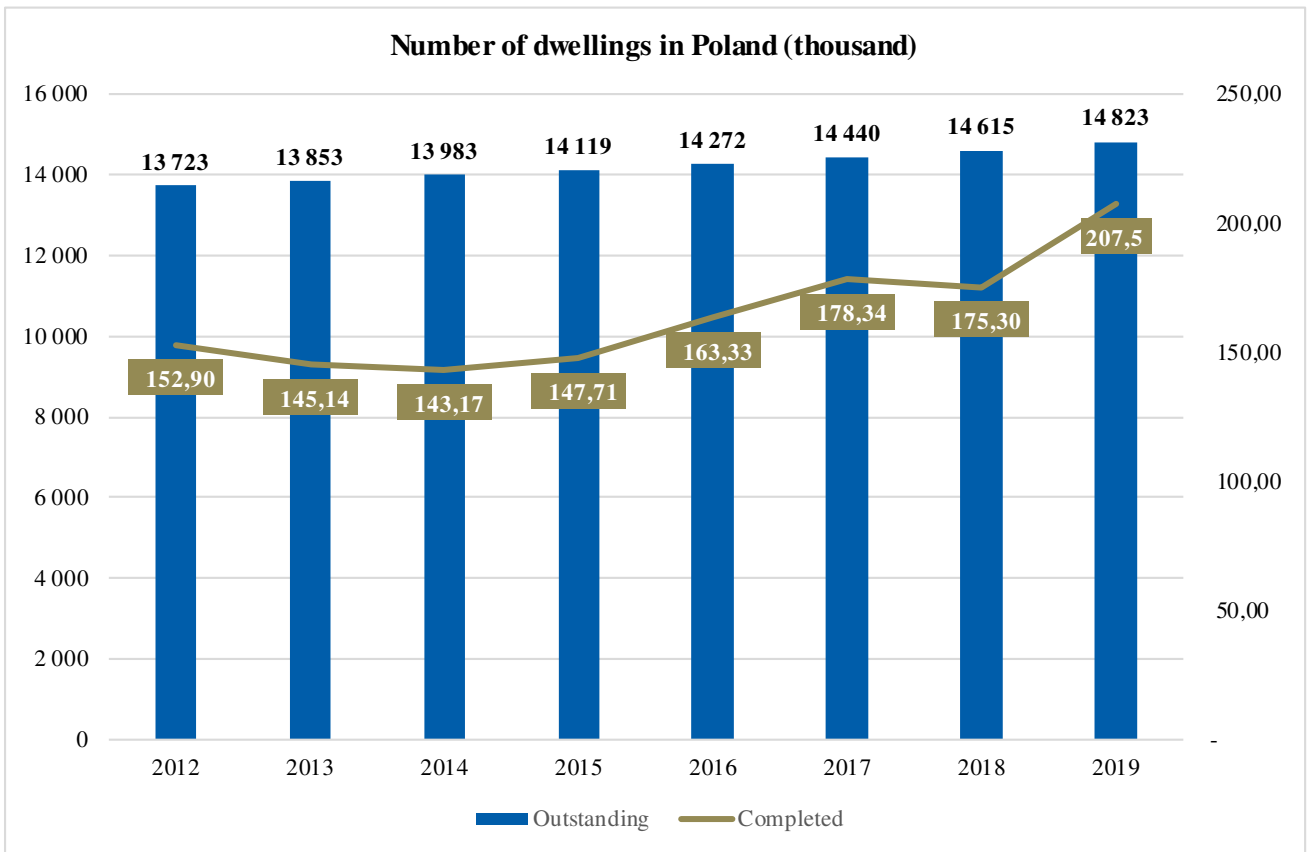
Residential market

The Polish residential property market is still in the development phase. According to the report of the Ministry of Development published in March 2020 which contains estimates based on the preliminary GUS data and the Deloitte "Property Index" report published in July 2020, the number of dwellings per 1,000 citizens in Poland reached 386 in 2019. Even though this number has been gradually improving, it is still much lower than an average of 478 in countries selected by Deloitte and one of the lowest in Europe.



Source: Deloitte Property Index 2020

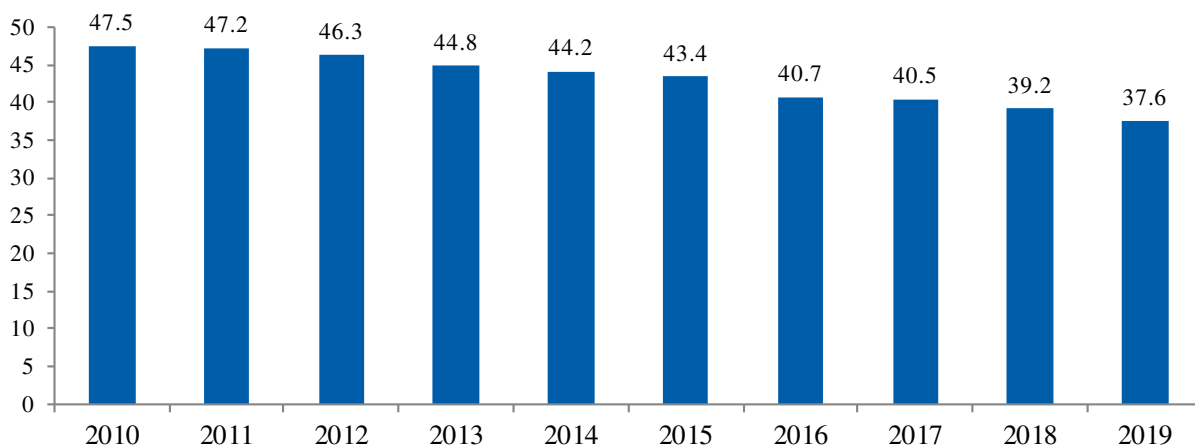
According to GUS, the total number of dwellings in Poland as at the end of 2019 was approximately 14.8 million.



Source: GUS

One major element of the quality of housing conditions is the availability of sufficient space in the dwelling. The indicator that is used to describe space problems is the overcrowding rate, which assesses the proportion of people living in an overcrowded dwelling, as defined by the number of rooms available to the household, the household's size, as well as its members' ages and family situation. As at the end of 2019, Poland's overcrowding rate was 37.6 per cent., down by 9.9 percentage points since 2010. The overcrowding rate is one of the highest in the EU, where the average overcrowding rate as of 2018 was 15.3 per cent. The Bank believes that the high overcrowding rate is one of the principal factors for increasing demand for new houses and apartments and, as a consequence, increasing demand for residential loans.

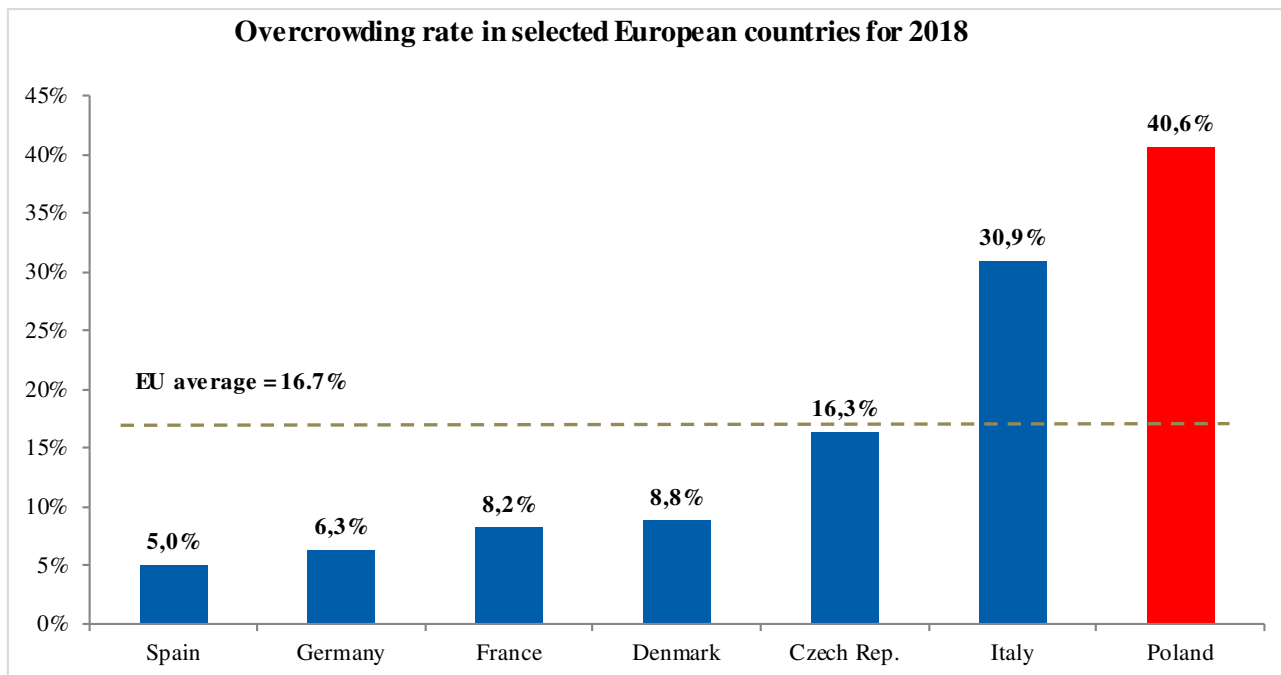
Overcrowding rate in Poland (%)



Source: the Bank's own study based on Eurostat data

The shortage of housing in Poland is estimated at about 1 million apartments (assuming a relatively constant number of people in the household) to 4-5 million apartments, and these estimates take into account the projected decline in the population by about 11-12 percent by 2050 (source: GUS). As a result, there is a great potential for the growth of the residential real estate market (as long as other factors, such as the price of residential properties, availability, loan price or unemployment level, are favorable).

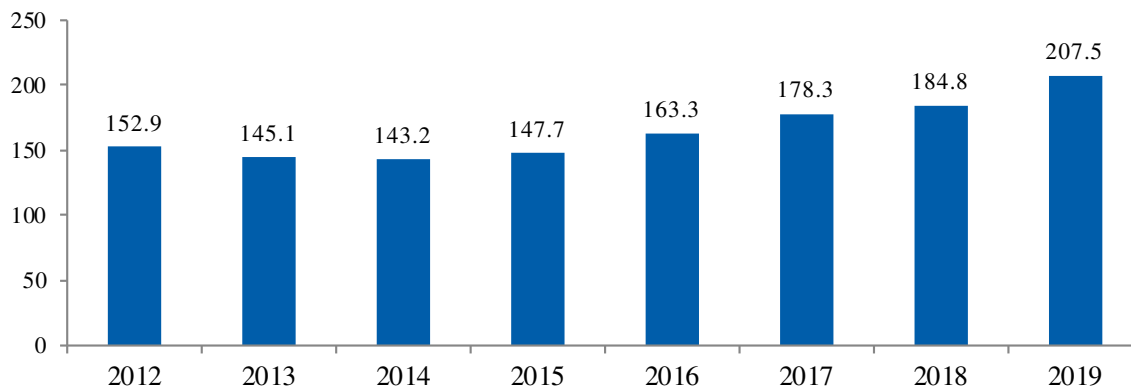
Overcrowding rate in selected European countries for 2018



Source: Eurostat

The number of dwellings in Poland has been growing on average over the last four years by about 180,000 per year, which corresponds to the number of new dwellings completed.

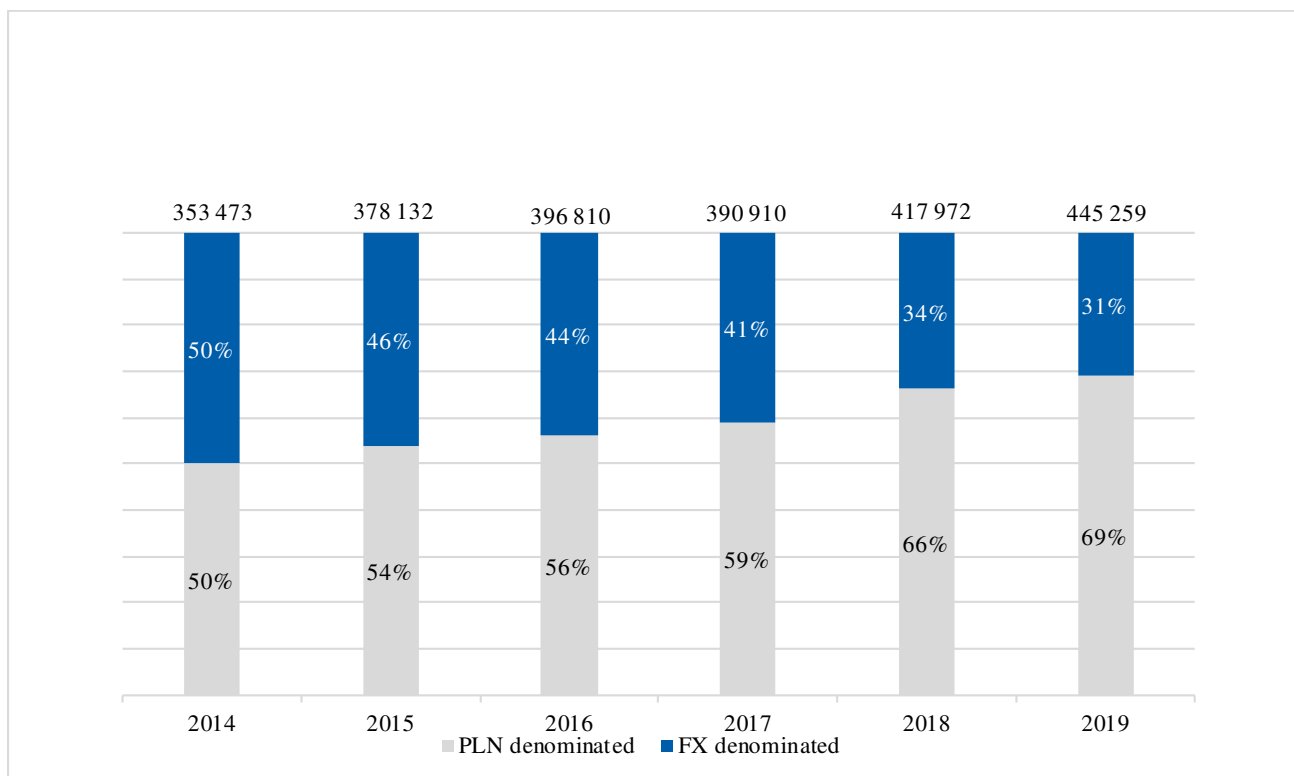
New dwellings delivered for use in Poland (in thousands)



The Polish mortgage loan market

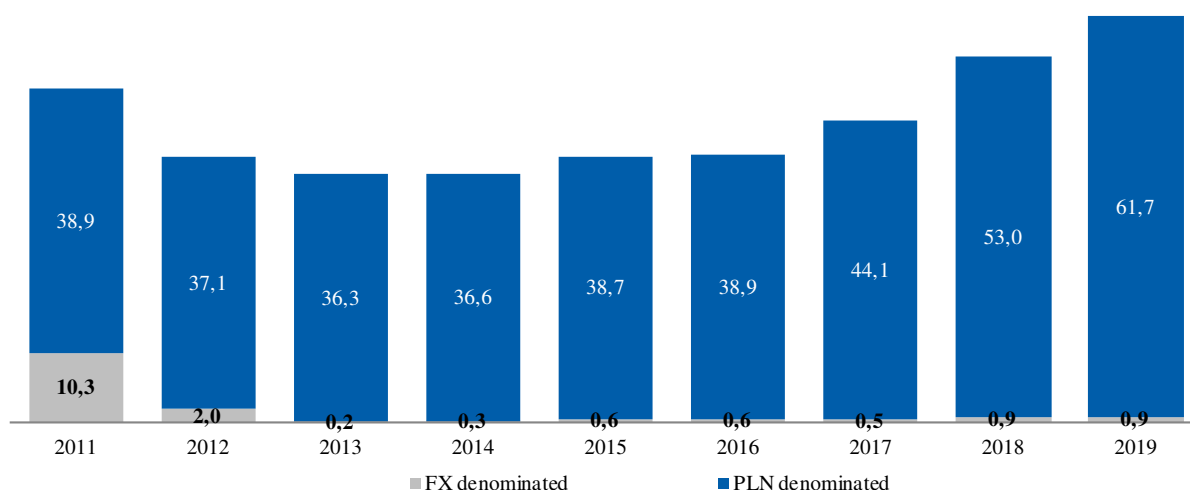
As at 31 December 2019, the aggregate value of outstanding mortgage loans reached PLN 445.3 billion, of which 69 per cent. were denominated in PLN.

Outstanding value of residential mortgage loans (PLN million)



Source: NBP

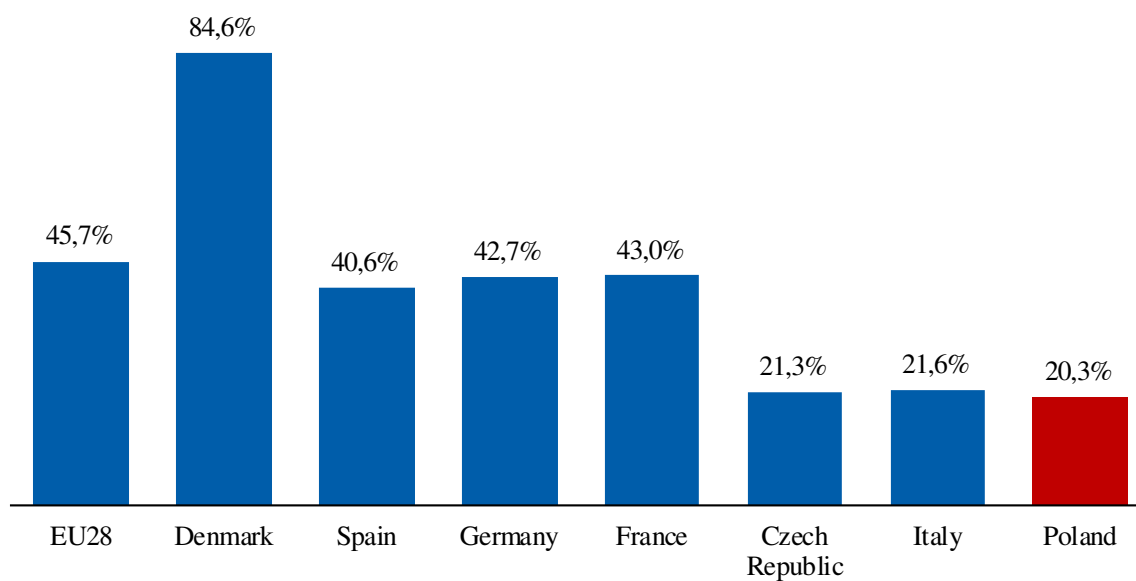
Value of newly signed residential mortgage loans (PLN billion)



Source: Polish Banking Association

With a ratio of the principal amount of outstanding residential loans to GDP of 20.3 per cent. in 2018, Poland was among the European countries with the lowest ratio of mortgage loans to GDP and below the EU average of 45.7 per cent.

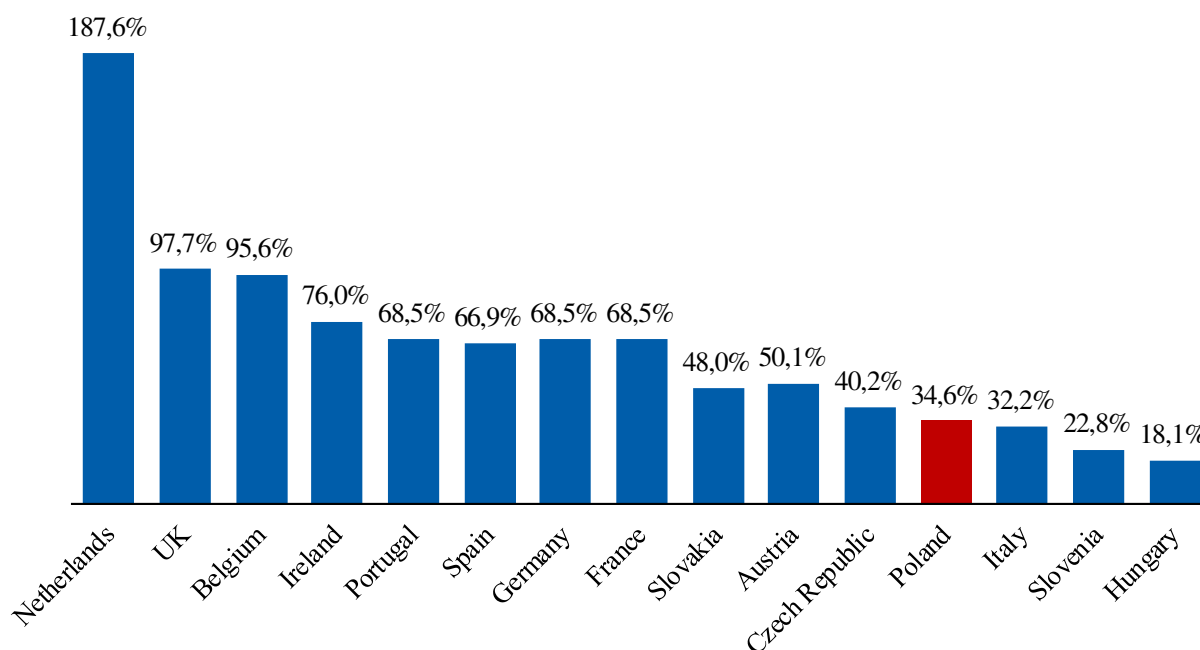
Total Outstanding Residential Loans to GDP ratio (% , 2018)



Source: European Mortgage Federation

Residential loans to household disposable income ratio in Poland was around 34.6 per cent. in 2018, one of the lowest in Europe.

Total Outstanding Residential Loans to Household Disposable Income (% , 2018)



Source: European Mortgage Federation

Prospects for the development of the Polish residential real estate market

As at the date of this Prospectus, it is not possible to assess the impact of the COVID-19 pandemic on the residential real estate market in Poland. The level of demand for residential real estate and housing prices in 2020 and in the following years will depend on a number of factors beyond the control of the Issuer. These factors include the overall macroeconomic situation in Poland, income level, unemployment rate, loan availability, efficiency of the actions by public administration bodies aimed at stimulating economic activity and general consumer sentiment, including the willingness of consumers to spend significant amounts of money on residential real estate.

Covered bonds and mortgage banks market

The Polish covered bonds market is relatively small and is characterised by moderate liquidity. As at 30 June 2020, the aggregate principal amount of outstanding covered bonds issued by Polish mortgage banks was approximately PLN 26.5 billion, a PLN 2.3 billion increase as compared to 30 June 2019.

As of 31 March 2020, mortgage covered bonds in Poland still represented only a small source of financing for mortgage claims, i.e., 5.9 per cent., an increase of 0.15 per cent. compared to 31 March 2019. As of 31 March 2020, liabilities under mortgage covered bonds issued to date amounted to PLN 27.1 billion, an increase of PLN 2.9 billion over 31 March 2019. Issuers of mortgage covered bonds may apply to the NBP for the approval of such instruments to be used as collateral for both lombard and technical loans, as well as for repo transactions carried out by the NBP.

As at the date of this Base Prospectus, there are four mortgage banks operating in Poland: the Bank, mBank Hipoteczny S.A., Pekao Bank Hipoteczny S.A. and ING Bank Hipoteczny S.A. In June 2020, the KNF allowed Bank Millennium S.A. to establish a mortgage bank which will operate under the business name “Millennium Bank Hipoteczny Spółka Akcyjna” and will be the fifth mortgage bank operating in Poland. These mortgage banks operate only in Poland. In addition, Santander Bank Polska S.A. applied for permission to establish a mortgage bank; however, this process has been suspended.

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.

The Bank's position on the Polish mortgage covered bonds market

As of 30 June 2020, the Bank was the leading mortgage bank in Poland and the market leader in terms of the value of issued mortgage covered bonds, the value of which reached PLN 16.8 billion. This amount represents approximately 63 per cent. of the total value of outstanding mortgage covered bonds issued by Polish mortgage banks. For comparison, the value of mortgage covered bonds issued by other mortgage banks operating in Poland amounted to over PLN 9.7 billion as of 30 June 2020:

Issuer	Value of issued mortgage covered bonds as of 30 June 2020 (in PLN billion)
mBank Hipoteczny S.A.	8.1
Pekao Bank Hipoteczny S.A.	1.3
ING Bank Hipoteczny S.A.	0.4

Source: the Bank's own study based on the cover pool reports published by mBank Hipoteczny S.A., Pekao Bank Hipoteczny S.A. and ING Bank Hipoteczny S.A.

DESCRIPTION OF THE BANK

History and general introduction

The Bank 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 2020, based on the Group's financial statements, the Group's share in the Polish mortgage loan market was 26 per cent.

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. As at the date of this Base Prospectus, since its establishment the Bank has issued covered bonds having an aggregate principal amount of PLN 4,385,000,000 under its domestic covered bond programme and covered bonds having an aggregate principal amount of EUR 2,779,000,000 under its international covered bond programme. For further details on covered bonds issued by the Bank, see "*Covered bonds portfolio*" below.

The Bank was established on 24 October 2014 for an indefinite period as a mortgage bank (*bank hipoteczny*) operating under the laws of Poland, in particular under Covered Bonds Act. 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, 81-342 Gdynia, Poland 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.

Legal Entity Identifier (LEI) of the Bank is 259400ALN6AM4REPEA 16. The website of the Bank is www.pkobh.pl. This website and any other websites referenced in this Base Prospectus are for information purposes only and do not form part of the Base Prospectus, with the exception of hyperlinks to the electronic addresses where information incorporated by reference is available.

As at the date of this Base Prospectus, the share capital of the Bank is PLN 1,611,300,000, which comprises 1,611,300,000 ordinary shares each with a nominal value of PLN 1.00 each. All of the Bank's shares are 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	Stable
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
Long-term counterparty risk rating.....	A2	N/A
Short-term counterparty risk rating.....	P-1	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).....	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
Long-term counterparty risk rating.....	A3	N/A
Short-term counterparty risk 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. The Group's share in the loan, mortgage loan sales and deposits market for the half year ended 30 June 2020 was 17.7 per cent., 25.3 per cent. and 17.9 per cent., respectively (based on KNF and ZBP data).

As at 30 June 2020, PKO BP serviced approximately 11.0 million customers (including 10.5 million individual customers, 0.5 million enterprises and 15.6 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 and mobile 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 1.1 thousand retail branches, 0.5 thousand agencies and 3.1 thousand ATMs as at 30 June 2020, 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 2020, PKO BP employed 27.3 full-time equivalent staff and employees.

The Group holds a leading position in the Polish housing mortgage loan market in terms of outstanding volume and new sale and its share in new sales of mortgage loans to retail banking customers amounted to 27 per cent. as at 30 June 2020. 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. As at 30 June 2020, the share of foreign currency mortgage loans was 6.6 per cent. As at 30 June 2020, the gross carrying amount of housing mortgage loans granted by the Group was PLN 117.0 billion.

PKO BP's and the Bank's primary residential loan products consist 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. On 15 February 2017 the KNF notified the Bank of Italy that the Bank notified the KNF, under Article 39 of the Directive 2013/36/EU, of its intention to provide the following services in the Republic of Italy: participation in securities issues and the provision of services relating to such issues (issuing mortgage covered bonds).

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 and acquires 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
- 80 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 or took an insurance of its contribution to the towards the purchase price of the property (80 per cent rate applies to loans granted starting from 1 April 2020; for the loans granted before that date, applicable rate is 90 per cent).

Loans granted or acquired 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 eighteen 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 (taking into account the insurance of the borrower's contribution towards the purchase price of the property):.....	Maximum 80% (before 1 April 2020, 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 strategy for the years 2020-2022

In the first quarter of 2020, the Bank's Management Board adopted and the Bank's Supervisory Board approved the Bank's updated strategy for the years 2020-2022. The Bank's strategic goals set out in the new strategy are: (i) diversification of the Bank's and Group's funding sources by maintaining their ability to obtain long-term financing in the form of covered bonds for the purpose of real estate lending; (ii) maintaining a safe risk level in the Bank's operations, in particular with respect to the credit portfolio and capital ratios; (iii) optimal use of assets and competencies of the Bank and PKO BP in order to achieve synergy within the Group; and (iv) issuing green covered bonds and taking action on sustainable development.

The current pandemic may adversely affect the macroeconomic situation in Poland, as well as the Bank's situation by, among others, reducing revenue, increasing the level of write-downs and difficulties in access to financing. Therefore, the strategy will be reviewed annually and updated as needed, and annual financial plans will be adjusted accordingly.

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 2020, the principal amount of the loans in the Bank's portfolio was PLN 25,481.0 million and the principal amount of the loans in the cover pool was PLN 22,665.6 million.

A vast majority of the loans in the cover pool are floating rate loans with the interest rate based on WIBOR for three months. The Bank is also granting loans with the interest rate based on WIBOR for six months. As at 30 June 2020, the average contractual maturity of loans in the cover pool was 256.5 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*".

The Bank publishes periodically 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 – Post-issuance information*".

Composition of the Bank's cover pool

The Bank's cover pool does not contain asset-backed securities that do not comply with paragraph 1 of Article 80 of the Guideline (EU) 2015/510 of the European Central Bank of 19 December 2014 on the implementation of the Eurosystem monetary policy framework (ECB/2014/60) (recast). These asset-backed securities have never been included in the Bank's cover pool and the Bank does not intend to include such asset-backed securities in its cover pool in the future.

On 18 May 2017 the KNF issued a decision to partly waive the application of Article 129 subparagraph 1 point (c) of the CRR and to allow credit quality step 2 for up to 10% of the total exposures of the nominal amount of the outstanding Covered Bonds.

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>Principal</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>Coupon</u>	<u>Listing</u>
<i>(denominated in PLN)</i>					
1	30,000,000	11 December 2015	11 December 2020	WIBOR3M +0.75%	Warsaw
2	500,000,000	27 April 2016	28 April 2021	WIBOR3M+0.65%	Warsaw
3	500,000,000	17 June 2016	18 June 2021	WIBOR3M+0.59%	Warsaw
4	500,000,000	28 April 2017	18 May 2022	WIBOR3M+0.69%	Warsaw
5	265,000,000	22 June 2017	10 September 2021	2.69%	Warsaw
6	500,000,000	27 October 2017	27 June 2023	WIBOR3M+0.60%	Warsaw
7	700,000,000	27 April 2018	25 April 2024	WIBOR3M+0.49%	Warsaw
8	100,000,000	18 May 2018	29 April 2022	WIBOR3M+0.32%	Warsaw
9	500,000,000	27 July 2018	25 July 2025	WIBOR3M+0.62%	Warsaw
10	60,000,000	24 August 2018	24 August 2028	3.4875%	Warsaw
11	230,000,000	26 October 2018	28 April 2025	WIBOR3M + 0.66%	Warsaw
12	250,000,000	10 June 2019	30 September 2024	WIBOR3M + 0.60%	Warsaw
13	250,000,000	2 December 2019	2 December 2024	WIBOR3M + 0.51%	Warsaw
<i>(denominated in EUR)</i>					
1	500,000,000	24 October 2016	24 June 2022	0.125%	Luxembourg, Warsaw
1 (tranche no. 2)	100,000,000	8 March 2019	24 June 2022	0.125%	Luxembourg, Warsaw
2	25,000,000	2 February 2017	2 February 2024	0.82%	Luxembourg
3	500,000,000	30 March 2017	24 January 2023	0.625%	Luxembourg, Warsaw
4	500,000,000	27 September 2017	27 August 2024	0.75%	Luxembourg, Warsaw
5	54,000,000	2 November 2017	3 November 2022	0.467%	Luxembourg
6	500,000,000	22 March 2018	24 January 2024	0.750%	Luxembourg, Warsaw
7	500,000,000	28 January 2019	23 November 2021	0.25%	Luxembourg, Warsaw
7 (tranche no. 2)	100,000,000	1 March 2019	23 November 2021	0.25%	Luxembourg, 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 bonds under the domestic bonds programme and the base prospectus for domestic bonds programme approved by the KNF;
- issuances of short-term bonds under the Bank's PLN 4.0 billion private placement programme;
- private issuances of bonds to selected investors;
- 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 six times the Bank's own funds.

As at 30 June 2020, the aggregate principal amount of bonds issued by the Bank was PLN 2,563.0 million, the principal amount of outstanding loans and credit facilities was PLN 5,773.0 million, and the amount of deferred payments of purchase prices for loans acquired from PKO BP was PLN 154.0 million.

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;
- the Bank manages the liquidity risk and performs an ILAAP (Internal Liquidity Adequacy Assessment Process) wherein the liquidity risk management process and liquidity management methods are appropriate to the business model of the Bank;
- 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 and valuation 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 assessing the materiality of their potential influence on the given type of risk and on the financial position of the Bank. As part of the risk identification process, material types of risk for the Bank's activities are identified. The different risks assessments are reviewed at least once a year for their materiality;
- risk measurement or assessment: risk measurement covers the determination of risk measures adequate to the type and materiality of the risk, data availability and quantitative risk assessment by means of set measures, and risk assessment covers identifying the scale of risk, taking into account risk management goals. Stress tests are carried out as part of risk measurement, with a view to determining the potential impact of adverse changes in the Bank's environment and operations on its financial position;
- risk control: consists of determining the tools to be used to diagnose or mitigate the level of risk in specific areas of the Bank's activity. Risk control comprises determining risk controls appropriate for the scale and complexity of the Bank's operations, in particular in the form of strategic tolerance limits for individual types of risks subject to monitoring, and in the event that these are exceeded, management actions are taken;
- risk forecasting and monitoring: preparing forecasts and monitoring deviations from forecasts or adopted reference points (e.g. limits, thresholds, plans, measures from the previous period, recommendations) and stress testing. Risk monitoring is performed with a frequency appropriate to the materiality and volatility of a specific risk type;
- risk reporting: regularly informing the authorities of the Bank about the results of risk measurement, actions taken and recommended actions. The scope, frequency and the form of reporting are adjusted to the management level of the recipients; and
- management actions: including, in particular enacting internal regulations, specifying the risk tolerance level, establishing limits and thresholds, issuing recommendations, taking decisions, including about the use of tools supporting risk management. The objective of management actions is to shape the risk management system 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 mutually complementing levels. The first level consists of organizational structures managing the product, organizing the sale of products and customer service as well as other organizational units carrying out operational tasks generating risk, operating on the basis of internal regulations.

The second level covers the activity of the compliance unit and the identification, measurement or assessment, control, monitoring and reporting of risk and the identified threats and irregularities - the tasks are carried out by specialized organizational units operating on the basis of the Bank's internal regulations. The purpose of these units is to create internal regulations defining the principles, methods, tools and procedures for risk management as well as measuring the effectiveness of operations.

The third level is the activity of the internal audit unit performing independent audits of the elements of the Bank's management system, including the risk management system and the internal control system. Internal audit functions separately from the first and second level.

The independence of the abovementioned levels 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.

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:

Stage	Description
Preparing the mortgage lending value valuation	The valuation is prepared by an expert who has sufficient experience and skills in estimating banking risk associated with securing mortgage loans.
Reviewing the valuation	The valuation is reviewed by an internal expert or 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:

Stage	Description
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.

Trend information

There have been no trends, uncertainties, demands, commitments or events since the date of the Bank's last published audited financial statements that would reasonably be likely to have a material effect on the Bank, or the Bank's prospects.

Material Contracts

The Bank has not entered into any material contracts outside of its ordinary course of business which could result in the Bank being under an obligation, or having any entitlement, that is material to the Bank's ability to perform its obligations.

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.

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 four committees within the Supervisory Board: the Audit and Finance Committee, the Remuneration and Nomination Committee, the Commercial Committee, and the Risk Committee. The Audit and Finance Committee supports the Supervisory Board in reviewing the financial standing of the Bank as well as the Bank's internal control system. The Remuneration and Nomination 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. The Risk Committee is responsible for supporting the Supervisory Board in overseeing the Bank's risk management system.

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 on the Management Board</u>	<u>Commencement of current term of office</u>	<u>Date of expiration of current term of office*</u>
Paulina Strugała	1970	President of the Management Board	16 April 2018	30 March 2019	30 June 2023
Agnieszka Krawczyk	1973	Vice-president of the Management Board	1 January 2018	30 March 2019	30 June 2023
Piotr Kochanek	1980	Vice-president of the Management Board	1 January 2019	30 March 2019	30 June 2023

** The term of office covers three consecutive full financial years; the term of office of the Management Board member expires on the date of the General Meeting approving the financial report for the third full financial year in which the term of office of the Management Board was held.*

To the best of the Bank's knowledge, there are no potential conflicts of interest between the duties owed by the members of the Management Board with respect to the Bank and their private interests or other duties, except for a potential conflict of interest stemming from the fact that Agnieszka Krawczyk, Vice-President of the Bank's Management Board, is employed as the Director of the Mortgage Banking Products Department at PKO BP on a part-time basis.

To the best of the Bank's knowledge, members of the Management Board of the Bank do not perform any principal activities outside of the Bank other than those disclosed below.

Paulina Strugała

Ms Strugała is a graduate of the SGH Warsaw School of Economics. She holds a Practising Certificate and Audit Qualification issued by the Association of Chartered Certified Accountants (ACCA) and the title of Executive MBA, certified by the Ecole Nationale des Ponts et Chaussées in Paris and University of Bristol. She is also a member of the Advanced Management Program of IESE Business School, University of Navarra.

She began her professional career in 1995 at KPMG's Warsaw office. In December 2006, she started working for PKO/Credit Suisse TFI (now PKO TFI) as Managing Director responsible for operations. Having worked for PKO BP since February 2010, she has held the position of Director of Internal Audits of the Bank and the Capital Group.

During her career, she has been responsible, among many other things, for auditing financial statements, client advisory regarding accounting and financial reporting, creating strategies and solutions, as well as defining key risks in banking and other financial institutions' activities as part of an assessment of internal control and risk management systems.

Agnieszka Krawczyk

Ms Krawczyk is a graduate of the Higher School of Management in Warsaw in management in Banking and Finance. Since 1993, she has been involved with the banking industry, including for last 17 years in the mortgage banking and real estate market. In her professional career, she has worked at all levels from relationship manager to a director. She has extensive experience in sales techniques, customer service processes and structuring product offers. She has gained professional experience working in such banking institutions as BPH, BGŻ, Raiffeisen and Getin Noble, as well as by creating Allianz Bank from the scratch. Since 2011 she has been associated with PKO BP, first as the Head of the Office, and then the Director of the Mortgage Banking Products Department, where she is responsible, among others, for creating an offer for private individuals in real estate financing and mortgage-secured loans, increasing the effectiveness of the products, shaping the service process and assessing operational risk. She was involved in a project related to establishing the Bank.

She is the Deputy Chairman of the Presidium of the Committee for Real Estate Financing at the Polish Banking Association and represents lenders in the Borrowers' Support Fund Council.

Piotr Kochanek

Mr Kochanek is a graduate of the Faculty of Mathematics of the Silesian University of Technology. He has gained his professional experience working for Bank BPH, DnB Nord Polska, Allianz Bank Polska and Nordea Bank Polska. Since 2014, he has been associated with the Bank, where as Head of Risk Department, he was responsible, among others, for creating a comprehensive risk management system and capital adequacy of the Bank, development of a management information system in the risk area and a project for transferring receivables from PKO BP to the Bank.

Supervisory Board

The Bank's Supervisory Board is responsible for overseeing the Bank's operations. The Supervisory Board appoints the Management Board members, 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 the reappointment of Supervisory Board members.

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

Name	Year of birth	Position	Commencement of membership	Commencement of current term	Date of expiration of the current term*
Jakub Papierski	1972	Chairman	6 October 2014	30 March 2019	30 June 2023
Justyna Borkiewicz	1964	Member	28 October 2016	30 March 2019	30 June 2023
Ilona Wołyniec	1968	Member	30 March 2019	30 March 2019	30 June 2023
Paweł Metrycki	1976	Vice Chairman	30 March 2019	30 March 2019	30 June 2023
Piotr Kwiecień	1971	Member	18 October 2017	30 March 2019	30 June 2023
Lucyna Kopińska	1966	Member	1 September 2019	30 March 2019	30 June 2023
Jadwiga Lesisz	1974	Member	1 September 2019	30 March 2019	30 June 2023
Dariusz Odzioba	1970	Member	1 September 2019	30 March 2019	30 June 2023

** The term of office covers three consecutive full financial years; the term of office of the Supervisory Board member expires on the date of the General Meeting approving the financial report for the third full financial year in which the term of office of the Supervisory Board was held.*

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

To the best of the Bank's knowledge, members of the Supervisory Board of the Bank do not perform any principal activities outside of the Bank other than those disclosed below.

Jakub Papierski

Mr Papierski graduated from the Warsaw School of Economics. He is also a Chartered Financial Analyst (CFA). He commenced his professional career at the consulting company Pro-Invest International in 1993. Between 1995 and 1996, he worked for ProCapital Brokerage House and subsequently for Creditanstalt Investment Bank. In March 1996, he started working for Deutsche Morgan Grenfell/Deutsche Bank Research dealing with the banking sector in Central and Eastern Europe.

Between November 2001 and September 2003, he worked for Bank Pekao S.A. as Executive Director of the Financial Division, directly supervising the financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios. In addition, he was a member of the Asset and Liability Management Committee of that bank. In October 2003, he was appointed President of the Management Board of Centralny Dom Maklerski Pekao S.A. In September 2006, he also took up the position of Deputy Chairman of the Supervisory Board of Pioneer Pekao TFI S.A. From May 2009, Mr Papierski acted as President of the Management Board of Allianz Bank Polska S.A. and in October 2009 he was appointed President of the Management Board. He has been Vice President of the PKO BP Management Board since 2010.

Between 2005 and 2009, Jakub Papierski chaired the Programme Council of the Capital Market Leaders Academy organised by the Lesław Paga Foundation and at present is a member of the Programme Council.

Justyna Borkiewicz

Ms Borkiewicz joined PKO BP in January 2010 and since April 2011 she has been the Director of the President of the Management Board Bureau. Previously, for 15 years she worked at Pioneer Pekao TFI S.A., first as a legal adviser and since 1997 as the Director of the Legal Department. At the same time, since 2001 she had been the Director of the Legal Department at Pioneer Pekao Investment Management S.A. From 1998 to 2009, she was involved in setting up and in the activities of the Board of Funds and Asset Management, took part in work on successive amendments to investment fund legislation and, within the framework of EFAMA, in work on analogous EU legislation.

She took part in the establishment of PKO BP Foundation and has been Deputy Chair of the Foundation's Programme Council. Since April 2011, she has been a member of the Bank Ethics Committee at the Polish Banking Association ("ZBP") and is the head of the ZBP Consumer Credit Committee (since 2014). As part of her pro bono activities, since 2006 she has supported Zonta Club (a public benefit organisation) in Warsaw with her legal services.

She is a legal adviser, graduate of the Warsaw University Faculty of Law and Administration, and qualified as a mediator in civil law cases.

Iłona Wołyniec

Ms Wołyniec is a graduate of the University of Gdańsk, where she graduated from the Faculty of Law. She has the qualifications of a legal counsel. She has been involved with the financial sector for over 20 years.

Currently, she is associated with PKO BP, where she is Head of the Relationship with Strategic Clients and Project Finance Division and is responsible for cooperation with the largest corporate clients on the Polish market. She participated in the preparation of financing for many projects (including investment projects, mergers and acquisitions) in such areas as energy, telecommunications, infrastructure and real estate, public sector and utilities, using various financial instruments, such as syndicated loans and bond issues.

Paweł Metrycki

For 11 years, Mr Metrycki has held the position of a senior management, managing separate units as well as leading and participating in a number of projects covering various areas of banking.

Initially associated with the subject of market risk, in 2008 he took the position as Head of Market Risk Department. Then, he became Head of Credit Risk Department, focusing on issues related to credit risk of retail, corporate and financial institutions.

He has been heading Banking Risk Division for 7.5 years, where he is responsible for credit risk, market risk, liquidity risk, operational risk management and capital adequacy. Consistently implementing strategic risk reduction goals, he has

carried out a number of projects to improve the risk management processes, in particular credit risk, which enabled the bank to properly address customer needs and to increase profitability while maintaining an acceptable level of risk.

He is a member of the key decision-making committees of PKO BP, including Credit Committee and Asset and Liability Management Committee.

As the project manager for the implementation of the market risk management system, he was awarded by Gazeta Bankowa Prize for the best project in the Back Office category. He was a member of the Supervisory Board of an investment fund company. He passed a state examination for candidates for members of supervisory bodies. Currently, he is a member of Supervisory Boards of insurance companies PKO Życie TU S.A. and PKO TU S.A. as well as PKO Faktoring S.A.

Mr Metrycki is a graduate of the Faculty of Computer Science and Econometrics at the University of Lodz. He has also completed post-graduate studies in Economic Information Technology at the Warsaw School of Economics. In 2006 he passed the Professional Risk Management Association (PRMIA) exam and obtained the title of Professional Risk Manager (PRM). He has also participated in the Algo Academy training courses in Frankfurt and London.

Piotr Kwiecień

Mr Kwiecień is a qualified advocate and a member of the Warsaw Bar. He holds a Master's degree in law from the Faculty of Law and Administration at Warsaw University. He has worked at, among others, BIG Bank Gdański S.A. and PTE Big Bank Gdański S.A. as a manager of the internal control team. Since 2005 he has run a law firm focused on advising entities in the financial sector. He has also been a member of the supervisory boards of entities in both the public and private sectors. Currently, he is a member of the Supervisory Board of PKO TFI S.A.

Lucyna Kopińska

Ms Kopińska graduated from the Economics Faculty at the Mikołaj Kopernik University in Toruń. During her professional career, she has participated in multiple post-graduate studies and trainings in finance, financial analysis and management, among others, in management accounting at the Academy of Economics in Poznań and Master of Business Administration at the Banking University in Gdańsk.

Ms Kopińska began her professional career in 1991 as Head of the Operations, Cash and Treasury Department in the Cooperative Bank in Bydgoszcz. In the years 1994–2001, she was employed at Bank Handlowy w Warszawie S.A. as a Manager of Customer Services and Head of Bank Accounts Department. In 2001-2007, she was Director of the Northern Region of the Transaction Banking Products Sales Office at Bank Handlowy w Warszawie S.A. Starting from 2007 she has been employed at PKO BP as Regional Director of Retail Banking in Bydgoszcz. She manages 1,215 regional employees in the Kuyavia and Pomerania voivodeship, as well as parts of the Pomeranian, Mazovian, Warmian and Mazurian, and Greater Poland voivodeships.

Jadwiga Lesisz

Ms Lesisz graduated from two-year MBA studies at the Banking University (*Wyższa Szkoła Bankowa*) in Wrocław and Franklin University, USA, and completed post-graduate studies in Real Estate Management at the Wrocław Technical University, specializing in real estate valuation and management. She holds a real estate manager licence and is a certified project manager. She graduated from the Wrocław University of Economics majoring in international relations and foreign trade. She passed the exam for candidates for supervisory board members in companies owned by the State Treasury of the Republic of Poland and has a supervisory board experience.

Ms Lesisz has over 20 years of professional experience (including in the SME sector). She held the position of vice president and acted as president of the Polish Agency for Enterprise Development. She managed the operations of the Agency, allocating EU funds that supported the development of SMEs. She was responsible in particular for completing public tasks relating to developing innovations in enterprises. She initiated cooperation in the construction of an eco-system start-up in Poland and supervised government contracts, managing assets and IT resources of the Agency.

Acting as Director of the Project Management Department in the Ministry of Development she was responsible for the preparation and implementation of a uniform methodology and culture in project management, which included coordinating key projects. She was a member of the Audit Committee in the Ministry of Development.

Currently, Ms Lesisz is the General Director of the Ministry of Family, Labour and Social Policy. She is also a member of the Supervisory Board of PKN Orlen S.A. and a member of the Audit Committee of PKN Orlen S.A.

In the years 2012-2016 she was employed by PKO BP, where she managed real estate leases entered into by PKO BP's branches, and supervised and participated in negotiations. She was involved in oversight of the optimisation of PKO BP's branch network.

Dariusz Odzioba

Mr Odzioba is a graduate of the Faculty of Economics of the Mikołaj Kopernik University in Toruń. He also completed post-graduate studies at the Warsaw University of Life Sciences (SGGW). Since 2015 he has been with PKO BP, initially as Director of the Strategic Customers Department, then as Director of Markets and Private Banking, and currently as Director of Corporate Customer Relationships.

In 2011-2015 he held the function of vice president of the Management Board of BGŻ S.A. responsible for Corporate Banking and Financial Markets. In 2008-2011 he was Executive Director responsible for Financial Markets and Investment Portfolios in Bank Pekao S.A.

In 1995-2008 he was with the ABN AMRO Group, where he held the function of Treasury Department Director; he supervised trading in financial instruments in the CEE Region from London and was a Member of the Management Board of ABN AMRO Bank (Poland) S.A. Dariusz Odzioba has many years of experience in trading and selling financial instruments, asset and liability management and financial risk.

Practices of the administrative, management and supervisory body

Audit and Finance Committee

The Audit and Finance Committee consists of at least three members appointed by the Supervisory Board from among its members. As of the date of this Base Prospectus the Audit and Finance Committee consists of Piotr Kwiecień, Paweł Metrycki and Jadwiga Lesisz.

The purpose of the Audit and Finance Committee is to support the Supervisory Board in carrying out its duties and supervisory control over financial reporting and disclosure by the Bank of financial information, corporate governance, monitoring the effectiveness of internal control, risk management as well as internal and external audit.

The Audit and Finance Committee is responsible in particular for the implementation of the following tasks:

- monitoring the Bank's financial reporting process;
- monitoring and periodically assessing the effectiveness of internal control systems and adherence to the principles of prudent and stable management of the Bank;
- monitoring the performance of financial audit and the independence of the auditor and the entity authorised to audit financial statements; and
- giving opinions on strategic directions and tasks in the field of banking risk in the context of the Bank's strategy and conditions resulting from the macroeconomic situation and the regulatory environment, in particular in the area of risk management strategies, including the Bank's acceptable overall risk level.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee consists of at least two members appointed by the Supervisory Board from among its members. As of the date of this Base Prospectus the Remuneration and Nomination Committee is composed of Jakub Papierski and Ilona Wołyniec.

The purpose of the Remuneration and Nomination Committee is to support the Supervisory Board in the performance of its statutory duties and tasks arising from the law, in particular in the area of ensuring suitability (experience and knowledge) of the Bank's Management Board members (recruitment and monitoring of suitability), rules for remunerating members of the Bank's Management Board, as well as general principles of the variable remuneration component policy of persons holding managerial positions at the Bank.

The Remuneration and Nominations Committee is responsible in particular for the following tasks:

- giving opinions and periodic review of nominations for key management positions of the Bank;
- presenting proposals to the Supervisory Board regarding appropriate forms of contract with members of the Management Board;
- issuing opinions on the Code of Ethics binding at the Bank and the Conflict of Interest Management Principles;
- giving opinions on applications regarding consent for a member of the Management Board to deal with competitive activities;
- giving opinions and periodically reviewing the general principles of the policy of variable remuneration components for persons in management positions; and

- preparing and conducting an annual summary of the assessment of the suitability of the Management Board, as well as the program for improving the qualifications of Supervisory Board members.

Risk Committee

The Risk Committee consists of at least two members appointed by the Supervisory Board from among its members. As of the date of this Base Prospectus the Risk Committee is composed of: Paweł Metrycki, Ilona Wołyniec and Justyna Borkiewicz.

The purpose of the Risk Committee is to support the Supervisory Board in the performance of control and supervisory duties over the functioning of the risk management system, as well as the ongoing monitoring of the functioning of the system.

The Risk Committee is responsible in particular for the following tasks:

- issuing opinions on the Bank's overall current and future readiness to take risks, strategic directions and tasks in the field of risk in the context of the Bank's strategy and macroeconomic conditions;
- supporting the Bank's Supervisory Board in overseeing the implementation of risk management strategies by senior management and monitoring the compliance of the Bank's policy with regard to risk-based approach with the strategy and financial plan;
- review of the prices of liabilities and assets offered to clients in terms of compliance with the Bank's business model and its risk management strategy;
- issuing opinions on capital adequacy, rules for assessing creditworthiness, risk measurement models, impairment measurement model;
- issuing opinions on the draft Regulations for Determining Mortgage Lending Value; and
- providing the Audit and Finance Committee with information relevant for monitoring the effectiveness and adequacy of the Bank's risk management system.

Commercial Committee

The Commercial Committee consists of at least two members appointed by the Supervisory Board from among its members. As of the date of this Base Prospectus, the Commercial Committee consists of Jakub Papierski, Ilona Wołyniec, Paweł Metrycki, Piotr Kwiecień and Lucyna Kopińska.

The purpose of the Commercial Committee is to support the Supervisory Board in the performance of its statutory duties and tasks stemming from applicable laws.

The Commercial Committee is responsible in particular for the following tasks:

- evaluating the results of the review of the functioning of cooperation agreements concluded between PKO BP and the Issuer;
- giving opinions on material changes in the criteria for qualifying the Bank's products;
- giving opinions on the assumptions concerning the introduction of a new product to the Bank's offer and the directions of changes in the Bank's product offer; and
- monitoring and supervision of outsourcing internal processes.

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

The Bank has current accounts and deposits with PKO BP.

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

Under the facility agreements dated 29 October 2015 and 2 February 2017, PKO BP provided the Bank with PLN 900,000,000 and PLN 1,500,000,000 overdraft facilities for three years, which have been subsequently increased. As of the date of this Prospectus, the amount of the facility granted under the agreement dated 29 October 2015 is PLN 2,000,000,000 and its repayment date is 29 October 2022. As of the date of this Prospectus, the amount of the facility granted under the agreement dated 2 February 2017 is PLN 2,000,000,000 and its repayment date is 3 February 2023.

Under the facility agreement dated 10 July 2019, PKO BP provided the Bank with a PLN 1,000,000,000 overdraft facility for three years, which was subsequently increased by PLN 1,500,000,000 on 18 December 2020 and by PLN 1,500,000,000 on 18 March 2020. As of the date of this Prospectus, the amount of the facility is PLN 4,000,000,000. The repayment date is 1 July 2022.

On 31 May 2019, the Bank concluded a Programme Agreement with PKO BP and PKO BP – Oddział Biuro Maklerskie PKO BP, regarding the Bond Issue Program established on 11 April 2019. PKO BP acts as an arranger and calculation agent, whereas the PKO BP – Oddział Biuro Maklerskie PKO BP acts as a dealer and firm commitment underwriter.

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. As at 30 June 2020, the initial carrying amount of the mortgage loans acquired by the Bank in 2020 was PLN 154,001 thousand compared to PLN 2,745,544 thousand acquired by the Bank in entire 2019. 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.

On 9 November 2015, the Bank concluded with PKO BP and PKO BP – Oddział Biuro Maklerskie PKO BP a Programme Agreement concerning the domestic covered bonds issuance programme. On 30 August 2017, the parties signed an agreement amending and unifying that agreement.

PKO BP also acts as an arranger and dealer under the Programme Agreement concluded on 28 September 2016, under which the Bank carries out foreign issues of mortgage bonds under the international covered bonds issuance programme, on the basis of the prospectus approved by the CSSF.

On 30 September 2015, the Bank and PKO BP concluded a Programme Agreement relating to the Bank's bond issuance programme up to PLN 2,000,000,000 for the period of four years and a guarantee agreement under which, in connection with the annexes signed to it, PKO BP accepts an obligation to take up the Bank's bonds on its own account up to PLN 2,000,000,000. As a result of signing annexes to the Programme Agreement, as of the date of this Prospectus, the total amount of the programme is PLN 4,000,000,000 and the programme agreement and the guarantee agreement expire on 30 September 2023. On 18 July 2019, the Bank concluded an Issue Agent Agreement with PKO BP – Oddział Biuro Maklerskie PKO BP. On 18 December 2019, the Bank concluded a Dealer Agreement with PKO BP, on the basis of which PKO BP will be a dealer for bonds issued under the Bank's bonds private placement programme.

PKO BP Finat sp. z o.o., a Group company, provides accounting, personnel and payroll services to the Bank. PKO Leasing S.A. provides the Bank with cars under car leasing agreements. PKO Towarzystwo Ubezpieczeń S.A. provides the Bank with credit risk insurance facilities.

The following tables set forth the outstanding balances of the Bank's related party transactions as at 30 June 2020 and 30 June 2019 and as at 31 December 2019 and 31 December 2018:

Group entity	Assets	
	Receivables	including due to derivative instruments
	<i>in PLN thousand</i>	
	as at 30 June 2020	
PKO BP	758,216	758,132
	as at 30 June 2019	
PKO BP	173,916	173,484
	as at 31 December 2019	
PKO BP	173,515	173,275
	as at 31 December 2018	
PKO BP	168,754	168,289

Liabilities					
Group entity	Current account credit limits, overdraft	Liabilities in respect of the purchase of receivables	Mortgage covered bonds and bonds	Other liabilities	including due to derivative instruments
<i>in PLN thousand</i>					
as at 30 June 2020					
PKO BP	5,531,938	155,039	53,097	8,867	813
PKO BP Finat sp. z o.o.	-	-	-	17	-
PKO Leasing S.A.	-	-	-	458	-
PKO Towarzystwo Ubezpieczeń S.A.	-	-	97,187	-	-
PKO Zycie Towarzystwo Ubezpieczeń S.A.	-	-	64,839	-	-
PKO VC – closed end fund	-	-	33,904	-	-
as at 30 June 2019					
PKO BP	1,609,122	2,278,486	405,117	61,033	48,539
PKO BP Finat sp. z o.o.....	-	-	-	18	-
PKO Leasing S.A.....	-	-	-	684	-
PKO Towarzystwo Ubezpieczeń S.A.	-	-	-	228	-
PKO Życie Towarzystwo Ubezpieczeń S.A.	-	-	-	-	-
PKO VC – closed end fund	-	-	33,100	-	-
as at 31 December 2019					
PKO BP	2,282,481	2,278,763	62,416	57,897	46,084
PKO BP Finat sp. z o.o.....	-	-	-	19	-
PKO Leasing S.A.....	-	-	-	577	-
PKO Towarzystwo Ubezpieczeń S.A.	-	-	-	31	-
PKO Życie Towarzystwo Ubezpieczeń S.A.	-	-	64,423	-	-
PKO VC – closed end fund..	-	-	33,698	-	-
as at 31 December 2018					
PKO BP	1,742,017	2,300,254	137,491	122,185	15,254
PKO BP Finat sp. z o.o.....	-	-	-	18	-
PKO Leasing S.A.....	-	-	-	50	-
PKO VC – closed end fund..	-	-	34,675	-	-

Group entity	Loan commitments granted	Contingent assets
	<i>in PLN thousand</i>	
	as at 30 June 2020	
PKO BP	-	4,478,816
	as at 30 June 2019	
PKO BP	-	3,899,139
	as at 31 December 2019	
PKO BP	-	4,230,566
	as at 31 December 2018	
PKO BP	-	3,117,320

The following tables set forth the income statement positions of the Bank's related party transactions for the comparative periods from 1 January 2020 to 30 June 2020 and January 2019 to 30 June 2019 and from 1 January 2019 to 31 December 2019 and 1 January 2018 to 31 December 2018:

Group entity	Total revenues	of which interest and commissions	Total costs	of which interest and commissions	Net result on financial instruments measured at fair value	Net foreign exchange gains / (losses)
<i>in PLN thousand</i>						
1 January 2020 – 30 June 2020						
PKO BP	1,230	1,116	160,696	145,549	29	581,555
PKO BP Finat sp. z o.o.....	-	-	101	-	-	-
PKO Leasing S.A.....	-	-	168	6	-	-
PKO Towarzystwo Ubezpieczeń S.A.....	-	-	2,450	2,450	-	-
PKO Życie Towarzystwo Ubezpieczeń S.A.....	-	-	577	577	-	-
PKO VC – closed end fund	-	-	323	323	-	-
Total	1,230	1,116	164,315	148,905	29	581,555
1 January 2019 – 30 June 2019						
PKO BP	1,041	816	156,320	144,555	33	(133,638)
PKO BP Finat sp. z o.o.....	-	-	101	-	-	-
PKO Leasing S.A.....	-	-	163	6	-	-
PKO Towarzystwo Ubezpieczeń S.A.....	-	-	1,478	1,478	-	-
PKO Życie Towarzystwo Ubezpieczeń S.A.	-	-	-	-	-	-
PKO VC – closed end fund	-	-	364	364	-	-
Total	1,041	816	158,426	146,403	33	(133,638)
1 January 2019 – 31 December 2019						
PKO BP	1,924	1,642	342,575	317,626	65	(115,511)
PKO BP Finat sp. z o.o.....	-	-	197	-	-	-
PKO Leasing S.A.....	-	-	225	14	-	-
PKO Towarzystwo Ubezpieczeń S.A.....	-	-	3,417	3,417	-	-
PKO Życie Towarzystwo Ubezpieczeń S.A.....	-	-	25	25	-	-
PKO VC – closed end fund...	-	-	713	713	-	-
Total	1,924	1,642	347,152	321,796	65	(115,511)
1 January 2018 – 31 December 2018						
PKO BP	1,633	1,231	273,257	252,074	89	250,073
PKO BP Finat sp. z o.o.....	-	-	193	-	-	-
PKO Leasing S.A.....	-	-	400	-	-	-
PKO Towarzystwo Ubezpieczeń S.A.....	-	-	1,994	1,994	-	-
PKO Życie Towarzystwo Ubezpieczeń S.A.....	-	-	524	524	-	-
PKO VC – closed end fund...	-	-	14	14	-	-
Total	1,633	1,231	276,382	254,606	89	250,073

All transactions entered into by the Bank with related parties are on arm's 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.

Banking supervision exercised by the KNF

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

- assessment of the financial position of banks, including their solvency, the quality of assets, liquidity and the financial results;
- review of the quality of the bank management systems, including, in particular, the risk management system and internal control system;
- assessment of the compliance of credit facilities, cash loans, letters of credit, bank guarantees and sureties granted, and of bank securities issued, with applicable regulations;
- examination of collateral and timely repayment of credit facilities and cash loans;
- examination and assessment of banks' compliance with the exposure concentration limits and standards for the risk acceptable in banks' operations as determined by KNF;
- estimating, maintaining and reviewing internal capital; and
- assessment of the compliance of banks' activities with the appropriate regulations.

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 President of the Office for the Protection of Personal Data with respect to collecting, processing, managing and protecting personal data; and
- the minister responsible for financial institutions (as of the date of this Prospectus, the Minister of Finance); and
- the General Inspector for Financial Information with respect to the prevention of money laundering and financing of terrorism.

Deposit Guarantee Fund and Resolution Fund

Pursuant to the provisions of the Resolution Act, members of a mandatory guarantee system are obliged to contribute to a deposit guarantee fund (*fundusz gwarancyjny banków*) (“**Deposit Guarantee Fund**”) and a resolution fund (*fundusz przymusowej restrukturyzacji*) (the “**Resolution Fund**”).

The Resolution Act sets a new methodology for the calculation of the bank contributions to the Polish Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) (the “**BFG**”).

The amount of contributions to the Deposit Guarantee Fund and the Resolution Fund is calculated by the BFG individually for each bank. Contributions to the Deposit Guarantee Fund are paid quarterly. The basis for the calculation of fees for a given quarter is the value of the covered deposits at a bank, at the end of the quarter immediately preceding the quarter to which the contribution relates. Contributions to the Resolution Fund of banks are paid once a year. The obligation to pay the fee contribution is on the first day of the third quarter; however, in accordance with the guidelines of the BFG and the International Financial Reporting Standards Interpretations Committee (IFRIC) 21, the contribution is booked in the first quarter. The basis for calculating contributions is the sum of a bank's liabilities (net of own funds and covered deposits) in a bank as at the last approved annual financial statements before 31 December of the year preceding the year of contribution.

The Deposit Guarantee Fund 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 Deposit Guarantee Fund is mandatory for all Polish banks and, in certain instances, for branches of foreign banks operating in Poland. Mortgage banks are excluded from mandatory participation in the Deposit Guarantee Fund.

Banks covered are obliged to set up a guaranteed funds protection fund until 31 December 2024; however, this fund does not need to be set up to cover the assets obtained as a result of issuing of the Covered Bonds. 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 in PLN equivalent to EUR 100,000 per 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, and investment and pension funds are not covered by the guarantee system.

If the funds accumulated in the Deposit Guarantee Fund are insufficient to the disbursement of guaranteed funds, the BFG may require additional contributions in the amount not exceeding the 0.5% of guaranteed funds accumulated in the relevant entity at the end of the fourth quarter of the year preceding the year in which the additional contribution is made. If such additional contribution is not sufficient to the disbursement of guaranteed funds, the BFG may require further additional contributions.

The Resolution Fund was established in order to finance the resolution of banks, investment firms and branches of foreign banks, in particular to provide funds for financing the BFG's tasks described in the Resolution Act. The participation in the Resolution Fund is obligatory for all Polish banks, investment firms and branches of foreign banks operating in Poland.

The contributions to the Resolution Fund are set to achieve the minimum level of funds for financing the restructuring of banks and investment firms by 31 December 2024 and the target level by 31 December 2030. The target level is 1.2% of the amount of guaranteed funds in banks, investment firms and branches of foreign banks.

If the funds accumulated in the Resolution Fund are insufficient to finance the resolution of the institution subject to the resolution proceedings, the BFG may require additional contributions the amount of which may not exceed the threefold total amount of contributions required from the relevant entities for a respective calendar year. In the case when the total amount of these contributions is not determined, the BFG may require contributions in an amount not exceeding the threefold total amount of contributions required from the relevant entities for the previous calendar year.

Implementation of BRRD into Polish law

The relevant regulations of the Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the “**BRRD**”) were implemented in Poland by the Resolution Act, which came into force on 9 October 2016 (certain provisions of this legislation came into force on 11 February 2017) and was further amended by the amendment act dated 17 January 2019. The Resolution Act modified the legal framework of the deposit guarantee scheme in Poland operated by the BFG, and developed a framework allowing for the orderly resolution of financial institutions. The Resolution Act has also repealed the existing restructuring and support measures under Polish law to bring the relevant provisions in line with the BRRD framework. In this respect, the Resolution Act amended several other related legal acts, including legislation on financial instruments, insolvency, financial market supervision and recapitalisation of financial institutions.

The BRRD impacts on how large a capital buffer an institution will need, in addition to those requirements set out in CRD IV and/or CRR. To ensure that institutions always have sufficient loss-absorbing capacity, the BRRD requires institutions to maintain at all times a sufficient MREL level. According to Article 97 of the Resolution Act, mortgage banks are exempt from an obligation to meet the MREL if conditions specified in this article are met.

However, mortgage banks have to be taken into account when verifying the MREL level at the consolidated level of a credit institution (e.g. in case the mortgage bank is a subsidiary of a credit institution).

Nevertheless, on 16 April 2019 the European Parliament adopted a BRRD 2, which, among others, amended the BRRD. According to BRRD 2, mortgage credit institutions shall be exempted from the MREL requirement at the consolidated level. The BRRD II has been published in the Official Journal of the European Union on 7 June 2019 and entered into force on 27 June 2019. As of the date of this Prospectus, the act implementing the BRRD 2 into Polish law and amending the Resolution Act is being processed by the Polish Government and is expected to be adopted by the Council of Ministers in the third quarter of 2020.

Regulation of mortgage loans

The Mortgage Credit Act, which implements the Mortgage Credit Directive into Polish law, came into force on 22 July 2017.

The general purpose of the Mortgage Credit Act is to improve the position of borrowers who purchase real estate. The Mortgage Credit Act introduces restrictions on granting mortgage loans such as restrictions on currencies in which a loan may be granted, which depend on the currency of the borrower's income. Banks will be allowed to tie mortgage loans with other products except the auxiliary bank account free of charge (which does not concern Polish mortgage banks as they are not allowed to maintain bank accounts for their clients). It does not affect the cross-selling that respects the borrower's right to choose a standalone mortgage loan or other combined offer. Additionally, while a bank may require the borrower to insure the property financed with the mortgage loan and to assign this insurance to the bank, the bank may not restrict the borrower's ability to choose an insurer, as long as the insurance policy meets the criteria stipulated by the bank. The Mortgage Credit Act imposes several mortgage loans information requirements on banks. The first requirement is in respect of advertisements concerning mortgage loans which must provide detailed information about, and refer to all important features of, the mortgage loans. The next is the offer information which must be presented in a special information sheet and submitted to the customer after getting acquainted with his credit needs. The information sheet is binding on a bank for 14 days. Banks are also obliged to issue a credit decision within 21 days of the date of a loan application and to justify the refusal of granting a loan. The third requirement is in respect of the content of the loan agreement, which is also strictly regulated. It includes a customer's right to withdraw from the loan agreement within 14 days of the date of signing the agreement. Therefore, these regulations have demanded some changes in the process of originating mortgage loans. The Mortgage Credit Act introduces licensing requirements for brokerage and agent services regarding mortgage loans. Moreover it introduces regular training requirements as a condition of maintaining the licence. Banks are also required to conduct regular training of their employees involved in mortgage loan origination processes.

Moreover, the Polish Civil Code provides a cap for the maximum interest rates that may be charged by a bank under a loan agreement. As at the date of this Base Prospectus, this cap is twice the sum of the applicable reference rate of the NBP and 3.5 per cent. The maximum interest rate on overdue principal is twice the sum of the applicable reference rate of the NBP and 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.

The General Data Protection Regulation ("**GDPR**") entered into force on 25 May 2018. It imposes new obligations and guidelines on companies in the management and processing of personal data. This means a significant change for companies in their approach to the security of data storage and the issue of making it available to the relevant employees.

The key challenges resulting from the GDPR's implementation result from:

- the broader definition of personal data, including information identifying the person to the data;
- automated processing of personal data will be permitted under certain conditions;
- considerably increased rights of the individuals;
- new obligations of data processors, controllers and data protection officers related to provision of technical and organizational protection of personal data; and
- administrative fines for non-compliance with the GDPR which can reach EUR 20 million or 4 per cent. of an organisation's annual worldwide turnover. Moreover, pursuant to the GDPR, individuals have the right to receive compensation from the controller or processor for the damage suffered.

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, amongst others, 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 license 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 or surety 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, (iii) granting loans to these entities, loans to local government units and loans secured by a guarantee or surety of the local government units; and (iv) 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.

From 1 July 2019, the covered bonds have to be issued in dematerialised form. However, covered bonds with a nominal value exceeding the equivalent of EUR 100,000 at the date of issuance may have a document form, provided that, within six months, such covered bonds will be registered in the central securities depository within the meaning of the Act on Trading in Financial Instruments dated 29 July 2005 (*ustawa o obrocie instrumentami finansowymi*) ("**Act on Trading in Financial Instruments**") or in the other registration system in accordance with Article 49, section 1 of the Regulation (EU) 909/2014 ("**CSDR**"). Pursuant to the Act on Trading in Financial Instruments, covered bonds registered in accordance with Article 49, section 1 of the CSDR in other registration system are dematerialised upon such registration. However, this provision does not have the overriding character in respect to the relevant laws of the jurisdiction in which such other registration system operates. Based on the legal justification of such change, the purpose for the introduction of registration of the securities pursuant to Article 49, section 1 of the CSDR was to expressly allow the possibility of registering covered bonds in a securities depository other than National Depository for Securities ("**KDPW**").

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 or surety of 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 and, in the event of bankruptcy of a mortgage bank, will belong to the separate bankruptcy asset pool (please see "*Bankruptcy and Insolvency*" section of this Base Prospectus).

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 buffers;
- 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 controls whether required entries are made 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.

Deputy cover pool monitor helps cover pool monitor in performance of its tasks and may replace it in his absence. According to the Polish Covered Bonds Act 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. Provisions of this Base Prospectus referring to cover pool monitor shall be applied accordingly to deputy cover pool monitors.

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 zabezpieczenia*). 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:

$$\frac{\text{core assets} + \text{substitute assets} + \text{hedging instruments} + \text{liquidity buffer}}{\text{principal amount of outstanding covered bonds} + \text{costs of liquidating bankruptcy asset pool} + \text{due and unpaid interest}}$$

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 test results are verified by the cover pool monitor. If the result of any test is negative, the cover pool monitor must notify the KNF.

Covered bonds directive and amendment to the CRR

Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU ("**Covered Bonds Directive**") entered into force on 7 January 2020. The Covered Bonds Directive is the first directive harmonising covered bonds legislation in the EU and covers, in particular, the following:

- requirements for issuing covered bonds;
- the structural features of covered bonds;
- covered bond public supervision; and
- publication requirements in relation to covered bonds.

The Member States are obliged to adopt and publish the laws, regulations and administrative provisions necessary to comply with the Covered Bonds Directive by 8 July 2021. The measures stemming from the implementation of the Covered Bonds Directive shall be applied from 8 July 2022 at the latest.

In addition, on 7 January 2020, Regulation (EU) 2019/2160 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds. This regulation amends Article 129 of the CRR by the addition of minimum over-collateralisation requirement and clarification of the criteria that allow covered bonds to be included in the capital under preferred rules. The regulation will apply starting from 8 July 2022.

BANKRUPTCY AND INSOLVENCY

Centre of main interest

The Bank has its registered office in the Republic of Poland. As a result, there is a rebuttable presumption that its centre of main interest ("COMI") is in the Republic of Poland and, consequently, that any main insolvency proceedings applicable to it would be governed by Polish law.

As per the provisions of Article 3 of Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (the "**Insolvency Regulation**"), the place of the company's registered office is presumed to be the company's COMI in the absence of proof to the contrary (provided, however, that this presumption shall only apply if the registered office has not been moved to another Member State within the three-month period prior to the request for the opening of insolvency proceedings). The European Court of Justice, in its decision in relation to Eurofood IFSC Limited, held that the presumption can only be rebutted if factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect. Although the decision was made on the basis of the provision of the Council Regulation (EC) No. 1346/2000, the Bank believes that it should apply, accordingly, to the provisions of the Insolvency Regulation. As the Bank has its registered office in the Republic of Poland, its management board consists of mainly Polish persons and it is registered for tax in the Republic of Poland, the Bank does not believe that factors exist that would rebut this presumption; however, there can be no assurance that a court would agree with this presumption.

Recovery plan

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.

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. The trustee may also bring an action against the resolution of general meeting of shareholders of the mortgage bank if such resolution adversely affects the interests of the mortgage bank.

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.

Liquidation

If, after six months from convening an extraordinary general meeting of the shareholders referred to in "*Recovery plan*" above, the loss of the mortgage bank exceeds half of the mortgage bank's own funds, the KNF may revoke the bank's banking licence and order its 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 on *pro rata* basis 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.

Compulsory Restructuring

The BRRD was implemented in Poland by the Resolution Act which entered into force on 9 October 2016.

Under the Resolution Act, the BFG became the applicable resolution authority and was granted broad powers with respect to the Polish banks and other financial institutions (a "**Resolution Entity**"). The BFG can either initiate compulsory restructuring proceedings concerning a Resolution Entity or decide to apply the bail-in tools concerning its capital instruments if (i) the threat of that Resolution Entity's insolvency cannot be ruled out by steps taken by it or its supervisory authorities, or (ii) initiating such BFG's actions are in the public interest.

BFG can apply the following resolution tools with respect to the Resolution Entity:

- sale of business;
- bridge institution;
- asset separation; and
- bail-in (i.e. compulsory write-down or conversion of Resolution Entity's obligations).

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 BFG, 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 a security interest 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 do not apply to certain types of claims specified in detail in the Resolution Act.

If the BFG decides that a mortgage bank's liabilities under covered bonds should be transferred to another entity, this transfer should not limit the rights of the holders of covered bonds or affect the collateralisation of covered bonds. Furthermore, the obligations of mortgage banks under covered bonds and hedging instruments entered into the cover pool register may be subject to a compulsory write-down or conversion only to the extent the value of the cover pool is not sufficient to satisfy all claims under covered bonds issued by the Bank.

A party to an agreement with the Resolution Entity cannot terminate that agreement due to BFG's declaration of the initiation of the Resolution Proceedings or due to BFG'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 collateral continue to be performed by the applicable Resolution Entity.

Bankruptcy

General

A creditor of a bank, including a holder of debt securities issued by a bank, cannot file a petition for commencement of bankruptcy proceedings against banks. Such petition may only, in circumstances provided for in the relevant legislation, be filed by the KNF or the BFG.

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 and will file a petition to the relevant court for the commencement of bankruptcy proceedings. The KNF will also suspend the bank's operations and appoint a receiver and will file a petition for the commencement of bankruptcy proceedings if, for reasons directly connected with the financial situation of the bank, the bank fails to satisfy its obligations to pay the guaranteed funds specified in Article 2, item 68 of the Resolution Act.

KNF is not permitted to file a petition to the relevant court for the commencement of bankruptcy proceedings if BFG has commenced compulsory restructuring in respect of the bank. However, under the Resolution Act, the BFG is also authorised to file a motion to declare a mortgage bank bankrupt if in the course of compulsory restructuring the application of certain resolution tools, i.e. sale of business, bridge institution, and/or asset separation did not result in the sale of the bank subject to the proceedings and 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.

Before declaring a bank's bankruptcy, the bankruptcy court will question a representative of the KNF, a representative of BFG, 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 any doubt as to 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; and
- 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 5 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 5 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.

TAXATION

Poland

General information

The following is a discussion on certain Polish tax considerations relevant to an investor who is a resident in Poland or which is otherwise subject to Polish taxation. This statement should not be understood as tax advice. It is based on Polish tax laws and, as their interpretation in effect 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 clause 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 clause 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.

Withholding tax on interest (including discount) income

According to Article 30a clause 7 and Article 30a clause 1 point 2 of the PIT Act, interest income, including discount, derived by a Polish tax resident individual (as defined above) is not added to general income, which is subject to the progressive tax rate, but is subject to 19 per cent. flat-rate tax.

If a Polish tax resident individual holds the Covered Bonds as a business asset, in principle interest should not be subject to withholding tax but taxed in the same way as other business income. The tax, at the 19 per cent. flat rate or the progressive rate of 17 per cent. to 32 per cent., depending on the choice of and certain conditions being met by the individual, should apply.

Capital gains from disposal of the Covered Bonds

Under Article 30b clause 5 of the PIT Act, income from a disposal of securities, including the Covered Bonds, for remuneration is not added to general income, which is subject to the progressive tax rate, but under Article 30b clause 1 of the PIT Act it is subject to the 19 per cent. flat rate tax (with a stipulation regarding Covered Bonds held as a business asset - see paragraph below). The tax should be calculated on the total amount of income on the disposal of securities for remuneration, i.e. including the Covered Bonds and other securities (if any), in the relevant tax year. In general, the income is calculated as the difference between the sum of revenues earned from the disposal of securities for remuneration and the tax-deductible costs.

In principle, if individuals hold Covered Bonds as a business asset, the income should be taxed in the same way as other business income. This will either be tax at the 19 per cent. rate or the 17 per cent. to 32 per cent. progressive tax rate, depending on the individual's choice and certain conditions being met.

Polish tax resident corporate income taxpayers

Under Article 3 clause 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 (unlimited tax liability).

The appropriate tax rate is the same as the tax rate applicable to business activity, i.e. 19 per cent. (save for a preferential 9 per cent. tax rate which can be applied in general to the revenues other than capital gain by small taxpayers whose revenues obtained in a tax year does not exceed EUR 1.2 million).

A Polish tax resident should be subject to income tax on the Covered Bonds (both on any capital gains and on interest/discount) following the same principles as those that apply to any other income earned on business activity within the same source of income (capital profits – *zyski kapitałowe*). Under the CIT Act, income is determined separately for each relevant basket, i.e. revenues from capital gains are separated from revenues from other sources. Correspondingly, the tax losses are determined separately for each of these baskets, whereby a tax loss from one basket may not be deducted from the income in another basket. Within the same basket, as a rule, tax losses can be deducted for five tax years, in an amount not exceeding 50 per cent. of the loss in any of those years. Additionally, a one-off deduction of a loss of up to PLN 5,000,000 is allowed – any tax loss over that amount may be deducted according to the general rules – within a period of five tax years).

As a rule, for Polish income tax purposes, interest is recognised as taxable revenue on a cash basis, that is when it is received and not when it has accrued. In respect of capital gains, the cost of acquiring the Covered Bonds should be recognised at the time the revenue is achieved. The taxpayer independently (without the involvement of the tax remitter) settles tax on interest (discount) or capital gains on Covered Bonds, which is aggregated with other income derived from business operations conducted by the taxpayer and attributed to the same source of revenues.

Covered bonds held by non-Polish tax residents: natural person or corporate income taxpayers

Non-Polish tax residents means:

- natural persons, if they do not have their place of residence in the Republic of Poland (Article 3 clause 2a of the PIT Act);
- corporate income taxpayers, if they do not have their registered office or place of management in the Republic of Poland (Article 3 clause 2 of the CIT Act).

If a non-Polish tax resident recipient of interest acts through a permanent establishment in Poland to which the interest is related, as a matter of principle it should be treated in the same manner as a Polish tax resident.

Non-Polish tax residents are subject to Polish income tax only on their income earned in the Republic of Poland (limited tax liability).

Source of income

Under Article 3 clause 3 of the CIT Act, income (revenues) sourced in the Republic of Poland by non-residents includes, in particular, income (revenues) from:

- a) all types of activity pursued in the Republic of Poland, including through a foreign establishment located in the Republic of Poland;
- b) immovable property located in the Republic of Poland or rights to such property, including under a disposal thereof in whole or in part, or under a disposal of any rights to such property;
- c) securities and derivatives other than securities, admitted to public trading in the Republic of Poland on the regulated stock exchange market, including those obtained from the disposal of these securities or derivatives, or the exercise of rights resulting thereunder;
- d) the transfer of ownership title to shares in a company, of all rights and obligations in a partnership without legal personality, or participation in an investment fund, a collective investment undertaking or other legal entity or receivables that are a consequence of the holding of those shares, rights and obligations or participation, if at least 50 per cent. of the value of assets of the company, partnership, investment fund, collective investment undertaking or legal entity consists of, directly or indirectly, immovable properties located in the Republic of Poland, or rights to such immovable properties;
- e) the receivables settled, including receivables put at the disposal of or paid out or deducted by, natural persons, legal persons, or organisational units without legal personality, having their place of residence, registered office, or management board in the Republic of Poland, irrespective of the place of conclusion of the agreement and place of performance;
- f) unrealized gains.

Under Article 3 clause 5 of the CIT Act, revenues listed in Article 21 clause 1, which include interest and discount on the Covered Bonds, will be considered income (revenues) referred to in clause 3 point 5, which means that interest and discount on the Covered Bonds will be considered Polish source income.

Similar provisions are set out in Article 3 clause 2b and Article 3 clause 2d of the PIT Act. However, Article 3 clause 2d of the PIT Act considers only revenues listed in Article 29 clause 1 of the PIT Act as Polish source income without reference to Article 30a clause 1 of the PIT Act, which covers interest and discount on the Covered Bonds. This may cause doubt whether interest and discount on the Covered Bonds should be considered Polish source income under the PIT Act.

However, it should be noted that the list of income (revenues) sourced in Poland, as provided for in Article 3 clause 3 of the CIT Act and Article 3 clause 2b of the PIT Act, is not exhaustive, therefore other income (revenues) may also be considered as sourced in Poland.

Interest and discount

Pursuant to Article 21 clause 1 point 130a) of the PIT Act and Article 17 clause 1 point 50a) of the CIT Act, tax exemptions are applicable to revenue earned by a taxpayer referred to in Article 3 clause 2a of the PIT Act and in Article 3 clause 2 of the CIT Act (i.e. by a non-Polish resident) from interest or discount on the Covered Bonds.

Capital gains

As indicated above, non-Polish tax resident individuals and corporate income taxpayers are subject to Polish income tax only with respect to their income earned in Poland.

Polish tax regulations include special rules regarding capital gains, if they are reached on any covered bonds admitted to public trading in the Republic of Poland on the regulated stock exchange market. In line with Article 3.2b of the PIT Act and Article 3.3 of the CIT Act, such capital gain may be treated as derived in Poland and, in principle, subject to 19 per cent. income tax in Poland, subject to reliefs available under applicable double tax treaties concluded by Poland.

Most of the double tax treaties concluded by Poland provide for a Polish income tax exemption on capital gains derived from trade in Polish securities including Covered Bonds by a foreign tax resident.

Specific rules will apply if a non-Polish tax resident acts through a permanent establishment in Poland to which income is related.

Tax remitter's obligations

As at 1 January 2019 Poland introduced reform in withholding tax regulations. The reform assumes Pay & Refund is applicable if the total amount of payments to a single taxpayer in the relevant tax year (subject to any withholding tax provided for in Polish tax regulations) exceeds PLN 2 million. In such a case tax remitters will be obliged to collect withholding tax on the said disbursements on the day they are made, at the standard Polish rates (i.e. 19 per cent. in the case of individuals or 20 per cent. in the case of legal persons) applicable to interest on the surplus over PLN 2 million without the possibility of non-collection of the tax under the relevant double tax treaty, and without taking into account the exemptions or reduced rates as determined under special provisions or double tax treaties. The taxpayer or the tax remitter (if it paid the withholding tax from its own funds and it bore the economic burden of withholding tax) may claim a withholding tax refund. Under special provisions, withholding tax may not be collected by the tax remitter if it specifically states that: (i) it holds all the documents necessary for the application of a withholding tax exemption (basically, a certificate of tax residence) and (ii) after verification it is not aware of any obstacles to the application of a withholding tax exemption (basically that the recipient passes the beneficial ownership test).

However, pursuant to Article 41 clause 24 point 1) of the PIT Act and Article 26 clause 1aa point 1) of the CIT Act, tax remitters are not obliged to withhold tax on interest or discount on the Covered Bonds. The tax remitters will decide on withholding the tax based on their own analysis. In accordance with the Article 75 §1 of the Tax Ordinance Act of 29 August 1997, as amended (the "**Tax Ordinance**"), if a taxpayer doubts whether a tax collected by a tax remitter is due or whether the amount of the collected tax is adequate, he may submit a request to confirm tax overpayment.

Obligations of the Polish tax resident Bondholders

Under Article 45 clause 3b of the PIT Act, the individual must disclose tax in his/her annual tax return if tax was not withheld by the tax remitter, which basically means that the individual must settle tax himself/herself in cases where the tax remitter was not obliged to do so (a contrario to Article 30 paragraph 4 of the Tax Ordinance). Under Article 45 clause 1 of the PIT Act, the annual tax return should be filed by 30 April of the following year.

Although there is no equivalent provision in the CIT Act, corporate income taxpayers should also settle income tax on their own if the tax remitter was not obliged to withhold tax, i.e. pay advances towards income tax on a monthly basis and then settle tax in their annual tax return. Under Article 25 clause 1a of the CIT Act, monthly advances should be paid by the 20th day of the following month, while under Article 27 clause 1 of the CIT Act, the annual tax return should be filed by the end of third month of the following tax year.

If a Polish tax resident individual holds the Covered Bonds as a business asset tax should be settled by the individual himself/herself in the same way as other business income.

Tax on civil law transactions

Neither an issuance of Covered Bonds nor a redemption of Covered Bonds is subject to tax on civil law transactions.

Under Article 1 clause 1 point 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 clearly addressed in the law, in practice Covered Bonds, should be considered as rights exercisable in Poland.

Tax on the sale of Covered Bonds is 1 per cent. 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.

However, under Article 9 clause 9 of the PCC Act, PCC exemption applies to sale of property rights constituting financial instruments (such as Covered Bonds):

- (a) to investment firms and foreign investment firms;
- (b) via the intermediary of the investment firms or foreign investment firms;
- (c) in organised trading; and
- (d) outside organised trading by investment firms and foreign investment firms, 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.

Tax on inheritance and donations

Tax on inheritance and donations is levied on the acquisition by natural persons of property located, and economic rights (including securities) exercised in Poland, by way of, amongst others, inheritance, ordinary legacy, further legacy, legacy by vindication (with real effect), bequest, donation or a donor's order. The inheritance tax on donations is also imposed on the acquisition of property located abroad or property rights exercised abroad if, on the date of the opening of the succession process or conclusion of a donation agreement, the acquirer was a Polish citizen or had a permanent residence in Poland.

The tax liability is borne by the person acquiring the property or economic rights. The tax base is usually the value of the acquired property and economic rights after the deduction of any debts and encumbrances (net value), determined as at the date of acquisition and at the market prices prevailing on the date on which the tax obligation arises.

The rates of the tax on inheritances and donations vary and are determined by the degree of consanguinity or affinity or any other personal relationship between the heir and the testator or the donor and the donee.

Within one month of the date on which the tax liability arose, taxpayers must file a tax return disclosing the acquisition of property or economic rights on an appropriate form with the head of the relevant tax office. The tax is payable within 14 days of receiving the decision of the head of the relevant tax office assessing the amount of the tax liability. If the agreement is concluded in the form of a notarial deed, the tax on inheritance and donations is collected and remitted by the notary public.

Securities acquired by close relatives (a spouse, descendants, ascendants, stepchildren, siblings, stepfather and stepmother) are tax-exempt subject to filing an appropriate notice with the head of the relevant tax office in due time. The aforementioned exemption applies if, at the time of acquisition, the acquirer was a citizen of an EU (EEA) Member State.

Tax is not levied on the acquisition of economic rights exercised in the territory of Poland (including securities) if on the date of such acquisition neither the transferee nor the decedent nor donor were Polish citizens and had no place of permanent residence or registered office in the territory of the Republic of Poland.

European Union Directives on administrative cooperation in the field of taxation and the taxation of savings income

The European Union adopted Council Directive 2011/16/EU, as amended by Council Directive 2014/107/EU, on administrative cooperation in the field of taxation and repealing Council Directive 2003/48/EC, regarding the taxation of savings income. From 1 July 2005, Member States have been required to provide to the tax authorities of other Member States details of payments of interest or other similar income paid by a person to an individual resident in another Member State. A number of non-EU countries and territories (referred to in that Directive) adopted equivalent measures from the same date.

Notwithstanding the repeal of Council Directive 2003/48/EC (as amended by Directive 2004/48/EU), equivalent measures continue to apply in Poland pursuant to the Act on the Exchange of Tax Information with other countries of 9 March 2017.

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 20 per cent. 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 20 per cent.

Other

Pursuant to certain provisions of the Code, commonly known as FATCA, a "**foreign financial institution**" may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including Poland) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Covered Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Covered Bonds, such withholding would not apply prior to the date that is two years after the date of publication of final regulations defining "foreign passthru payments" in the U.S. Federal Register, and Covered Bonds characterized as debt for U.S. federal income tax purposes (or which are not otherwise characterized as equity and have a fixed term) issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the U.S. Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Covered Bond Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Covered Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Covered Bonds, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Subject to the provisions of the programme agreement dated 21 August 2020 (the "**Programme Agreement**") between the Bank and PKO BP (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 who 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**"), or the securities law of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except certain transactions exempt from or not subject to the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has not offered nor sold the Covered Bonds of any identifiable Tranche, and will not offer nor sell the Covered Bonds of any identifiable Tranche (i) as part of their distribution at any time nor (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, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of 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 relevant 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**"), or the securities laws of any state or other jurisdiction of the United States, 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/relevant 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 the D Rules, (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).
- (e) if it enters into a written contract with any distributor (as described in U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D)(4)(ii)) that acquires Covered Bonds in bearer form from it pursuant to such written contract, it will obtain from the distributor, for the benefit of the Bank and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of clauses (i), (ii), (iii), (iv) and (v).

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.

Prohibition of Sales to EEA Retail Investors

Unless the Final Terms in respect of any Covered Bonds specify the "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Covered Bonds which are the subject of the offering contemplated by this Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Prospectus Regulation; and
- (b) the expression an "**offer**" includes 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.

If the Final Terms in respect of any Covered Bonds specify "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area in which Prospectus Regulation applies (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 from which the Prospectus Regulation entered into force, having a direct applicability in all Member States (the "**Date of Entry into Force**") 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 Regulation;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), 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 1(4) of the Prospectus Regulation,

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 Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

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 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.

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.

Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, save as set out below, it has not offered or sold, and will not offer or sell, any Covered Bonds in the Republic of Italy in an offer to the public, and that sales of the Covered Bonds in the Republic of Italy shall be effected in accordance with all Italian securities and banking regulations, tax and exchange control, and other applicable laws and regulations.

Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell, or deliver, any Covered Bonds, or distribute copies of this Base Prospectus and any other document relating to the Covered Bonds in the Republic of Italy except:

- (a) to "qualified investors" (investitori qualificati), as defined in Article 35, paragraph 1(d) of CONSOB Regulation No. 20307 of 15 February 2018, as amended ("**CONSOB Regulation No. 20307**"), pursuant to Article 34-ter, first paragraph, letter b), of CONSOB Regulation No. 11971 of 14 May 1999, as amended ("**CONSOB Regulation No. 11971**"), implementing Article 100 of the Legislative Decree No. 58 of 24 February 1998, as amended (the "Italian Financial Services Act");

- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Italian Financial Services Act and its implementing CONSOB Regulations, including Article 34-ter of CONSOB Regulation No. 11971.

Any such offer, sale or delivery of the Covered Bonds, or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Consolidated Financial Act, the Legislative Decree No. 385 of 1 September 1993 (the "**Consolidated Banking Act**"), and CONSOB Regulation No. 20307 of 15 February 2018, all as amended from time to time;
- (b) in compliance with Article 129 of the Consolidated Banking Act and the implementing regulations issued by the Bank of Italy, all as amended from time to time, pursuant to which the Bank of Italy may request information and impose certain reporting obligations on the issue or the offer of securities in the Republic of Italy; and
- (c) in compliance with any other applicable laws and regulations, including any limitation or requirement which may be imposed from time to time by CONSOB or the Bank of Italy or other competent authority as well as any additional requirements provided under the Consolidated Financial Act and/or the Consolidated Banking Act and related implementing regulations.

Belgium

Other than in respect of Covered Bonds for which "Prohibition of Sales to Belgian Consumers" is specified as "Not Applicable" in the applicable Final Terms, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that an offering of Covered Bonds may not be advertised to any individual in Belgium qualifying as a consumer within the meaning of Article I.1 of the Belgian Code of Economic Law, as amended from time to time (a "**Belgian Consumer**") and that it has not offered, sold or resold, transferred or delivered, and will not offer, sell, resell, transfer or deliver, the Covered Bonds, and that it has not distributed, and will not distribute, any prospectus, memorandum, information circular, brochure or any similar documents in relation to the Covered Bonds, directly or indirectly, to any Belgian Consumer.

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 thereof.

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 (*Giełda 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 MiFID II. 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 provided by the Prospectus Regulation.

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 during normal business hours (in the case of (f) 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 for the year ended 31 December 2019 (with English translations thereof), together with the audit report prepared in connection therewith;
- (c) the audited financial statements of the Bank for the year ended 31 December 2018 (with English translations thereof), together with the audit report prepared in connection therewith;
- (d) the reviewed condensed interim financial statements for the six-month period ended 30 June 2020 (with English translation thereof), together with the review report prepared in connection therewith;
- (e) the reviewed condensed interim financial statements for the six-month period ended 30 June 2019 (with English translation thereof), together with the review report prepared in connection therewith;
- (f) the Programme Agreement and the Agency Agreement;
- (g) a copy of this Base Prospectus;
- (h) 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 Regulation 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
- (i) 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).

The Base Prospectus and the documents incorporated by reference in the Base Prospectus will remain publicly available in electronic form for as long the Covered Bonds issued under this Base Prospectus are outstanding, or for 10 years following the approval of this Base Prospectus, whichever falls later, on the relevant website indicated under "Documents incorporated by reference".

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 and has not been scrutinized or approved by the CSSF, except where that information has been incorporated by reference into this Prospectus.

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 2020 and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2019, save for the changes in the financial position and prospects of the Bank stemming from the COVID-19 outbreak, described, e.g., under “Risk Factors – The Bank’s operations might be affected by the COVID-19 outbreak”.

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 financial statements for the financial year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been audited by Katarzyna Łącka-Dziekan, certified auditor, member of the National Chamber of Certified Auditors (*Krajowa Izba Biegłych Rewidentów*), licence no. 13131, 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 and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. rendered an unqualified audit report on such financial statements of the Bank.

The Bank's financial statements for the financial year ended 31 December 2019 prepared in accordance with International Financial Reporting Standards as adopted by the European Union have been audited by Katarzyna Łącka-Dziekan, certified auditor, member of the National Chamber of Certified Auditors (*Krajowa Izba Biegłych Rewidentów*), licence no. 13131, 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 and KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. rendered an unqualified audit report on such financial statements of the Bank.

The Bank's condensed interim financial statements for the six-month period ended 30 June 2019 prepared in accordance with International Accounting Standard 34 as adopted by the European Union have been reviewed by Katarzyna Łącka-Dziekan, certified auditor, member of the National Chamber of Certified Auditors, licence no. 13131, 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.

The Bank's condensed interim financial statements for the six-month period ended 30 June 2020 prepared in accordance with International Accounting Standard 34 as adopted by the European Union have been reviewed by Agnieszka Accordi, certified auditor, member of the National Chamber of Certified Auditors, licence no. 11665, acting on behalf of PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audyt spółka komandytowa, an entity authorised to audit financial statements entered on the list kept by the National Chamber of Certified Auditors under no. 144.

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.

Arranger and/or Dealers transacting with the Bank

The Arranger, certain 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, the Arranger, certain Dealers and their affiliates may be customers of, and borrowers from the Bank and its affiliates. In addition, the Arranger, certain 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 certain Arranger, 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. The Arranger, the certain 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, the Arranger, such 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 Arranger, 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

ARRANGER AND DEALER

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
ul. Puławska 15
02-515 Warsaw
Poland

**ISSUING AND PRINCIPAL PAYING AGENT, CALCULATION AGENT
AND LUXEMBOURG LISTING AGENT**

Société Générale Luxembourg
11 avenue Emile Reuter
L-2420 Luxembourg
Grand Duchy of Luxembourg

LEGAL ADVISERS TO THE BANK

as to Polish law

White & Case M. Studniarek i Wspólnicy
- Kancelaria Prawna spółka komandytowa
al. Jana Pawła II 22
00-133 Warsaw
Poland

as to English law

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

AUDITORS

*for the financial years 2018 and 2019
and six-month period ended 30 June 2019*

KPMG Audyt
spółka z ograniczoną odpowiedzialnością sp.k.
ul. Inflancka 4A
00-189 Warsaw
Poland

for the six-month period ended 30 June 2020

PricewaterhouseCoopers Polska
spółka z ograniczoną odpowiedzialnością Audyt
spółka komandytowa
ul. Polna 11
00-633 Warsaw
Poland