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Bank Polski

€3,000,000,000
Programme for the Issuance of Euro Medium Term Notes

to be issued by

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

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

Under the programme for the issuance of Euro Medium Term Notes (the "**Programme**") described in this base prospectus (the "**Base Prospectus**"), Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Issuer**", "**PKO Bank Polski**" or the "**Bank**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue Euro medium term notes (the "**Notes**"). The Notes may either be senior or subordinated (respectively, the "**Senior Notes**" and the "**Subordinated Notes**"). The aggregate principal amount of Notes outstanding will not at any time exceed €3,000,000,000 (or the equivalent in other currencies).

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

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

Arranger

PKO BANK POLSKI S.A.

The date of this Base Prospectus is 11 July 2017.

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IMPORTANT NOTICES

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

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

The Issuer accepts responsibility for the information contained in this Base Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

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

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

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

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

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed €3,000,000,000 (and, for this purpose, any Notes denominated in another currency shall be translated into euro at the date of the agreement to issue such Notes). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time.

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

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

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

FORWARD-LOOKING STATEMENTS

This Base Prospectus contains various forward-looking statements that relate to, *inter alia*, events and trends that are subject to risks and uncertainties that could cause the actual business activities, results and financial position of the Issuer to differ materially from the information presented herein. When used in this Base Prospectus, the words "**estimate**", "**project**", "**intend**", "**anticipate**", "**believe**", "**expect**", "**should**" and similar expressions, as they relate to the Issuer and their management, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Issuer undertakes any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General Information

The audited consolidated financial statements of the Issuer and its Subsidiaries taken as a whole at any given time (the "**Group**") for the year ended 31 December 2016 (the "**2016 Consolidated Financial Statements**"), the audited consolidated financial statements of the Group for the year ended 31 December 2015 (the "**2015 Consolidated Financial Statements**" and, together with the 2016 Consolidated Financial Statements, the "**Annual Financial Statements**") and the unaudited condensed interim consolidated financial statements of the Group for the three months ended 31 March 2017 (the "**Interim Financial Statements**" and, together with the Annual Financial Statements, the "**Consolidated Financial Statements**") are incorporated into this Base Prospectus by reference.

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

the values shown in the financial statements and notes thereto. The actual values may differ from such assumptions.

The Annual Financial Statements were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., with its registered office in Warsaw, (see "*General Information – Independent Certified Auditors*"). The Interim Financial Statements were neither audited nor reviewed.

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

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

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

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

EXCHANGE RATES

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

	As at 31 March 2017	As at 31 December 2016	As at 31 December 2015	Average exchange rate 2016	Average exchange rate 2015
PLN/EUR	4.2198	4.4240	4.2615	4.3757	4.1848
PLN/UAH	0.1460	0.1542	0.1622	0.1542	0.1722
PLN/CHF	3.9461	4.1173	3.9394	4.0133	3.9341

Source: www.nbp.pl

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

Currency	FX rates as at 31 March 2017	FX rates as at 31 December 2016	FX rates as at 31 December 2015
HUF (100 HUF)	1.3670	1.4224	1.3601
CZK	0.1559	0.1637	0.1577
AUD	3.0171	3.0180	2.8546
JPY (100 JPY)	3.5272	3.5748	3.2411
USD	3.9455	4.1793	3.9011
CAD	2.9564	3.0995	2.8102
GBP	4.9130	5.1445	5.7862
DKK	0.5674	0.5951	0.5711
NOK	0.4601	0.4868	0.4431

Source: www.nbp.pl

MARKET, ECONOMIC AND INDUSTRY DATA

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

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

Industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. However, in the preparation of this Base Prospectus, this third-party information has not been independently verified nor has there been any investigation of the validity of the methodology or the basis used by the third parties in producing

such data or making estimates and forecasts. The Bank can give no assurance that any such information is accurate or, in respect of projected data, that such projections have been based on correct information and assumptions or that they will prove to be accurate.

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

RATINGS

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

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

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RISK FACTORS

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

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

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

Risks Relating to Macroeconomic Conditions

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

The Group's operations and results are significantly impacted by regional and global macroeconomic conditions and the rate of economic growth. The financial crisis of 2008–2009 changed the global economy. Economic slowdown, a decline of trust in the financial institutions, limited access to the interbank market and other forms of financing, growing unemployment and decreasing share prices led to disruption on global financial markets, which affected the liquidity and financing of the international banking system. This had an adverse effect on the valuation of assets and compliance with capital adequacy requirements by a number of financial institutions throughout the world. The economic deterioration resulted in an increase in aversion to credit risk and poorer access to capital and credit markets and other forms of financing. A liquidity crisis also occurred and the cost of obtaining financing increased significantly.

Although the condition of the financial sector has improved in recent years, mainly as a result of special measures applied in developed economies, including quantitative easing by central banks, governmental stimuli demands and the re-capitalisation of some banks from public funds, the development prospects of the financial sector remain uncertain and may change.

Consequently, economic turbulence is still possible and it is not certain whether the economic improvement will last. Deterioration in the global economy or another debt crisis in the Euro Zone and the resulting further economic slowdown could result in an increase of the costs of financing, an increase in unemployment or other adverse macroeconomic events, including possible resignation of the EU Member States from the common currency (the euro). For the Group, it could in particular cause a decrease in demand for loans and deposits, an increase in overdue loans and the value of irrecoverable loans, a decrease in the value of the Group's assets, limited access to capital markets and financing and a deterioration in liquidity, which could have an adverse effect on the business, financial condition, results of operations and prospects of the Group.

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

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

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

The Polish economy remains much more vulnerable to financial market downturns than to purely economic slowdowns in the global economy. The very high resilience of the Polish economy to: (i) weakening global trade; as well as (ii) the ongoing recession in Russia and Ukraine accompanied by the sanctions imposed on Polish exports to Russia can be contrasted with the higher vulnerability of its financial sector on global liquidity conditions. The key direct impact of foreign trade on GDP is exhibited in the local labour market results as

foreign direct investors defend their profits mainly through headcount reductions that could further be translated into a deterioration of the Polish labour market, particularly labour income (lower wage growth and a higher unemployment rate).

According to GUS data, Poland's real rate of growth of GDP was 3.3%, 3.8% and 2.7% during 2014, 2015 and 2016, respectively. The growth of GDP in real terms was accompanied by an improvement in the conditions on the labour market. In February 2013, the registered unemployment rate reached 14.4% and since then has gradually been decreasing, reaching 8.5% in February 2017 – almost the lowest level in the last 25 years (source: GUS). The decline in unemployment in recent years has been accompanied by moderate growth of the average monthly salary. According to GUS data, in the years 2014, 2015 and 2016 the average monthly salary in the commercial sector was PLN 3,980, PLN 4,121, and PLN 4,277, respectively, while in the national economy it was PLN 3,777, PLN 3,908 and PLN 4,047, respectively.

This overall improvement in the macroeconomic environment has led to an increase in household wealth (financial assets of households were PLN 1,625.7 billion and PLN 1,745.7 billion at the end of 2014 and 2015, respectively, and PLN 1,825.3 billion as at 30 September 2016). In 2014, 2015 and 2016 the real rate of growth of domestic demand was equal to 4.7%, 3.4% and 2.8%, respectively, of which household consumption represented a growth of 2.6%, 3.2% and 3.6% year-on-year, respectively. The growth in business activity in Poland translated into an increase in the value of loans extended to the non-financial sector of PLN 57.7 billion, or 6.9%, in 2014, by PLN 66.4 billion, or 7.4%, in 2015 and PLN 50 billion, or 5.2%, in 2016, with an increase in the value of loans to households of 6.2% in 2014, 6.7% in 2015 and 5.1% in 2016, and an increase in the value of loans to corporates of 8.3% in 2014, 8.8% in 2015 and 5.4% in 2016. As at 31 December 2016 the share of loans to households was 65.3% of all loans in Poland, whereas the share of loans to corporates was 34.1%.

The political situation has also changed in Poland following the parliamentary elections in 2015, and banking sector assets in Poland are now subject to additional taxation as of February 2016. Furthermore, there is no clear picture regarding the proposed bill regarding the obligatory conversion of CHF-denominated mortgage loans (see: "*The Appreciation of the CHF Can Result in an Increase of Credit Risk, New Regulatory Requirements and Higher Vulnerability to Client Claims or Class Actions*").

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

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

The UK's exit from the European Union and the risk associated with the instability of the political system in Europe may affect the business of the Group

On 23 June 2016, the majority of British citizens voted in favour of the UK leaving the European Union ("**Brexit**"). The result of the referendum may have far-reaching implications for the political stability and economic situation in Poland since Poland is the biggest beneficiary of European structural funds and the UK is one of the largest net payers to the EU budget. The UK's exit from the European Union may cause a need to adjust the EU budget, which could reduce the amount of funds received by Poland. Moreover, the UK is one of the key financial centres in the world. Brexit may lead to restricting the free flow of goods, people, services and capital, and to limited access to financing, which may have an adverse effect on the economic situation. Moreover, Brexit may cause exchange rate fluctuations and the instability of the euro exchange rate. Although the Group is monitoring and assessing the potential implications of the UK leaving the European Union for its business, the situation remains uncertain.

Furthermore, developments in Ukraine, including the annexation of the Crimean Peninsula by Russia in 2014 and the resulting sanctions imposed by the United States and the European Union have also had an impact on the economic and political environment in Poland and, consequently, on the operations of the Group. The circumstances discussed above may discourage international investors from investing in the entire region of Central and Eastern Europe and make them invest less in Polish financial instruments due to deteriorating economic or financial conditions in Central and Eastern European countries, which may have a material adverse effect on the business, financial condition, results of operations or development prospects of the Group.

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

There is a risk that a deterioration of the overall economic conditions in the EU and the issues related to the high debt levels of certain EU countries will result in the collapse of the EUR as the common currency in some or all of the Eurozone countries. Since 6.9% of the Group's amounts due to customers were denominated in EUR and 7.4% of the loans and advances to customers of the Group were denominated in EUR, both as of 31 December 2016, the liquidation of the Euro and the possible destabilisation of the EUR exchange rate against other currencies could have an impact on the Group's business, specifically as follows: (i) the national currencies which would replace the EUR could be unstable, resulting in greater exchange rate risk than the Group is subject to; (ii) the receivables or payables under the agreements that the Group is party to or securities held or issued by the Group that are denominated in EUR could be exchanged into national currencies at unfavourable rates; (iii) the collapse of the EUR would result in an increase in transaction costs; (iv) the interest rates applicable to national currencies into which EUR is exchanged can be higher than those applicable to EUR, thus increasing the costs of funding in these currencies; and (v) the collapse of the EUR could result in further deterioration of the economic conditions in the EU, which would also impact the Group.

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

Risks Relating to the Group's Business

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

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

In the Bank's opinion the risk balance for Polish economy is neutral with main negative risks stemming from the international environment (possible slowdown of the Eurozone economy, risk of hard landing of the Chinese economy, tensions in the European banking sector, escalation of the conflict in Ukraine) and might mainly impact the Polish economy through the trade channel. The key direct impact of foreign trade on GDP is exhibited in the local labour market as foreign direct investors defend their profits mainly through headcount reductions that could further be translated into a deterioration of the Polish labour market, particularly labour income (lower wage growth and a higher unemployment rate). However, taking into account strong internal demand, any unfavourable changes in global economy might reduce the growth rate of the Polish GDP, but should not result in recession. Given reduced dependence on foreign funding and reduced share of foreign capital in ownership structure of banks in Poland, the domestic banking sector is less sensitive to tensions in the Eurozone banking sector than a few years earlier, especially as compared to 2008-2009.

Among the internal factors, labour shortage seems to be one of key challenges for the Polish economy in the mid-term. The labour shortage has been partly offset by growing immigration from Ukraine. Due to easier access of Ukrainian employees to the labour market in West European countries, the migration to Poland might decline and the labour shortage might intensify becoming a significant barrier for growth. Additionally, wage pressure might intensify reducing competitiveness of the Polish economy. Rapid acceleration of wages might trigger stronger (than assumed in the base scenario) monetary tightening which might result in higher costs of debt service for households and enterprises.

Additionally, as inflow of the European Union funds will remain one of the key growth drivers in the mid-term horizon, any reduction in the value of the funds, which are currently allocated for Poland, or in the next multi-year budget of the EU, will reduce the expected GDP growth in Poland, mainly via lower public investments.

The Group May in the Future Fail to Meet Applicable Capital Adequacy Requirements

Over the last few years, the Group has become subject to increasingly stricter capital adequacy requirements that impact the Group's profitability, its ability to make distributions to shareholders and constrain its operational flexibility. In particular, the Group is subject to increased capital requirements under the Act on Macroprudential Supervision, and decisions and recommendations issued by the PFSA.

The Group is required to comply with the requirements of the CRR Regulation and PFSA requirements, with the PFSA's requirements setting the higher thresholds. As at the date of this Base Prospectus, the Group is required by the PFSA to maintain a total capital ratio of at least 14.79% of its total risk exposure and to maintain a Tier 1 ratio of 14.59% of its total risk exposure. For more details regarding the minimum capital requirements applicable to the Group, see "*Capital Adequacy and Risk Management Requirements – Polish Law Requirements*".

As at 31 March 2017, the Group's total capital ratio amounted to 15.60%, whereas both Tier 1 ratio and CET 1 capital ratio reached the level of 14.77%.

The Group's ability to satisfy minimum capital adequacy requirements and recommendations may be adversely impacted by many factors, including, among other things: (i) an increase in risk exposure at the Bank; (ii) an increase in credit risk, credit losses or impairment allowances; (iii) an inability to obtain capital; (iv) the results of the Bank's activities; (v) a decline in the value of the securities portfolio held by the Bank; (vi) inaccurate estimates adopted by the Bank regarding the amount of capital required to cover operating risk; (vii) changes in accounting principles or recommendations related to the calculation of the capital ratios of banks; (viii) fluctuations in exchange rates which influence the value of foreign currency-denominated assets; (ix) changes in interest rates; and (x) changes in regulations or in the methods pursuant to which the regulatory authorities, including the PFSA, apply capital adequacy regulations. Moreover, the Group may not have sufficient capital to meet total capital regulatory requirements as business grows. This could occur due to additional changes to regulatory requirements, as a result of any substantial losses the Group may incur (thereby reducing the Group's retained earnings, which is a component of Tier 1 capital) or due to a combination of these or other factors.

In addition, there is no certainty that, in the event of changes in the regulations or of the adoption of more stringent capital adequacy requirements or recommendations, the Group will be able to meet the capital adequacy requirements or recommendations or that the implementation of these requirements or recommendations will not result in substantial additional costs for the Group, which is not foreseen by the Group as at the date of this Base Prospectus. In particular, capital adequacy requirements may be further increased following the execution of the Basel IV accord and the adoption of the Capital Requirements Directive V by the EU Parliament and the EC. Non-compliance by the Bank or Group with such increased capital requirements in the future could result in regulatory actions, including the Bank being required to issue additional common equity Tier 1 securities, the Bank being required to retain earnings or suspend dividends, or the issuance of a public censure or the imposition of sanctions by regulatory authorities, including the PFSA.

The Group May Require Additional Capital but It May be Difficult to Obtain it on Favourable Terms and Conditions, or at all

The Group may be required to raise additional capital in the future in order to achieve its strategic objectives and implement its strategy, as well as to keep its capital adequacy ratios at or above the required minimum levels. Additional capital may also be required due to additional changes to the regulatory requirements (including the increase of risk weights for foreign currency mortgage loans and the introduction of additional capital buffers), as a result of any substantial losses that the Group may incur (thereby reducing the Group's retained earnings, which is a component of Tier 1 capital) or due to a combination of these or other factors. As a result, the Group may be forced to raise additional capital, which may hinder its expected future growth or make such growth impossible. At the same time, the Group may be unable to meet the requirements concerning the minimum level of capital adequacy and other regulatory ratios (see the risk factor "*The Group may in the future fail to meet applicable capital adequacy requirements*" above).

The Group's ability to obtain additional capital may be limited by, among other things: (i) the Group's future financial condition, results of operations and cash flows; (ii) any necessary governmental or regulatory approvals; (iii) the Group's credit rating (if any, at the time of raising capital); (iv) general market conditions for capital-raising activities by commercial banks and other financial institutions; (v) the willingness of shareholders to support capital-raising activities; and (vi) domestic and international economic and political conditions.

The Group cannot give assurance that it will not need to raise additional capital in the future. Should the Group require additional capital, there is a risk that the Group will not manage to obtain additional capital on attractive conditions, at the required time or in the required scale. The potential inability to obtain additional capital or to obtain it on attractive terms and conditions could materially adversely affect the Group's business, financial condition, results of operations, prospects and strategies.

The Group Faces Competition in the Financial Institutions Sector

According to the PFSA, as at 31 March 2017, there were 36 commercial banks operating in Poland, and the market share of the five largest banks in the Polish banking sector by assets, deposits and amounts due from non-financial sector entities was 48.7%, 47.0% and 44.0%, respectively. In recent years, some large international banks have expanded into Poland through mergers and acquisitions, and new banks have commenced operations on the Polish market.

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

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

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

According to the PFSA, in recent years, the Polish banking sector has experienced an increase in total assets from PLN 1,405.7 billion as at 31 December 2013 to PLN 1,711.6 billion as at 31 December 2016 and PLN 1,734.0 billion as at 31 March 2017. The increase in the Polish banking sector's assets was mainly the result of an increase in the loan balance, although trends varied depending on the market segment. In the years 2014-2016, the balance of housing loans gradually increased from PLN 335.7 billion as at 31 December 2013 to PLN 400.3 billion as at 31 December 2016. As at 31 March 2017, the balance of housing loans amounted to PLN 396.1 billion. In the years 2014-2016, the rate of growth of housing loans (after eliminating the effect of changes in foreign exchange rates) decreased, from 3.6% in 2014 to 2.8% in 2015 and 2.9% in 2016. The balance of consumer loans increased from PLN 126.3 billion as at 31 December 2013 to PLN 150.2 billion as at 31 December 2016 and PLN 151.5 billion as at 31 March 2017. In the years 2014-2016, the adjusted rate of growth of consumer loans gradually increased from 3.6% in 2014 to 5.9% in 2015 and 6.6% in 2016. In the same period, loans granted to enterprises increased from PLN 278.0 billion as at 31 December 2013 to PLN 344.9 billion as at 31 December 2016 and PLN 353.3 billion as at 31 March 2017. In the years 2014-2016, the adjusted rate of growth of loans granted to enterprises amounted to 6.8% in 2014, 8.1% in 2015 and 4.2% in 2016.

The financial and organisational situation of the Group has been also affected by other legal and regulatory solutions, including higher charges imposed on banks in respect of their contributions to the Bank Guarantee Fund (see "*The Bank May Be Required to Make Substantial Contributions to the Bank Guarantee Fund*"), the CRR Regulation, individual capital requirements for banks most exposed to FX mortgage portfolios, as well as some of the new recommendations of the PFSA (see: "*Increased Regulation of the Financial Services and Banking Industry in Poland and Internationally Could Adversely Affect the Group's Business, Financial Condition and Results of Operations*").

A further reduction of the rate of growth of the Polish banking sector could have an adverse effect on the business, financial condition and results of operations of the Group.

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

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

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

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

The CRR has been legally binding in its entirety and applied directly in all Member States since 1 January 2014 (except for certain specific regulations). The relevant regulations of CRD IV were implemented in Poland by

way of a new law, i.e. the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system, which came into force on 1 November 2015.

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

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

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

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

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

Although Member States outside the Eurozone cannot fully participate in the single supervisory mechanism ("**SSM**"), they may notify the ECB of their intention to join the SSM by establishing close co-operation between their competent authorities and the ECB. Poland may decide to join the SSM by establishing close co-operation with the ECB even without first joining the Eurozone. Moreover, if Poland joins the Eurozone and the regulation establishing the SSM will apply as a matter of law, Polish banks will participate in the SSM and the powers of the PFSA will be significantly limited.

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

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

In July 2016 the Bank participated in subsequent stress test organized by the European Banking Authority ("**EBA**") in cooperation with the PFSA, European Central Bank ("**ECB**") and European Systemic Risk Board ("**ESRB**"). The stress test was designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. In this case, as in the previous year, the results of stress test have proved that the Bank is one of the most resistant banking institutions to adverse market conditions of those 91 participating in the stress tests.

EBA in cooperation with the Bank for International Settlements launched the Quantitative Impact Study ("**QIS**") in August 2016 which lasted until November 2016. The objective of QIS was to analyse an impact of proposed changes with respect to among others capital definition and liquidity standard on bank's functioning. The Bank participated in QIS.

In December 2016 the Bank took part in the transparency exercise at EU-wide level covering 131 banks. The exercise's objective was to increase transparency of the European banking sector and support of market discipline. Overall, banks in Poland have further strengthened their capital position.

On 10 October 2016, the Bank received a decision of the PFSA identifying the Bank as an 'other systemically important institution' ("**O-SII**") and imposing on the Bank a buffer equivalent to 0.75% of the total amount of the risk exposure calculated in accordance with Art. 92 sec. 3 of EU Regulation No. 575/2013 on the basis of the assessment of the systemic importance of the Bank in accordance with Art. 39.6 of the Act of 5 August 2015 on macro prudential supervision and crisis management in the financial system. Additionally, on 18 October 2016, the Bank received the PFSA's decision on the amount of the additional capital requirement covering the risk of foreign currency mortgage loans for households at an individual level at 0.83 p.p. over the amount calculated in accordance with Art. 92 sec.1c of EU Regulation No. 575/2013, which should be composed of at least 75% of Tier 1 funds (which is the equivalent of the own funds requirement of 0.62 p.p. over the amount calculated in accordance with Art. 92 sec. 1b of EU Regulation No. 575/2013) and of at least 56% of the Common Equity Tier 1 (equivalent to the own funds requirement of 0.46 p.p. over the amount calculated in accordance with Art. 92 item 1 letter b of EU Regulation No. 575/2013).

Furthermore, on 30 December 2016 the PFSA issued a decision to the Bank recommending that the Group maintains additional capital requirement on a consolidated basis, for the purpose of foreign-denominated mortgage risk hedging, equal to 79 bps above total capital ratio, 59 bps above Tier 1 capital ratio and 44 bps above Common Equity Tier 1 capital ratio.

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

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

In March 2015, the PFSA published the amended Recommendation P on liquidity risk management in banks. The recommendation provides for the minimum, in the regulator's opinion, standards as regards best practices in respect of liquidity risk management. The amended Recommendation P incorporates the recommendations set out in international guidelines and covers policies regarding determining the tolerance for a bank's liquidity risk, the consideration of the full scope of the various types of liquidity risk, including the risk of unexpected demand for liquidity, maintaining a permanent presence in selected, material financial markets, the diversification of liquid assets, stress tests and the functional connection thereof with emergency liquidity plans, the management of collateral, the maintenance of a surplus of unencumbered, high quality liquid assets, the application of a mechanism for the allocation of costs and benefits from various types of liquidity risk in the system of internal transfer prices, intraday liquidity management and the disclosure of information regarding a bank's liquidity.

In December 2015, the PFSA made its assumptions related to Recommendation Z concerning the rules of internal governance in banks available for public consultations. Recommendation Z will be a set of best practices for internal governance. Specifically, the document will address issues such as organisational structure, tasks, obligations, the composition and functioning of supervisory boards, management boards and senior officers, risk management and internal governance rules, information systems and communication, operational continuity and the transparency of the bank's management system.

In July 2015, the PFSA published the new Recommendation W concerning model risk management in banks. The objective of the recommendation is to present to all banks the supervisory expectations concerning the procedure of model risk management, specifically by presenting standards which are to ensure the adjustment of the risk profile of the models applied by banks to the actual expectations of a bank in that respect.

In May 2016, the PFSA published the new Recommendation C concerning the management of the risk of exposure concentration which came into force on 1 January 2017.

The Recommendation C includes requirements regarding: (i) implementing policies, strategies and relevant risk of exposure concentration management procedures; (ii) internal limits preventing excessive concentration; (iii)

implementing risk of exposure concentration identification and assessment procedures; (iv) implementing mechanisms for the active control, monitoring and restriction of the risk of exposure concentration; (v) taking the risk of exposure concentration into consideration for the purposes of the bank's assessment of required internal capital levels (i.e. within the ICAAP), and (vi) standards for stress test for concentration risk.

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

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

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

On 1 February 2016, the Act on Tax Imposed on Certain Financial Institutions entered into force the purpose of which is to levy tax on assets of financial institutions, including banks. For more information regarding the tax imposed on certain financial institutions, see "*Banking Regulation in Poland – Other Law Requirements in the Banking Sector – Tax Imposed on Certain Financial Institutions*". The tax rate, which is charged monthly, is currently set at 0.0366%, but there is no guarantee it will not be raised in the future or that additional taxes will not be levied on the Bank. In accordance with Art. 14 of the Act, the imposition of the tax cannot serve as a basis for amending the terms and conditions of the provisions of financial and insurance services performed under agreements concluded prior to the date of the entry into force of the Act. The introduction of the above-mentioned regulation restricts the possibility of passing on the cost of the tax into the price of services of the Group the profitability of which was calculated without taking the tax into account, which could have an adverse effect on the business, financial condition and results of operations of the Group.

In addition, work is in progress on pan-European legislation imposing a financial transaction tax, a portion of the proceeds of which would be contributed directly to the EU budget. As at the date of this Base Prospectus, the political and technical discussions on the imposition of a financial transaction tax are still pending. No information has been provided as to whether the Member States have reached a conclusion and agreed on a final outline of financial transaction tax regulations.

Certain proposals regarding the introduction of a financial transaction tax have been put forward in Poland; however, the government has not announced any plans to introduce such tax.

The introduction of an EU financial transaction tax could have an adverse effect on the Group's business, financial condition and results of operations.

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

Since October 2012, SKOKs have been under the supervision of the PFSA. Reports prepared by the PFSA, as well as inspections by the PFSA, have demonstrated that SKOKs have been experiencing a material deterioration in their financial condition and high liquidity risk and are obligated to recognise more broadly the impairment on their loan portfolios. Starting in January 2014, SKOKs have been covered by the Bank Guarantee Fund system, which might lead to larger payments by commercial banks to the Bank Guarantee Fund in the future (see "*The Bank May Be Required to Make Substantial Contributions to the Bank Guarantee Fund*"). In 2014, the Bank Guarantee Fund returned deposits placed by customers with the bankrupt SKOK Wspólnota and SKOK Wołomin in the amount of PLN 800 million and PLN 2.2 billion, respectively. In 2015 the PFSA suspended the activity of SKOKs: Spółdzielcza Kasa Oszczędnościowo-Kredytowa Wspólnota and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Wołomin. In 2016 the PFSA suspended the activity of SKOKs: Spółdzielcza Kasa Oszczędnościowo-Kredytowa Kujawiak in Włocławek, Spółdzielcza Kasa Oszczędnościowo-Kredytowa Polska in Warsaw, Spółdzielcza Kasa Oszczędnościowo-Kredytowa Jowisz in Czeladź, Spółdzielcza Kasa Oszczędnościowo-Kredytowa Arka in Dąbrówka Górnicza and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Skarbiec in Piekary Śląskie. In 2017 the PFSA suspended the activity of SKOKs: Spółdzielcza Kasa Oszczędnościowo-Kredytowa Wielkopolska in Poznań, Spółdzielcza Kasa Oszczędnościowo-Kredytowa Twoja in Kędzierzyn Koźle and Spółdzielcza Kasa Oszczędnościowo-Kredytowa Nike in Warsaw. The PFSA decided to file bankruptcy petitions with the relevant courts for the purpose of establishing formal grounds for launching guaranteed disbursements from the Banking Guarantee Fund (the "**BGF**").

It cannot be entirely ruled out that the burden of restructuring other SKOKs will be indirectly or directly imposed on other financial institutions, including banks. The PFSA may implement decisions or recommendations with the aim to place the financial burden of the costs of such support on Polish credit institutions. In addition, Polish banks may be asked to support or take over some of the SKOKs or their assets and liabilities. In 2014 the PFSA decided that SKOK Kopernik would be taken over by Pekao S.A., and that SKOK św. Jana z Kęt would be taken over by Alior Bank S.A. In 2015 PKO BP took over SKOK Wesoła, in 2016 Alior Bank S.A. took over SKOK

named Stefana Kardynała Wyszyńskiego in Września and Powszechna Spółdzielcza Kasa Oszczędnościowo-Kredytowa in Knurów.

Any further material deterioration in credit unions sector will adversely affect banking sector pricing policy, business, financial condition and growth potential.

The Implementation of the Bank Recovery and Resolution Directives into Polish Law May Adversely Affect the Group's Business, Financial Condition, Results of Operations or Prospects

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

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

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

The relevant regulations of the BRRD were implemented in Poland under the Act dated 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Mandatory Restructuring (the "**Act on the Bank Guarantee Fund**"), which came into force on 9 July 2016 and 9 October 2016 (certain provisions of this legislation came into force on 11 February 2017). The Act on the Bank Guarantee Fund modified the legal framework of the deposit guarantee scheme in Poland, operated by the Bank Guarantee Fund and developed a framework allowing for the orderly resolution of financial institutions. The Act on the Bank Guarantee Fund 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 Act on the Bank Guarantee Fund amended several other related legal acts, including legislation on financial instruments, insolvency, financial market supervision and recapitalisation of financial institutions. The Bank has to comply with the Act on the Bank Guarantee Fund and has adjusted its operations to the new requirements.

The BRRD also impacts on how large a capital buffer an institution will need, in addition to those set out in the CRR/CRD IV. To ensure that institutions always have sufficient loss absorbing capacity, the BRRD requires institutions to maintain at all times a sufficient aggregate amount of own funds (as defined in Article 4(1)(118) of the CRR) and 'eligible liabilities' (namely, liabilities and other instruments that do not qualify as Tier 1 or Tier 2 capital and that may be bailed-in using the bail-in tool) - minimum requirements for own funds and eligible liabilities (MREL). Eligible liabilities may be senior or subordinated, provided they have a remaining maturity of at least one year and, if governed by a non-EU law, they must be able to be written down or converted under that law or through contractual provisions.

The introduction of the new regulations and the resulting changes in the regulatory requirements may have an adverse effect on the Group's business, financial conditions and results of operations.

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

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

The Group may fail to achieve its major strategic objectives in the upcoming years due to factors such as difficult economic or market conditions, increasingly strict regulatory requirements imposed on the banking and financial services sector in Poland and, globally, increased competition on the Polish banking market, changes in client behaviour or the failure of the newly-implemented IT systems (including the CRM system) to achieve the

expected parameters and objectives. These developments, compounded with multiple other factors remaining beyond the Group's control, could affect the business, financial condition and results of operations of the Group.

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

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

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

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

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

The Group's impaired loan ratio decreased to 6.6% as of 31 December 2015 and decreased further to 5.9% as of 31 December 2016 as a result of an improvement in the quality of consumer and corporate loans and the sale of impaired loans.

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

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

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

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

As of 31 December 2016, the Group's coverage of impaired loans and advances ratio stood at 65.5% (compared to 63.3% as of 31 December 2015).

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

The housing loan portfolio including mortgage loans and loans extended to corporate housing market customers represented 51.9% of the Group's gross lending portfolio as of 31 December 2016. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans. A decline in

the value of collateral securing the Group's loans or the inability to obtain additional collateral may, in certain cases, require the Group to reclassify the relevant loans, impair loans or increase its impairment allowance.

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

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

The vast majority of retail customers who have mortgage loans denominated in foreign currencies earn their income in PLN. Those customers are usually not protected against the fluctuations of the exchange rates of the PLN against the currency of the loan. Consequently, any depreciation of the PLN against the currency in which a loan is denominated results in an increase in the monthly instalment after its conversion into PLN. Such increases may result in difficulties related to the repayment of the assumed loans, which in turn may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment allowances on loans and advances extended to the Group's customers, which may adversely affect the business, financial condition and results of operations of the Group. This applies in particular to CHF-denominated loans, which constituted 14.1% of the Group's gross loan portfolio as of 31 March 2017 (see: "*The Appreciation of the CHF Can Result in an Increase of Credit Risk, New Regulatory Requirements and Higher Vulnerability to Client Claims or Class Actions*").

Moreover, as of 31 December 2016, 21.5% of the Group's liabilities were denominated in foreign currencies. The value of the Group's gross loan portfolio denominated in foreign currencies which amounted to 24.0% as of 31 December 2016 is substantially larger than the value of the Group's liabilities denominated in foreign currencies. Thus the Group partly reduces its foreign exchange risk exposure through derivative transactions. The typical maturities of these derivative contracts are shorter than the maturities of the underlying loans that are denominated in foreign currency and, furthermore, the customers have the option to change the currency of their loans to PLN. As a result, the Group is required to roll over such contracts when they mature, and it is exposed to market price fluctuations of these derivatives. Consequently, significant increases in the prices of such derivative contracts may adversely affect the funding costs of the Group's foreign-currency denominated loan portfolio which, in turn, could adversely affect the business, financial condition and results of operations of the Group.

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

As a result of the decision by the Swiss National Bank to unpeg the CHF rate from the EUR in January 2015, the CHF suddenly appreciated significantly against foreign currencies, including the PLN (the CHF/PLN exchange rate increased by 13.3% in the period between 31 December 2014 and 31 January 2015, reaching the highest average value of PLN 4.3223 on 23 January 2015). As at 31 March 2017, 14.1% of the Group's gross loan portfolio was denominated in CHF, 5.0% of which was classified as non-performing.

The Group has been continuously analysing the impact of CHF appreciation and the resulting increased risk of the deterioration in the quality of its portfolio of housing loans denominated in CHF on its financial results and results of operations. As a result of the depreciation of the PLN against the CHF in January 2015, the average LTV ratio of the mortgage portfolio increased by 3.12 p.p. to the level of 75.4% as at the 31 January 2015 (the LTV of the CHF-denominated mortgage portfolio rose by 8.83 p.p. to the level of 89.6% as at 31 of January 2016). The current CHF exchange rate is steadily declining and is lower than it was at the end of January 2015, which has resulted in the average LTV decreasing – as of 31 March 2017, the average LTV ratio of the mortgage portfolio and LTV of the CHF mortgage portfolio was at the level of 67.5% and 79.1%, respectively. At the moment, the Bank is carefully analysing the risk of the worsening quality of the CHF mortgage portfolio. The risk is being diminished by a decrease in the reference interest rates for these loans. An analysis conducted in the banking sector showed that at the current exchange rate of the PLN/CHF there is no systematic risk of the deterioration of portfolio quality. However, the Group undertook a number of actions aimed at supporting customers and simultaneously reducing an increase in the credit risk related to an increase in the CHF exchange rate, including, among others: (i) decreasing transactional FX spreads to 1%; (ii) enabling the extension of tenors without any fee; (iii) enabling currency conversion without any additional charge; (iv) applying a negative LIBOR rate to calculate the applicable rate for all customers instead of setting the floor rate at zero; (v) and refraining from seeking additional collateral from customers. Notwithstanding, despite the actions undertaken by the Group, the appreciation of the CHF against the Polish zloty may result in difficulties related to the repayment of loans denominated in CHF, which, in turn, may lead to a decrease in the quality of the Group's loan portfolio and an increase in the required impairment allowances on loans and advances extended to the Group's customers.

The appreciation of the CHF observed in January 2015 has also had an impact on the valuation of the Bank's portfolio of currency loans denominated in CHF, which contributed to an increase in the capital requirements in

respect of credit risk and consequently caused a decrease of the total capital ratio and the Tier 1 (CET1) ratio. Moreover, the PFSA imposed additional capital requirements on banks with significant CHF-denominated credit exposure, including the Bank (see: "*Increased Regulation of the Financial Services and Banking Industry in Poland and Internationally Could Adversely Affect the Group's Business, Financial Condition and Results of Operations*"). As a result of its CHF-denominated loans exposure, the Bank received individual recommendations from the PFSA with respect to the amount of the dividends which it may pay to its shareholders (see: "*The Amounts of the Dividends Paid by the Bank May Vary from Those Provided for in its Dividend Policy*").

The Group is also required to post additional collateral in the form of deposits (under ISDA and CSA contracts) in case of the negative valuation of future cash flows from derivative transactions that may occur especially in situations involving significant increases in the CHF/PLN rate. Consequently, significant rises in the CHF/PLN rate may adversely affect the Group's ability to fund its needs, which, in turn, could adversely affect the business, financial condition and results of operations of the Group.

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

During the previous term of the Polish Parliament, a draft law was filed by certain members of parliament regarding the special principles of restructuring foreign exchange-denominated mortgage loans in connection with the change in the exchange rates of foreign currencies into the Polish currency and regarding the amendment of certain other laws. The purpose of the draft law was to allow the conversion of a foreign currency loan into a loan denominated in PLN. Following the Parliamentary elections in the fall of 2015, in light of the principle of discontinuation, this draft is no longer being reviewed; however, no assurance may be given that an analogous or similar law providing for the conversion of foreign currency loans into PLN-denominated laws will not be adopted by the Parliament. If relevant regulations concerning the conversion of foreign currency loans come into force, banks may incur substantial costs which, in turn, will create a burden on the entire banking industry in Poland, which could have an adverse effect on such industry.

On 15 January 2016, the Chancellery of the President of the Republic of Poland published a proposal for a draft act on the methods of restoring the equality of the parties to certain credit and loan agreements. The act would apply to credit or loan agreements executed by consumers which are denominated in or indexed by reference to foreign currencies. The proposal of the draft act confers upon consumers the right to demand the recovery of currency spreads charged by lenders in the event that the foreign currency differences laid down under the act occur. The return of currency spreads would be affected by way of reducing the principal of the loans. In addition, the proposal of the draft act provides consumers with the possibility to file motions to have a loan restructured voluntarily (upon the mutual consent of the parties) or compulsorily (without the consent of the lender). The restructuring would, first of all, consist of converting the outstanding principal of the loan at the foreign exchange rate mechanism defined in the act. With respect to voluntary restructuring, the interest reference (base) rate would be replaced by WIBOR, whereas with regard to compulsory restructuring, the interest rate would remain unchanged. In addition, the proposal of the draft act confers upon consumers the right to unilaterally transfer to the lender the real estate pledged as collateral for the loan, which would result, by operation of law, in the consumer being released from the debt arising under such loan. The PFSA estimates that the banking industry could potentially incur aggregate losses in the range of PLN 44.6 – 67.2 billion as a result of the implementation of such draft law.

On 2 August 2016, the President of Poland submitted to the lower house of the Polish parliament (the "Sejm") a bill on the terms of the refund of certain amounts payable under credit and loan agreements. Such bill does not provide for the conversion of credit facilities into other currencies; instead, it introduces a requirement to refund the amounts collected at drawdown and the repayment of credit facilities in excess of the acceptable level of spread. Furthermore, on 21 October 2016, the Sejm proceeded with the first reading of another two bills regarding CHF loans, both having been filed by groups of members of the Parliament. The first one is a bill on

special rules for the restructuring of foreign currency housing loans in connection with changes in exchange rates of foreign currencies to the Polish currency. It envisages the conversion of the currency of a loan to Polish zlotys at the buying rate published for this currency by the NBP for the date preceding the date of the motion of the borrower for the conversion of the loan. The costs of this operation would be shared between the bank and the borrower. The second one is a bill on the restructuring of loans denominated in or indexed to a currency other than the Polish zloty and on a ban on the granting of such loans. It assumes that the loans denominated in foreign currencies will be considered as if they were originally granted on the terms applied by a given bank to the loans in Polish zlotys. As at the date of this Base Prospectus, it is impossible to foresee which of the bills will proceed further or to predict the ultimate wording of the act that will receive parliamentary approval. It cannot, however, be excluded that the new regulations or guidelines will transfer the entire economic cost of the appreciation of the CHF to banks or will otherwise adversely affect the business, financial condition and results of operations of the Group.

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

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

Implementation of IFRS 9 or Other Changes in the Accounting Standards used by the Group May Negatively Affect the Group's Results of Operations, Capital Position and Financial Condition

Changes in the accounting standards applied by the Group, in particular the transition from IAS 39 to IFRS 9, may adversely affect the Group's results of operations, its capital position and financial standing, in particular due to an increase in the amount of impairment allowances in respect of the Group's loan portfolio. IFRS 9 was published on 24 July 2014 by the International Accounting Standards Board and it will replace the previously applied IAS 39. IFRS 9 will enter into force on 1 January 2018. The new standard includes requirements concerning classification and measurement, impairment and hedge accounting. IFRS 9 is aimed at adjusting the principles for the measurement of financial instruments to the bank's business model and the characteristics of contractual cash flows from such instruments. Moreover, with respect to recognition of impairment, IFRS 9 requires an assessment of the effect of macroeconomic factors on the level of impairment allowances under various scenarios.

The Management Board believes that the introduction of IFRS 9 as of 1 January 2018 will not result in a reduction of the Group's capital ratio below the regulatory requirements or the level recommended by the PFSA. Moreover, as at the date of this Base Prospectus, the introduction of European regulations (draft CRR II) providing for a transition period for implementing changes in equity resulting from the initial application of IFRS 9 to the calculation of capital ratios is being contemplated. It is uncertain whether regulations concerning such transition period will be adopted and implemented. As at the date of the Base Prospectus, the Bank is in the process of assessing the effect of the implementation of IFRS 9 on the Group's capital position and financial standing.

The Group has a credit exposure to the renewable energy sector which has been impacted by changes in the regulations concerning renewable energy sources

As at 31 March 2017, the Group had a gross credit exposure in the amount of PLN 710 million to the sector of renewable energy sources, which amounted to 1.2 % of its corporate loan portfolio.

The renewable energy sector is affected by changes in regulations, specifically those relating to subsidizing such activities (on which borrowers from this sector often rely). Changes in the legal environment applicable to the renewable energy sector, in particular changes in acts regulating the renewable energy sources market and regulations relating to the installation of renewable energy sources adopted on 20 May 2016, had a negative impact on the results of operations and financial condition of borrowers from this sector. Borrowers were also negatively impacted by the oversupply of green certificates on the energy market.

According to the Group's policy, the Bank does not finance new projects from the wind farms segment, and the Group's existing exposure is under constant monitoring and credit reviews on a quarterly basis, including detailed analyses of cash flows. Notwithstanding the above, there can be no assurance that the results of operations and the financial condition of borrowers from the renewable energy sector will not deteriorate due to changes on the energy market or further changes in the legal environment. Adverse developments in conditions in the renewable energy sector could materially affect the ability of borrowers from this sector to repay their loans, which could have a material adverse effect on the Group's results of operations and financials.

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

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

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

The Group derives the majority of its net income from business activities (defined as operating profit before administrative expenses, net impairment allowance and write-downs and tax on certain financial institutions) from net interest income - 65.9% for the year ended 31 December 2015 and 65.8% for the year ended 31 December 2016. As a result, the Group's operations are affected by fluctuations of interest rates in Poland, Europe and the United States. In particular, the Group's operations depend on the management of the Group's exposure to interest rates, and the change of the relationship between market interest rates and interest margins. A mismatch of interest-earning assets and interest-bearing liabilities in any given period could, in the event of changes in interest rates, reduce the Group's net interest margin and have a material adverse effect on the Group's net interest income and, thereby, on the business, financial condition and results of operations of the Group.

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

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

As of 31 December 2016, 76.0% of the Group's securities portfolio (which comprises financial instruments designated upon initial recognition at fair value through profit and loss, trading assets excluding derivative financial instruments, investment securities available for sale and investment securities held to maturity) was composed of securities issued by the Polish government and the NBP. An adverse effect on the price of the Polish Treasury securities may be caused by a number of factors, including: the increased supply of securities issued by the Polish government in the trading market, due to either increased issuance of such securities by the Polish government in order to finance the budget deficit; an increase in the volume of sales of such securities by investors or in domestic interest rates, or a downgrade of Poland's sovereign ratings. Should the Group attempt to sell all or a portion of the Polish Treasury securities it holds in its investment portfolio to finance its operations, the occurrence of one or more of the factors mentioned above would adversely affect the price it could receive, which would have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank Faces Liquidity Risk

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

In terms of current and short-term liquidity, the Bank is exposed to the risk of unexpected, rapid withdrawal of deposits by its clients in large volumes. Retail deposits are the Bank's primary source of funding. As of 31 December 2016, 88.7% of the Bank's amounts due to customers had maturities of one year or less and 53.0% were payable on demand or deposited on O/N deposits. If a substantial portion of the Bank's clients withdraw their demand deposits or do not roll over their term deposits upon maturity, the Bank's liquidity position, financial condition and results of operations may be adversely affected.

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

Additionally, from 1 September 2020 new initial margin requirements will apply to the Bank. Initial margin is to cover potential future exposure for the expected time between the last variation margin exchange and the liquidation of positions on the default of a counterparty. It may impact liquidity risk as the Bank will be obliged to obtain and deploy additional liquidity resources to meet margin requirements that exceed current practice.

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

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

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

Ratings assigned by Moody's are solicited. On 21 May 2015, Moody's changed the Bank's ratings as a result of completing a review of ratings assigned to banks in Poland. The Bank's long and short-term deposit rating was maintained at the level A2/P -1, the debt rating was decreased from A2/(P)P-1 to A3/(P)P-2, the counterparty risk assessment was established at the level A2(cr)/P-1(cr) and the rating outlook was raised from "negative" to "stable". On 16 May 2016, Moody's affirmed the Bank's long-term deposit rating at the level of "A2" and revised its outlook of such rating from "stable" to "negative", as well as affirmed the short-term deposit rating at the level of P-1. At the same time, Moody's maintained its rating of A3 with a "stable" outlook for senior unsecured debt. The revision of the long-term deposits rating outlook followed a similar action towards Poland's sovereign debt. On 16 May 2017 Moody's upgraded the outlook for long-term deposits ratings to "stable" from "negative" and affirmed long- and short-term Bank's deposits ratings at the level A2/P-1. The other ratings were unaffected by this rating action. The upgrade of the long-term deposits ratings outlook follows a similar action on the outlook on Poland's government rating.

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

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

Net interest income is the most significant component of the Group's net income from business activities and represented 65.9% of the Group's net income from business activities during 2015 and 65.8% for the year ended 31 December 2016. The net interest income of the Group depends primarily on the level of its interest-earning assets and interest-bearing liabilities, as well as the average rate earned on its interest-earning assets and the average rate paid on its interest-bearing liabilities.

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

The Monetary Policy Council, following its wait-and-see strategy, did not change its monetary policy parameters throughout 2016, whereas deflation started to diminish in the second quarter of 2016. In October 2016, inflation measured with the harmonised index of consumer prices (HICP) noted the first year-on-year increase since June 2014. The NBP expects a significant rebound in price levels, driven mainly by fuel and food prices in 2017, but annual inflation should not exceed the target set by the NBP. The statutory limit on the maximum interest rate that may be charged on loans by the Bank is equal to the sum of twice the NBP reference rate plus 3.5 p.p.

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

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

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

business, financial condition and results of operations of the Group's activities in Ukraine are affected by many legal regulations, instructions and recommendations, including those issued by the National Bank of Ukraine ("**NBU**").

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

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

The Group has been offering banking services in Ukraine since August 2004, when it acquired an interest in Kredobank. The Bank also acquired an interest in the licensed Ukrainian factoring company "Prywatne Inwestycje", a limited liability company used as a special purpose vehicle in a restructuring transaction regarding Kredobank's non-performing loans, at the end of 2011, and in the debt collection company "Inter-Risk Ukraina" in January 2012. Through Kredobank, the Bank also owns Finansowa Kompania "Idea Kapitał" sp. z o.o. (Kredobank, "Prywatne Inwestycje", "Inter-Risk Ukraina" and Finansowa Kompania "Idea Kapitał" sp. z o.o. are hereinafter referred to collectively as the "**Ukrainian Subsidiaries**"). Given that the Ukrainian Subsidiaries are subsidiaries of the Bank, the results of operations and the financial condition of these companies have a direct impact on the Group's net interest income, net fee and commission income, the quality of the loan portfolio and the net impairment allowance, and, as a result, on the operating profit of the Group.

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

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

The Group continuously monitors and analyses the political and economic situation in Ukraine and the impact of events in Ukraine on its financial results, including the risk of the further deterioration of the quality of the assets held by the Group in Ukraine. The ultimate resolution of the political and economic situation in Ukraine and its end results are difficult to predict, but the Ukrainian economy and the Group's business may be further severely affected. For a description of the operations of the Ukrainian Subsidiaries (see: "*Description of the Group – Certain other subsidiaries and significant joint ventures*").

On 28 April 2017 the Group completed an inter-Group transfer of all of its interests in "Inter-Risk Ukraine". 99.9% of shares was purchased by Bankowe Towarzystwo Kapitałowe S.A. and the remaining interest by Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.

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

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

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

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

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

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

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

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

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

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

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

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

The State Treasury Holds Corporate Control over the Bank

As of the date of this Base Prospectus, the State Treasury directly held Shares representing 29.43% of the Bank's share capital.

In addition, while the Bank's Statute limits the voting rights of shareholders holding over 10% of the votes at the General Meeting, such limitation does not apply to: (i) shareholders that as of the date of the adoption of the amendment to the Bank's Statute had rights from Shares representing more than 10% of the total number of votes at the General Meeting (the State Treasury and Bank Gospodarstwa Krajowego ("**BGK**")); (ii) the holders of series A registered shares (the State Treasury); and (iii) shareholders acting jointly with the shareholders mentioned in (ii) on the basis of agreements with regard to the joint exercise of the rights from their Shares. In addition, under the Bank's Statute, certain resolutions of the General Meeting (including resolutions concerning attaching preferences to shares, the merger of the Bank by way of a transfer of all of the Bank's assets to another company, the liquidation of the Bank, a decrease of the Bank's share capital through the redemption of a part of the Shares without a simultaneous increase in the share capital, and a change of the scope of the business of the Bank resulting in the discontinuation of banking activities) require a majority of 90% of the votes cast.

Consequently, the State Treasury will be able to block the adoption of such resolutions by the General Meeting as long as it holds enough shares in the Bank's share capital to cast more than 10% of the total number of votes at the General Meeting and as long as the above limitations on voting rights have not expired. Voting-right limitations relating to companies partially owned by the state within the Member States have been addressed in rulings of the European Court of Justice (the "**ECJ**"). The rulings constitute case law and the position of the ECJ expressed therein has been evolving. The position of the ECJ in a given case may differ from the position previously expressed in a similar case. Consequently, no assurance can be given that the clause of the Bank's Statute stipulating the voting-rights restriction applicable to the holders of Shares representing more than 10% of the total number of the votes at the General Meeting will not be held to be in breach of EU law.

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

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

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

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

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

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

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

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

The Amount of the Dividends Paid by the Bank May Vary from Those Provided for in its Dividend Policy

Under the Polish Act dated 15 September 2000 – Code of Commercial Companies and Partnerships (the "**Polish Commercial Companies Code**"), dividend payments are authorised only if the Annual General Meeting adopted a resolution providing for the distribution of the net profit in the form of dividend. The Management Board cannot ensure that the annual General Meeting will not adopt a resolution on payment of a lower or higher dividend than that provided for in the Bank's dividend policy or that which is recommended in the given year by the Management Board. The payment of dividends at a level higher than that provided for in the dividend policy of the Bank may limit the Group's potential of growth and, thus, may adversely affect the business, financial condition and results of operations of the Group.

On 2 March 2017, the Management Board adopted new wording of the principles for managing the capital adequacy and the internal capital in the Bank and in the Group, which include, inter alia, the Bank's dividend policy. The aim of the dividend policy is the optimisation of the own funds of the Bank and the Group, taking into account the return on capital and its cost, as well as capital needs for development, while ensuring an appropriate level of the capital adequacy ratios. The dividend policy assumes stable payments of dividends in the long-term perspective, with respect to the principle of prudent management of the Bank and the Group as well as the possibility of realization of payments out of capital excess over the minimum capital adequacy ratios resulting from the generally applicable legal and regulatory requirements as well as the minimum level of Tier 1 at the level of 14.62%, as specified by the PFSA for the purpose of the payment of the dividend by the Bank. The dividend policy takes into account factors related to the operations of the Bank and the Group companies, in particular, the requirements and supervisory recommendations concerning capital adequacy. The above-mentioned Principles were approved by the Bank's Supervisory Board.

The dividend policy has been amended due to the PFSA position issued on 6 December 2016 regarding dividend policy of, among others, banks in 2017 for 2016, of which the Bank informed within the report No. 58/2016 of 7 December 2016. With respect to the above-mentioned position, the threshold values for capital adequacy measures regarding dividend policy were defined in the Principles at a level corresponding with the position of the PFSA, i.e. the Tier 1 exceeding 14.62% as a dividend criterion.

On 10 March 2017, the Bank received the position of PFSA regarding the individual recommendation to increase the own funds of PKO Bank Polski by retaining the whole net profit for the period from 1 January 2016 to 31 December 2016.

All of the shares of the Bank, i.e. 1,250,000,000 are covered by the dividend.

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

The Bank is party to several agreements with the State Treasury and/or other governmental agencies through which it directly or indirectly benefits from access to public funds, and such benefits could be classified as "state aid" within the meaning of Article 107 of the Treaty on the Functioning of the European Union. In particular, this interpretation may apply to the State Treasury guarantee of the old portfolio of housing loans (i.e. certain housing loans extended to housing communities, as set out in the Polish Act on state support for the repayment of certain housing loans, reimbursement to banks for guarantee bonuses and amendments to certain laws dated 30 November 1995 (Journal of Laws of 2003, No. 119, item 1115, as amended) and the Polish Regulation of the Council of Ministers on the rules of settlement with banks for the temporary repurchase of interest on housing loans from the state budget funds dated 25 February 2003 (Journal of Laws of 2003, No. 51, item 440, as amended)), as well as the other guarantees and/or additional payments by government agencies from which the Bank benefits. The European Commission has not received notice of certain of these benefits, including, *inter alia*, the old portfolio guarantee, and consequently, their admissibility under EC regulations has not been established. There is a risk that the benefits received by the Bank will be subject to an examination procedure by the European Commission. If such benefits are found to be non-compliant with EC regulations, the Bank will be required to return any state aid and will be deprived of such aid in the future. This may adversely affect the business, financial condition and results of operations of the Group.

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

Pursuant to the provisions of the Polish Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution dated 10 June 2016 (the "**Act on BGF**"), The Bank is a member of the compulsory Deposit Guarantee Scheme and is required to participate in the costs of the fund guaranteeing the claims of its depositors. Upon any member of the system meeting the conditions of benefiting from the guarantee, as set out in the Act on the Bank Guarantee Fund, other members of the system may be required to make payments to cover the liabilities of such entity. In the Act on BGF were defined also the principles of resolution of banks, credit unions and some investment firms and was established a fund of resolution of the banks. The purpose of creation this fund is to provide to the Bank Guarantee Fund (the "**BGF**") with a set of financial resources that will allow for a quick and effective intervention against an entity that needs resolution actions and also to ensure financial stability of financial sector. The Act on BGF takes into account Directive 2014/49/EU of the European Parliament and of the Council on deposit guarantee schemes and Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending other directives.

On 30 November 2015, the Group made an obligatory payment in the amount of PLN 337,932 thousand for the purpose of payments of the funds guaranteed for the deposits in the Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin.

In previous years, payments to the BGF were calculated and payable quarterly on the basis of risk-weighted assets of the Bank and the percentage rate set by the BGF. Since 2017, the amount of contributions to the bank guarantee fund and the resolution fund is calculated by the BGF individually for each bank. The target level of the deposit guarantee fund in banks is 2.6% of the covered deposits in banks and foreign branches covered by the mandatory deposit guarantee scheme. This level is expected to be reached by 3 July 2030. The target level of the resolution fund is 1.2% of the guaranteed funds in banks, investment firms and branches of foreign banks. It is planned to reach this level by 31 December 2030.

Contributions to the bank guarantee fund are paid quarterly. The basis for calculation of fees for a given quarter is the value of the covered deposits at the Bank, at the end of the quarter immediately preceding the quarter of which the premium relates. When determining the level of the fee is taken into account the risk profile of the Bank, in particular asset quality and capital ratios. In the first half of 2017, the contributions of the Bank to the Bank Guarantee Fund amounted to PLN 95 million (PLN 47 million in the first quarter of 2017 and PLN 48 million in the second quarter of 2017).

Contributions to the resolution fund of banks are paid once a year. The obligation to pay the fee arises on the first day of the third quarter, however, in accordance with the guidelines of the BGF and IFRIC 21, the value of the contribution was included in the cost of the first quarter. The basis for calculating contributions is the sum of the 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 base of the fee is reduced by adjustments for the risk profile of the Bank. For the year 2017, the value of the contribution to the resolution fund of banks attributable to the Bank amounted to PLN 209 million.

Due to the scale of the Bank's operations, if a member of the mandatory guarantee system were to declare bankruptcy, the Bank may be obligated to make larger payments to the BGF than those members of the deposit guarantee system the scale of business of which is relatively small in comparison to that of the Bank.

Risk Involved in the Decisions of the Antimonopoly Authorities

The Group's business must comply with regulations regarding competition, consumer protection and public aid. Under the Polish Act on the Protection of Competition and Consumers dated 16 February 2007 (the "**Antimonopoly Act**"), the President of the Antimonopoly Office has the right to issue a decision stating that a business entity is participating in an arrangement which aims at or results in the limitation of competition. Moreover, the President of the Antimonopoly Office may accuse business entities having a dominant position in the Polish market of an abuse of such position. Having determined that such practice has taken place, the President of the Antimonopoly Office may order the discontinuance of such practices and may also impose a fine. The President of the Antimonopoly Office also has the authority to declare that the provisions of agreements, as well as the tariffs and fees used by a particular business, violate the collective interest of consumers and, by consequence, it may order the discontinuance of such agreements and impose a fine on the business. The Bank is a party to several proceedings involving potential breaches of the Antimonopoly Act, including claims by customers that certain provisions of the loan agreements contain prohibited clauses (see: "*Description of the Group – Legal, Administrative and Arbitration Proceedings – Proceedings before the President of the Antimonopoly Office or the Antimonopoly Court for the Infringement of the Collective Rights of Consumers*"), the results of which may adversely affect the business, financial condition and results of operations of the Group.

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

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

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

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

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

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

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

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

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

Furthermore, since July 2010 changes have been introduced into Polish law making it possible to bring class action lawsuits. The ability of customers to group their lawsuits against a bank in a single class action significantly lowers the legal fees and other costs of such lawsuits, which may cause court actions against the Bank or other Group companies to become more frequent (see: "*Banking Regulations in Poland – Class Action Lawsuits*"). Class action suits regarding the protection of consumers (relating to, for example, the interest rate and FX provisions in banking contracts, especially in respect of CHF mortgage loans, as well as loan to value insurance provisions) have already been brought against some Polish banks. Taking into account the specificities of the banking industry, increasing awareness among consumers of their rights and the outcomes of certain class

action lawsuits regarding consumer protection in the Polish banking sector, no assurance can be given that the Group will not face any class actions in the future or that class action lawsuits will not become prevalent in the Polish banking sector. The occurrence of any these events may require the Group to incur substantial expenses or to pay damage, and this may additionally harm the Group's reputation or lead to the PFSA or other regulators taking action against the Group.

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

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

The Bank is an entity established and operating in accordance with Polish law and the vast majority of the Group's assets are located in the territory of Poland. Investors from the EU may enforce in Poland any judgment handed down in a civil or commercial case by a court of a Member State because Poland, as a Member State, directly applies European Parliament and Council Regulation No. 1215/2012 dated 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. As regards the Kingdom of Norway, the Swiss Confederation and Iceland, a judgment issued by a court in such countries will be recognised in the Republic of Poland pursuant to the 2007 Lugano Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. Under this Convention, a Polish court will not recognise a judgment only if: (i) such recognition is manifestly contrary to public policy (*ordre publique*) in the Republic of Poland; (ii) the defendant, who has not engaged in a dispute as to the substance of the matter, has not been served with a letter initiating the proceedings in a proper manner and within a time enabling him to undertake a defence; (iii) the judgment is contrary to a judgment issued with respect to the same parties in the Republic of Poland; and (iv) the judgment is contrary to an earlier judgment issued in another member country or in a third state involving the same cause of action and with respect to the same parties, provided that such earlier foreign court judgement satisfies the conditions necessary for its recognition.

Investors outside of the EU, the Kingdom of Norway, the Swiss Confederation and Iceland may face difficulties when attempting to enforce in Polish courts judgments that are issued by foreign courts. In general, foreign court judgments issued in civil matters are recognised by virtue of law and may be enforced in Poland pursuant to the general provisions of the Polish Civil Procedure Code. Judgments of foreign courts may be enforced in Poland provided that, inter alia, the judgments of foreign courts are final in their original jurisdiction and do not contradict the basic public policy principles of the Polish legal system. The Bank cannot provide assurance that all conditions precedent to the enforcement of foreign judgments in Poland will be met or that any particular judgment will be enforceable in Poland.

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

As a result of the nationalisation of property in Poland after the Second World War, many real estate and business entities which were owned by legal and natural persons were taken over by the State Treasury. In many cases, these takeovers were in breach of prevailing laws. After Poland's transformation into a market economy in 1989, many former owners of real estate or their legal successors took steps to recover the real estate and business entities that were expropriated after the war, or sought equivalent compensation. However, no comprehensive law regulating reprivatisation claims in Poland has been enacted. Under the laws currently in force, former owners of real estate or their legal successors may file requests with the administrative authorities for the establishment of the invalidity of the administrative decisions by which they were deprived of the real estate. As at the date of this Base Prospectus the Group is a party to: (i) eight administrative proceedings, of which three are suspended, in relation to properties owned by the Bank, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, giving the property under management and on acquisition in accordance with law the perpetual usufruct of land and ownership title to the building, the return of the property, remuneration for property usage without contractual basis as well as regulation of legal status of the properties; and (ii) fourteen proceedings, of which one is suspended, in relation to properties of other Group entities, regarding the invalidation of administrative decisions or return of the property.

Moreover, claims of former owners have been filed with respect to two real estate properties of the Group, and the Bank has undertaken certain court steps in order to regulate the legal status of one additional parcel; on 10 March 2017 the court proceedings with respect to one parcel have been resolved through an out-of-court settlement and as a result four court proceedings have been finally discontinued. Aside from the claims described above, reprivatisation claims may be raised against the Group in the future and any such claims could adversely affect the business, financial condition and results of operations of the Group.

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

The Bank has been established and operates under Polish law. The Polish legal system is based on statutory law enacted by the parliament. A significant number of applicable regulations and the regulations on the functioning

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

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

The Polish tax system is characterized by instability and tax regulations are frequently amended. The absence in well established regulations results in unclear and inconsistent interpretations which lead to uncertainties and conflicts in application. These frequent changes in tax regulations have had and may in the future have negative effects on our business, financial condition, results of operations and prospects. Further, the lack of stability in the Polish tax regulations may hinder our ability to effectively plan for the future and to implement our business plan. Tax settlements, together with other areas of legal compliance (e.g. foreign exchange law) may be subject to review and investigation by the tax authorities and additional tax assessments with penalty interest and penalties may be imposed within five years from the end of the year in which a tax is due.

Polish tax ruling system provides protection for taxpayers or tax remitters against negative tax consequences of their actions if: (i) a tax ruling is obtained prior to the occurrence of a tax effect of an action or prior to an event that is subject to taxation, (ii) the taxpayer or tax remitter complies with the tax treatment of the action indicated in a tax ruling, and (iii) the matter subject to a tax ruling is not subject to tax proceedings initiated, conducted or ended by the tax authorities. Tax rulings can protect a taxpayer or tax remitter against negative tax consequences only if facts presented for the purpose of a tax ruling truly and accurately describe a real action subject to such tax ruling and its circumstances. Moreover, rulings of Polish administrative courts, which supervise activity of Polish tax authorities, also do not provide uniformity of judicature and rulings concerning interpretation of tax law.

However, the tax rulings issued by tax authorities may be subject to revision. The facts presented by the taxpayer or tax remitter may be compared by the tax authorities with what subsequently occurs. If they find that the facts are different or not adequate, then taxpayer or tax remitter is not protected against negative tax consequences. Even though it is believed that the facts are properly presented for the purpose of the tax rulings it obtained, the tax authorities could still attempt to challenge what subsequently occurs (or has occurred) as not being in compliance with the facts previously described for the purpose of its tax rulings and, therefore, challenge the tax protection which might result from such rulings. Tax rulings which relate to any matters subject to or challenged under the General Anti-Abuse Rule ("**GAAR**") are not binding and will not protect a taxpayer or tax remitter against negative tax consequences.

Introduction of General Anti Abuse Rule to Polish tax law

On 15 July 2016, the new GAAR regarding tax entered into force in Poland. GAAR applies to the tax benefits (exceeding PLN 100,000) obtained after the day these rules entered into force.

GAAR allows the tax authorities to disregard for tax purposes a legally valid transaction if the primary aim of the transaction was tax avoidance – where "tax avoidance" is interpreted as an act (or a set of interrelated acts) applied primarily in order to receive a tax benefit, which in given circumstances defeats the object and purpose of the tax law.

A manner of conduct is considered artificial if, according to the existing circumstances, it would not be applied by an entity which acts reasonably and considers lawful purposes other than tax benefits that are contradictory to the tax law and its purpose. In order to assess whether a particular act was artificial, attention should especially be paid to: (i) the unjustified split of an operation; (ii) the involvement of intermediary entities without business substance; (iii) elements aimed at achieving a result identical or similar to the initial state of facts; (iv) elements compensating or excluding each other; and (v) economic risk exceeding the planned benefits other than tax benefits to a degree that it must be decided that a rational entity would not have chosen this manner of conduct.

A transaction will be considered to have been carried out primarily with a view to generating a tax benefit where the other economic or commercial objectives behind the transaction as named by the taxpayer should be considered negligible.

A tax benefit refers to a situation in which:

(i) a tax liability has not arisen, the date when a tax liability arises has been deferred or the tax liability has been reduced, or a tax loss has been incurred or overstated; and

(ii) a tax overpayment or a right to claim a tax refund has arisen, or the amount of a tax overpayment or the amount of tax to be refunded has been increased.

Please note that the GAAR regulations were only recently introduced into Polish tax law; therefore it is difficult to currently predict how these regulations will be interpreted by the tax authorities and administrative courts and applied in practice. If the tax authorities determine that pursuant to the GAAR regulations a transaction performed by the Group should be subject to less favourable tax regulations or obligations, it cannot be excluded that such determination may adversely affect the Group's financial position, results or the market price of the bonds.

Inconsistencies in Polish tax laws also pose a risk to the income generated by investors in relation to their acquisition, holding and disposal of bonds. No assurance may be given that there will be no unfavourable amendments to tax laws applicable to investors and their income or that the tax authorities will not establish unfavourable interpretations of applicable tax provisions. In each case, there could be an adverse effect on effective tax burdens and the actual profit of investors from their investment in the bonds.

Risk related to the conclusion of related-party transactions

In the course of their operations, members of the Group conclude transactions with related parties within the meaning of the tax regulations. These transactions ensure that business activity within the Group is conducted efficiently and include, among other things, the mutual provision of services, financing and other transactions. When concluding and performing related-party transactions, members of the Group take care to ensure that such transactions comply with the applicable transfer pricing regulations and are careful to observe all documentation requirements, including the new requirements introduced in 2017 related to such transactions. However, due to the specific nature of related-party transactions, the complexity and ambiguity of legal regulations governing the methods of examining the prices and terms applied, and the difficulty of identifying comparable transactions for reference purposes, no assurance can be given that members of the Group will not be subject to inspections by tax authorities or to any other activities aimed at verifying their compliance with the applicable laws. Should the methods of determining arm's-length terms for the purpose of related-party transactions be challenged, this could have a material adverse effect on the business, financial condition, results of operations and prospects of the Group.

Risks Relating To The Notes

Notes may be required to absorb losses as a result of statutory powers conferred on resolution and recovery authorities in Poland

The holders of Notes are subject to the risk that such Notes may be required to absorb losses as a result of statutory powers conferred on resolution and recovery authority in Poland.

The BRRD provides member states' authorities with a set of tools and powers for dealing with failing banks, and requires banks to facilitate this process by providing information for recovery and resolution planning purposes. The purpose of the BRRD is to guarantee that the restructuring of banks on the verge of insolvency occurs without imposing any additional costs on taxpayers and that the costs of restructuring are distributed between the banks' shareholders and creditors. The BRRD contains the following resolution tools that may be used alone or in combination in the event that the relevant resolution authority believes that: (i) an institution is failing or likely to fail; (ii) there is no reasonable prospect of any alternative private sector measures preventing the failure of such institution within a reasonable timeframe; and (iii) a resolution action is in the public interest:

- the sale of a business – enabling the resolution authorities to direct the sale of the institution or a part of its business;
- a bridge institution – enabling the resolution authorities to transfer all or a part of the business of the institution to a "bridge institution" (an entity created for this purpose that is wholly or partially under public control);
- asset separation – enabling the resolution authorities to transfer impaired or under-performing assets to a publicly owned asset management vehicle to allow them to be managed with a view to maximising their value through a potential sale or orderly wind-down (this can be used together with another resolution tool only); and
- a bail-in – giving resolution authorities the power to write down certain claims of unsecured creditors of a failing institution and to convert certain unsecured debt claims to equity.

The powers provided to resolution and competent authorities (Bank Guarantee Fund in Poland) in the BRRD include write-down/conversion powers to ensure that relevant capital instruments (such as Notes issued under the Programme) fully absorb losses at the point of non-viability of the issuing institution in order to allow it to continue as a going concern subject to appropriate restructuring. As a result, the BRRD contemplates that resolution authorities may require the permanent write-down of such capital instruments (which write-down may be in full) or the conversion of them into CET1 instruments at the point of non-viability (which CET1 instruments may also be subject to any application of the general bail-in tool described above) and before any other bail-in or resolution tool can be used. The application of any non-viability loss absorption measure may result in holders of Notes losing some or all of their investment. The exercise of any such power may be inherently unpredictable and may depend on a number of factors which may be outside the Issuer's control. Any such exercise, or any suggestion that the Notes could become subject to such exercise, could, therefore, materially adversely affect the value of the Notes.

Minimum requirements for own funds and eligible liabilities (MREL)

As described above in the risk factor *The Implementation of the Bank Recovery and Resolution Directives into Polish Law May Adversely Affect the Group's Business, Financial Condition, Results of Operations or Prospects*, in order to ensure the effectiveness of bail-in and other resolution tools introduced by the BRRD, the BRRD requires that all in-scope institutions have sufficient own funds and eligible liabilities available to absorb losses and contribute to recapitalisation if the bail-in tool were to be applied. Each institution must meet an individual MREL requirement, calculated as a percentage of total liabilities and own funds and set by the relevant resolution authorities (the Bank Guarantee Fund for Poland) on a case by case basis. The MREL requirement applies to all EU credit institutions (and certain investment firms), not just to those identified as being of a particular size or of systemic importance.

In determining an institution's MREL, the resolution authority must have regard to certain criteria specified in the BRRD and the MREL requirement for that institution will be comprised of a number of key elements, including the required loss absorbing capacity of the institution (which will, as a minimum, equate to the institution's capital requirements under CRD IV, including applicable buffers), and the level of recapitalisation needed to implement the preferred resolution strategy identified during the resolution planning process.

Items eligible for inclusion in MREL will include an institution's own funds (within the meaning of CRD IV), along with "eligible liabilities", meaning liabilities which, inter alia, are issued and fully paid up, have a maturity of at least one year (or do not give the investor a right to repayment within one year), and do not arise from derivatives. The MREL requirement may also have to be met partially through the issuance of contractual bail-in instruments, being instruments that are effectively subordinated to other eligible liabilities in a bail-in or insolvency of the relevant institution.

The Polish Act on the Bank Guarantee Fund, in line with BRRD, requires that all in-scope institutions have sufficient own funds and eligible liabilities available to absorb losses and contribute to recapitalisation if the bail-in tool were to be applied.

BRRD's provisions relating to MREL will be supplemented by regulatory technical standards (RTS) drafted by the EBA with a view to be adopted by the European Commission. The extent and nature of the MREL requirements are currently being developed and so it is not possible to determine the exact impact that they will have on the Issuer once implemented. As at the date of this Prospectus, the Polish Bank Guarantee Fund has not set MREL for the Issuer and it remains difficult to predict with certainty when a binding MREL decision will be taken by the Polish Bank Guarantee Fund in respect of the Issuer, and the ultimate impact it will have in respect of the Group. The Issuer may be required to issue a significant amount of additional eligible liabilities in order to meet the new MREL requirements within the required timeframes. If the Issuer was to experience difficulties in raising eligible liabilities, it may have to reduce its lending or investments in other operations.

Reform of LIBOR and EURIBOR and other "benchmarks"

The London Inter-Bank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate, equity, commodity, foreign exchange rate and other types of indices which are deemed to be "benchmarks" are the subject of recent national, international and other 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, or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes linked to such a "benchmark".

Key international proposals for reform of "benchmarks" include the International Organization of Securities Commissions' ("**IOSCO**") Principles for Financial Market Benchmarks (July 2013) (the "**IOSCO Benchmark Principles**") and the EU Regulation 2016/1011 of the European Parliament and of the Council of 8 June 2016 on

indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds (the "**EU Benchmark Regulation**").

The IOSCO Benchmark Principles aim to create an overarching framework of principles for benchmarks to be used in financial markets, specifically covering governance and accountability as well as the quality and transparency of benchmark design and methodologies. A review published by IOSCO in February 2015 on the status of the voluntary market adoption of the IOSCO Benchmark Principles noted that, as the benchmarks industry is in a state of change, further steps may need to be taken by IOSCO in the future, but that it is too early to determine what those steps should be. The review noted that there has been a significant market reaction to the publication of the IOSCO Benchmark Principles, with widespread efforts being made to implement the IOSCO Benchmark Principles by the majority of administrators surveyed.

The EU Benchmark Regulation entered into force on 30 June 2016. It applies across the EU from 1 January 2018, with the exception of certain provisions (specified in article 59) that began to apply from 30 June 2016 and certain provisions which amend Regulation (EU) No 596/2014 on market abuse, which became effective on 3 July 2016.

The EU Benchmark Regulation will apply to "contributors", "administrators" and "users" of "benchmarks" in the EU, and will, among other things, (i) require benchmark administrators to be authorised (or, if non-EU-based, to have satisfied certain "equivalence" conditions in its local jurisdiction, to be "recognised" by the competent authority of the applicable Member State pending an equivalence decision or to be "endorsed" for such purpose by an EU competent authority) and to comply with requirements in relation to the administration of "benchmarks" and (ii) ban the use of "benchmarks" of unauthorised administrators. The scope of the EU Benchmark Regulation is wide and, in addition to so-called "critical benchmark" rates and indices such as EURIBOR, will apply to many other interest rates, as well as equity indices and foreign exchange rates and other rates and indices (including "proprietary" indices or strategies) which are referenced in certain financial instruments (securities or OTC derivatives listed on an EU regulated market, EU multilateral trading facility (MTF), EU organised trading facility (OTF) or "systematic internaliser"), certain financial contracts and investment funds. Different types of "benchmarks" are subject to more or less stringent requirements, and in particular a lighter touch regime will apply where a "benchmark" is not based on interest rates or indices and the total average value of financial instruments, financial contracts or investment funds referring to a benchmark over the past six months is less than €50 billion, subject to further conditions.

The EU Benchmark Regulation could have a material impact on Notes linked to a "benchmark" rate or index, including in any of the following circumstances: (i) a rate or index which is a "benchmark" could not be used as such if its administrator does not obtain authorisation or is based in a non-EU jurisdiction which (subject to applicable transitional provisions) does not satisfy the "equivalence" conditions, is not "recognised" pending such a decision and is not "endorsed" for such purpose. In such event, depending on the particular "benchmark" and the applicable terms of the Notes, the Notes could be de-listed, adjusted, redeemed prior to maturity or otherwise impacted; and (ii) the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the EU Benchmark Regulation, and such changes could have the effect of reducing or increasing the rate or level or affecting the volatility of the published rate or level and could lead to adjustments to the terms of the Notes, including Calculation Agent determination of the rate or level in its discretion.

In addition to the international proposals for reform of "benchmarks" described above, there are numerous other proposals, initiatives and investigations which may impact "benchmarks". For example, in Poland, an affiliated company of the Warsaw Stock Exchange, GPW Benchmark S.A., has been entrusted with the organization of fixing of Warsaw Interbank Bid Rate ("**WIBID**") and Warsaw Interbank Offered Rate ("**WIBOR**") rates with the view to become an authorised administrator of those benchmarks.

Any of the international, national or other proposals for reform or 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 effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks", trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the disappearance of certain "benchmarks". The disappearance of a "benchmark" or changes in the manner of administration of a "benchmark" could result in adjustment to the terms and conditions, early redemption, discretionary valuation by the Calculation Agent, delisting or other consequence in relation to Notes linked to such "benchmark". Any such consequence could have a material adverse effect on the value of and return on any such Notes.

Limited events of default in respect of Senior Preferred Notes

The holder of any Senior Note may only give notice that such Senior Note is immediately due and repayable in a limited number of events. Such events of default do not include, for example, a cross-default of the Issuer's other debt obligations.

Absence of events of default in respect of Subordinated Notes

The Subordinated Notes do not provide for any events of default. The Noteholders will not be able to accelerate the maturity of such Subordinated Notes. Accordingly, if the Issuer fails to meet any obligations under such Notes, investors will not have the right of acceleration of the principal. Upon a payment default, the sole remedy available to the Noteholders and, where applicable, the Couponholders for the recovery of amounts owing in respect of any payment of principal or interest on the Subordinated Notes will be the institution of judicial proceedings to enforce such payment. Notwithstanding the foregoing, the Issuer will not, by virtue of the institution of any such proceedings, be required to pay any sum or sums sooner than the same would otherwise have been payable by it.

Subordinated Notes constitute subordinated obligations ranking junior to the Senior Notes

The Issuer's obligations under the Subordinated Notes including, where applicable any related Coupons, are unsecured and subordinated and will rank junior in priority of payment to other creditors (including depositors) of the Issuer, as more fully described herein. Although the Subordinated Notes may pay a higher rate of interest than comparable notes that are not subordinated, there is a substantial risk that investors in subordinated notes such as the Subordinated Notes will lose all or some of their investment should the Issuer become insolvent or become subject to any resolution procedure. Subordinated Noteholders face an increased risk compared to the holders of the Senior Notes.

The Risk of the Prepayment Is Assumed in Part by the Noteholders

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

Notes May Not Be a Suitable Investment for All Investors

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

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

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

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

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

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

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

There Is No Active Trading Market for the Notes

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

accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

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

The Luxembourg Stock Exchange and the Warsaw Stock Exchange have different characteristics

Following the Offer, the Notes will be listed on both the Luxembourg Stock Exchange and the Warsaw Stock Exchange. As there is no direct trading or settlement between these stock markets, the time required to transfer Notes from one exchange to the other may vary and there is no certainty of when Notes that are moved will be available for trading or settlement.

In addition, the Luxembourg Stock Exchange and the Warsaw Stock Exchange have different trading hours, trading characteristics (including trading volume and liquidity), trading and listing rules and investor bases (including different levels of retail and institutional participation). As a result of these differences, the trading price of Notes on the Luxembourg Stock Exchange and the Warsaw Stock Exchange may not be the same at any given time.

Furthermore, fluctuations in the price of the Notes on the Luxembourg Stock Exchange could materially and adversely affect the price of the Notes on the Warsaw Stock Exchange (and vice versa). Moreover, fluctuations in the exchange rate between the Euro and Polish zlotys could materially and adversely affect the prices of the Notes listed on the Luxembourg Stock Exchange and the Warsaw Stock.

As a company due to be listed on the Luxembourg Stock Exchange and the Warsaw Stock Exchange, the Bank will be subject to both Luxembourg and Polish laws, regulations and policies, which may differ in some respects. The differences in compliance requirements may subject the Bank to additional regulatory burdens. In the event of any conflict between the applicable laws, regulations and policies in Luxembourg and those in Warsaw, the Bank will have to comply with the more onerous rules and may incur additional costs and require additional resources.

Because the Global Notes Are Held by or on Behalf of Euroclear and Clearstream, Luxembourg, Investors Will Have to Rely on Their Procedures for Transfer, Payment and Communication with the Issuer

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

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

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

Notes Will Be Issued with a Minimum Denomination

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

Definitive Notes will only be issued if (a) Euroclear or Clearstream, Luxembourg (or other relevant clearing system) is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or

announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (Event of Default) occurs. The Final Terms may provide that, if Definitive Notes are issued, such Notes will be issued in respect of all holdings of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that Definitive Notes that have a denomination that is not an integral multiple of the minimum denomination might be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Issuer (including rights to receive principal or interest or to vote) in respect of such Notes.

Credit Ratings May Not Reflect All Risks

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

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

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

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Risk Associated with Increased Reporting Requirements Due to FATCA And Automatic Exchange of Tax Information

Due to the entry into force of the Act of 9 October 2015 on the performance of the agreement between the Government of the Republic of Poland and the Government of the United States of America on improvement of compliance with international tax obligations and the implementation of FATCA and the Act of 9 March 2017 on the exchange of tax information with other states implementing Council Directive 2014/107/EU of 9 December 2014 amending Council Directive 2011/16/EU as regards the mandatory automatic exchange of information in the field of taxation, specific obligations associated with the exchange of tax information were imposed on financial institutions. The Group is required to provide certain information on reportable accounts and undocumented accounts to competent administrative authorities, as well as to comply with the principles for monitoring the performance of such obligations.

In connection with the above-mentioned regulations or subsequent changes thereto, the Group may be forced to take adaptation actions, which may result in an increase in the costs of adaptation to new and amended regulations. Non-compliance with the above-mentioned new regulations may have adverse financial implications for both the Group and its customers. These factors may have a significant adverse effect on the activities, financial position or results of operations of the Group.

Change of Law

The provisions of the Agency Agreement, the Account Bank Agreement and the Terms and Conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to

the impact of any possible judicial decision or change to law or administrative practice in either jurisdiction after the date of this Base Prospectus.

GENERAL DESCRIPTION OF THE PROGRAMME

Structural Overview

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

Parties

Issuer:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, incorporated as a joint stock company in the Republic of Poland
Risk Factors:	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the ability of the Issuer to fulfil its obligations under the Notes are discussed under "*Risk Factors*" below and include risks relating to the Issuer, risks relating to the Republic of Poland and risks relating to the Notes.
Arranger:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Dealers:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna and any other Dealer appointed from time to time by the Issuer either generally in respect of the Programme or in relation to a particular Tranche of Notes.
Fiscal Agent, Principal Paying Agent, Transfer Agent, Calculation Agent and Registrar:	Citibank, N.A., London Branch
Paying Agents:	Citibank, N.A., London Branch Banque Internationale à Luxembourg
Luxembourg Listing Agent:	Banque Internationale à Luxembourg

Features of the Notes and the Programme

Final Terms or Drawdown Prospectus:	Notes issued under the Programme may be issued either (1) pursuant to this Base Prospectus and associated Final Terms or (2) pursuant to a Drawdown Prospectus. The terms and conditions applicable to any particular Tranche of Notes will be the Terms and Conditions of the Notes as supplemented, amended and/or replaced to the extent described in the relevant Final Terms or, as the case may be, the relevant Drawdown Prospectus.
Listing and Trading:	Applications have been made for Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the Regulated Market of the Luxembourg Stock Exchange. Each Series may also have a secondary listing on the regulated market in Poland. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with the Issuer.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms.
Initial Programme Amount:	Up to €3,000,000,000 (or its equivalent in other currencies) aggregate

principal amount of Notes outstanding at any one time.

Issuance in Series: Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.

Forms of Notes: Notes may be issued in bearer form or in registered form.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note which is not intended to be issued in new global note form (a "**Classic Global Note**" or "**CGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and each Global Note which is intended to be issued in new global note form (a "**New Global Note**" or "**NGN**"), as specified in the relevant Final Terms, will be deposited on or around the relevant issue date with a common safekeeper for Euroclear and/or Clearstream, Luxembourg. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.

Each Tranche of Registered Notes will be in the form of either Individual Note Certificates or a Global Note Certificate, in each case as specified in the relevant Final Terms. Each Global Note Certificate will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

Currencies: Notes may be denominated in euros, U.S. dollars or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Redenomination: The applicable Final Terms may provide that a Series of Notes may be redenominated in euro.

Status of the Notes: The Notes may either be senior or subordinated (respectively, the Senior Notes and the Subordinated Notes).

The Senior Notes shall constitute the direct, general and unconditional obligations of the Issuer and will at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Senior Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Issuer, save only for any obligation which may be preferred under

mandatory provisions of applicable law, as more fully described in "*Terms and Conditions of the Notes*".

The Subordinated Notes shall constitute the direct, unconditional, unsecured and subordinated obligations of the Issuer and and will at all times rank *pari passu* and without any preference among them and:

(i) *pari passu* with all other present or future subordinated obligations of the Issuer;

(ii) junior to all present or future (A) subordinated obligations expressed by their terms to rank in priority to the Subordinated Notes, and (B) subordinated obligations preferred under mandatory and/or overriding provisions of law; and

(iii) junior to all present or future (A) senior obligations, and (B) senior obligations preferred under mandatory and/or overriding provisions of law,

as more fully described in "*Terms and Conditions of the Notes*".

Issue Price: Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.

Maturities: Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer and the relevant Dealer(s). The maturity of the Subordinated Notes the proceeds of which constitute Tier 2 capital, should be at least five years from the issue date of the relevant series of Subordinated Notes.

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("**FSMA**") by the Issuer.

Interest: Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series. Notes may also have a step-up rate of interest. All such information will be set out in the relevant Final Terms.

Denominations: No Notes may be issued under the Programme which (a) have a minimum denomination of less than EUR 100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency), or (b) carry the right to acquire shares (or transferable securities equivalent to shares) issued by the Issuer or by any entity to whose group the Issuer belongs. Subject thereto, Notes will be issued in such denominations as may be specified in the relevant Final Terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

Redemption: Notes may be redeemable at par or at such other Redemption Amount as may be specified in the relevant Final Terms. Notes may also be

	redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms. The relevant Final Terms will specify whether there will be any Put or Call Options. The Redemption Amount shall always be equal to or higher than the par value of the redeemed Notes.
Early Redemption:	Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders to the extent (if at all) specified in the relevant Final Terms.
Taxation:	All payments in respect of Notes will be made free and clear of withholding taxes of the Republic of Poland, unless the withholding is required by law. In that event, the Issuer will (subject as provided in Condition 7 (Taxation)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Governing Law:	The Notes and any non-contractual obligations arising out of in connection with the Notes will be governed by English law.
Acknowledgement of Bail-In and Write-Down or Conversion Powers:	By the acquisition of Notes, each Noteholder acknowledges, accepts, consents and agrees to be bound by the effect of the exercise of the Bail-in Power (as defined below) by the Relevant Resolution Authority, as more fully described in the Terms and Conditions of the Notes.
Ratings:	Each Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will not necessarily be the same as a rating that may be assigned to the Programme. Credit ratings assigned to the Notes or the Programme do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Programme or the Issuer could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States of America, the European Economic Area, the United Kingdom, Japan and the Republic of Poland (see: "*Subscription and Sale*").

INFORMATION INCORPORATED BY REFERENCE

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

1. the English translations of the audited consolidated financial statements of the Group for the year ended 31 December 2016:

a)	consolidated income statement	page 18
b)	consolidated statement of comprehensive income	page 19
c)	consolidated statement of financial position	page 20
d)	consolidated statement of changes in equity	page 21
e)	consolidated statement of cash flows	page 22
f)	notes to the consolidated financial statements	pages 25 to 190

2. the English translations of the auditors' opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2016 (pages 2 to 4);

3. the English translations of the audited consolidated financial statements of the Group for the year ended 31 December 2015:

a)	consolidated income statement	page 21
b)	consolidated statement of comprehensive income	page 22
c)	consolidated statement of financial position	page 23
d)	consolidated statement of changes in equity	page 24
e)	consolidated statement of cash flows	page 25
f)	notes to the consolidated financial statements	pages 28 to 179

4. the English translations of the auditors' opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2015 (pages 2 to 4);

5. the English translations of the unaudited condensed interim consolidated financial statements of the Group for the three months ended 31 March 2017:

a)	consolidated income statement	page 43
b)	consolidated statement of comprehensive income	page 44
c)	consolidated statement of financial position	page 45
d)	consolidated statement of changes in equity	page 46
e)	consolidated statement of cash flows	page 47
f)	notes to the consolidated financial statements	pages 48 to 153.

The relevant page numbers of the documents referred to above have been placed in the bottom left-hand corner of the pages of such documents and have been underlined.

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

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

FINAL TERMS AND DRAWDOWN PROSPECTUSES

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

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

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

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

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

USE OF PROCEEDS

The Issuer will use the proceeds from the offering of each Series of Notes to fund its lending activities or for general banking purposes (unless otherwise specified in the relevant Final Terms).

HISTORICAL FINANCIAL INFORMATION

Capitalisation

The following table sets forth the Bank's total equity as at 31 March 2017, 31 December 2016 and 31 December 2015. The information was extracted without material adjustments from the audited financial statements of the Bank for the year ended 31 December 2016 (the "**2016 Stand-Alone Financial Statements**"), which have not been incorporated into the Base Prospectus by reference and should be read in conjunction with these financial statements and with the other financial data included or incorporated by reference elsewhere in this Base Prospectus, and from the Interim Financial Statements (the table includes stand-alone data).

	As at 31 March 2017	As at 31 December 2016	As at 31 December 2015
		(in PLN million)	
Share capital	1,250	1,250	1,250
Other capital, of which	28,666	28,452	25,147
Reserve capital	24,268	24,268	20,518
Other reserves	3,555	3,555	3,484
General banking risk fund	1,070	1,070	1,070
Total other reserves	**28,893**	**28,893**	**25,072**
Financial assets available for sale	(147)	(343)	145
Cash flow hedges	(70)	(89)	(58)
Actuarial gains and losses	(10)	(11)	(13)
Total other comprehensive income	**(227)**	**(442)**	**75**
Currency translation differences from foreign operations*	**-**	**0**	**-**
Undistributed profits	2,888	-	1,250
Net profit for the period	410	2,888	2,571
Total equity	**33,214**	**32,590**	**30,218**

Source: 2016 Stand-Alone Financial Statements and Interim Financial Statements
** refer to branch in Germany*

Selected Consolidated Financial Data

The following tables set forth selected consolidated financial data of the Group for the three months ended 31 March 2017 and 31 March 2016, as well as for the years ended 31 December 2016 and 31 December 2015. The information was extracted without material adjustments from the Interim Financial Statements and the 2016 Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

SELECTED CONSOLIDATED FINANCIAL DATA	For the three months ended 31 March 2017	For the three months ended 31 March 2016	For the year ended 31 December 2016	For the year ended 31 December 2015
		(in PLN million)		
Net interest income	2,046	1,853	7,755	7,029
Net fee and commission income	710	635	2,693	2,851
Operating profit	785	795	3,749	3,153
Profit before income tax	**790**	**798**	**3,783**	**3,191**
Net profit (including non-controlling shareholders)	**528**	**638**	**2,876**	**2,601**
Net profit attributable to equity holders of the parent company	**525**	**639**	**2,874**	**2,610**
Earnings per share for the period – basic (in PLN)	**0.42**	**0.51**	**2.30**	**2.09**
Earnings per share for the period – diluted (in PLN)	**0.42**	**0.51**	**2.30**	**2.09**
Net comprehensive income	**767**	**770**	**2,304**	**2,649**
Net cash flow from / used in operating activities	1,821	5,323	7,096	15,395
Net cash flow from / used in investing activities	(2,621)	(3,650)	(8,957)	(4,598)
Net cash flow from / used in financing activities	2,219	(199)	2,562	(7,787)
Total net cash flows	1,419	1,474	702	3,010

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

SELECTED CONSOLIDATED FINANCIAL DATA	For the three months ended 31 March 2017	For the three months ended 31 March 2016	For the year ended 31 December 2016	For the year ended 31 December 2015
	(in EUR million)			
Net interest income	477	425	1,772	1,680
Net fee and commission income	166	146	616	681
Operating profit	183	183	857	753
Profit before income tax	**184**	**183**	**865**	**762**
Net profit (including non-controlling shareholders)	**123**	**146**	**657**	**622**
Net profit attributable to equity holders of the parent company	**122**	**147**	**657**	**624**
Earnings per share for the period – basic (in EUR)	**0.10**	**0.12**	**0.53**	**0.50**
Earnings per share for the period – diluted (in EUR)	**0.10**	**0.12**	**0.53**	**0.50**
Net comprehensive income	**179**	**177**	**527**	**633**
Net cash flow from / used in operating activities	425	1,222	1,622	3,679
Net cash flow from / used in investing activities	(611)	(838)	(2,047)	(1,099)
Net cash flow from / used in financing activities	517	(46)	586	(1,861)
Total net cash flows	331	338	160	719

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

The following table sets forth selected consolidated financial data of the Group as at 31 March 2017 and for the three months then ended, as well as at 31 December 2016 and 31 December 2015 and for the years then ended. The information was extracted without material adjustments from the Interim Financial Statements and the 2016 Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

SELECTED CONSOLIDATED FINANCIAL DATA	As at and for the three months ended 31 March 2017	As at and for the year ended 31 December 2016	As at and for the year ended 31 December 2015	As at and for the three months ended 31 March 2017	As at and for the year ended 31 December 2016	As at and for the year ended 31 December 2015
	(in PLN million)			*(in EUR million)*		
Total assets	288,516	285,573	266,940	68,372	64,551	62,640
Total equity	33,336	32,569	30,265	7,900	7,362	7,102
Capital and reserves attributable to equity holders of the parent company	33,349	32,585	30,283	7,903	7,366	7,106
Share capital	1,250	1,250	1,250	296	283	293
Number of shares (in million)	1,250	1,250	1,250	1,250	1,250	1,250
Book value per share (in PLN/EUR)	26.67	26.05	24.21	6.32	5.89	5.68
Diluted number of shares (in million)	1,250	1,250	1,250	1,250	1,250	1,250
Diluted book value per share (in PLN/EUR)	26.67	26.05	24.21	6.32	5.89	5.68
Total capital ratio (%)	15.60%	15.81%	14.61%	15.60%	15.81%	14.61%
Tier 1 capital	28,671	28,350	24,608	6,794	6,408	5,775
Tier 2 capital	1,601	2,523	2,483	379	570	583

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

Consolidated Income Statements

The following tables set forth the consolidated income statements and the consolidated statements of comprehensive income of the Group for the three months ended, respectively, 31 March 2017 and 31 March 2016, and for the year ended 31 December 2016 and for the year ended 31 December 2015. The information was extracted without material adjustments from the Interim Financial Statements and the 2016 Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

	For the three months ended 31 March 2017	For the three months ended 31 March 2016	For the year ended 31 December 2016	For the year ended 31 December 2015
	(in PLN million)			
Continuing operations:				
Interest and similar income	2,620	2,391	9,964	9,658
Interest expense and similar charges	(574)	(538)	(2,210)	(2,629)
Net interest income	**2,046**	**1,853**	**7,755**	**7,029**

	For the three months ended 31 March 2017	For the three months ended 31 March 2016	For the year ended 31 December 2016	For the year ended 31 December 2015
	(in PLN million)			
Fee and commission income	929	843	3,580	3,598
Fee and commission expense	(219)	(208)	(886)	(748)
Net fee and commission income	**710**	**635**	**2,693**	**2,851**
Dividend income	-	-	10	11
Net income from financial instruments measured at fair value	19	(8)	4	41
Gains less losses from investment securities	5	51	506	88
Net foreign exchange gains (losses)	116	94	503	369
Other operating income	114	124	649	513
Other operating expense	(38)	(64)	(330)	(236)
Net other operating income and expense	**76**	**60**	**319**	**278**
Net impairment allowance and write-downs	(391)	(382)	(1,623)	(1,476)
Administrative expenses	(1,563)	(1,360)	(5,590)	(6,036)
Tax on certain financial institutions	(233)	(148)	(829)	-
Operating profit	**785**	**795**	**3,749**	**3,153**
Share of profit (loss) of associates and joint ventures	5	3	35	38
Profit before income tax	**790**	**798**	**3,783**	**3,191**
Income tax expense	(262)	(160)	(907)	(589)
Net profit (including non-controlling shareholders)	**528**	**638**	**2,876**	**2,601**
Profit (loss) attributable to non-controlling shareholders	3	(1)	2	(8)
Net profit attributable to equity holders of the parent company	**525**	**639**	**2,874**	**2,610**
Basic earnings per share for the period (in PLN)	0.42	0.51	2.30	2.09
Diluted earnings per share for the period (in PLN)	0.42	0.51	2.30	2.09
Weighted average number of ordinary shares during the period (in million)	1,250	1,250	1,250	1,250
Weighted average diluted number of ordinary shares during the period (in million)	1,250	1,250	1,250	1,250

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

Consolidated Statements of Comprehensive Income

	For the three months ended 31 March 2017	For the three months ended 31 March 2016	For the year ended 31 December 2016	For the year ended 31 December 2015
	(in PLN million)			
Net profit (including non-controlling shareholders)	**528**	**638**	**2,876**	**2,601**
Other comprehensive income	**239**	**132**	**(572)**	**48**
Items that may be reclassified to the income statement	**239**	**132**	**(574)**	**52**
Cash flow hedges (gross)	21	137	(63)	(78)
Deferred tax on cash flow hedges	(5)	(26)	12	15
Cash flow hedges (net)	16	111	(51)	(63)
Unrealised net gains on financial assets available for sale (gross)	285	33	(636)	171
Deferred tax on unrealised net gains on financial assets available for sale	(51)	(6)	118	(32)
Unrealised net gains on financial assets available for sale (net)	234	27	(518)	140
Currency translation differences from foreign operations	(9)	(9)	(5)	(24)
Share in other comprehensive income of an associate	(2)	3	(1)	(1)
Items that may not be reclassified to the income statement	-	-	**2**	**(4)**
Actuarial gains and losses (gross)	-	-	2	(5)
Deferred tax on actuarial gains and losses	-	-	(0)	1
Actuarial gains and losses (net)	-	-	2	(4)
Total net comprehensive income	**767**	**770**	**2,304**	**2,649**
Total net comprehensive income, of which attributable to:	**767**	**770**	**2,304**	**2,649**
equity holders of PKO Bank Polski SA	764	771	2,302	2,658
non-controlling shareholders	3	(1)	2	(8)

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

Consolidated Statements of Financial Position

The following table sets forth the consolidated statements of financial position of the Group as at 31 March 2017, 31 December 2016 and 31 December 2015. The information was extracted without material adjustments from the Interim Financial Statements and the 2016 Consolidated Financial Statements and should be read in conjunction with the financial data included elsewhere in this Base Prospectus.

	As at 31 March	As at 31 December	
	2017	2016	2015
	(in PLN million)		
ASSETS			
Cash and balances with the Central Bank	14,087	13,325	13,744
Amounts due from banks	5,659	5,345	4,553
Trading assets excluding derivative financial instruments	1,381	326	783
Derivative financial instruments	2,748	2,901	4,347
Financial assets designated upon initial recognition at fair value through profit and loss	11,775	13,937	15,154
Loans and advances to customers	200,579	200,606	190,414
Investment securities available for sale	39,058	36,676	28,310
Investment securities held to maturity	1,200	466	210
Investments in associates and joint ventures	377	386	392
Non-current assets held for sale	9	14	220
Inventories	301	260	401
Intangible assets	3,354	3,422	3,271
Tangible fixed assets	3,027	3,086	2,782
Current income tax receivables	18	10	47
Deferred income tax asset	1,728	1,779	902
Other assets	3,215	3,034	1,411
TOTAL ASSETS	**288,516**	**285,573**	**266,940**
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to the Central Bank	4	4	4
Amounts due to banks	18,162	19,208	18,289
Derivative financial instruments	3,805	4,198	4,625
Amounts due to customers	207,116	205,066	195,758
Liabilities due to insurance operations	3,005	2,944	2,400
Debt securities in issue	16,547	14,493	9,433
Subordinated liabilities	2,487	2,539	2,499
Other liabilities	3,716	3,987	3,356
Current income tax liabilities	83	305	26
Deferred income tax liability	42	31	32
Provisions	213	229	252
TOTAL LIABILITIES	**255,180**	**253,004**	**236,675**
Equity			
Share capital	1,250	1,250	1,250
Other capital	28,949	28,701	25,418
Currency translation differences from foreign operations	(230)	(221)	(217)
Undistributed profits	2,855	(19)	1,222
Net profit for the period	525	2,874	2,610
Capital and reserves attributable to equity holders of the parent company	**33,349**	**32,585**	**30,283**
Non-controlling interest	(13)	(16)	(18)
TOTAL EQUITY	**33,336**	**32,569**	**30,265**
TOTAL LIABILITIES AND EQUITY	**288,516**	**285,573**	**266,940**
Total capital ratio	15.60%	15.81%	14.61%
Book value (in PLN million)	33,336	32,569	30,265
Number of shares (in million)	1,250	1,250	1,250
Book value per share (in PLN)	26.67	26.05	24.21
Diluted number of shares (in million)	1,250	1,250	1,250
Diluted book value per share (in PLN)	26.67	26.05	24.21

Source: 2016 Consolidated Financial Statement and Interim Financial Statements

Alternative Performance Measures

The Management Board evaluates the Group's performance using selected profitability, capital and loan portfolio quality ratios, which are not taken from the financial statements, but have been calculated on the basis of the financial information presented in the financial statements. The ratios presented in this section are Alternative Performance Measures (APM) within the meaning of ESMA Guidelines on Alternative Performance Measures. Such data has not been audited or reviewed by an independent registered auditor. The following data has not been prepared in accordance with IFRS or any other generally accepted accounting principles or standards. The Management Board believes that the financial information presented below is commonly reported and widely used by investors in the banking sector in comparing performance. No assurance can be given, however, that similarly named data presented or reported by other banks is prepared on a basis that is consistent with that used in preparing the data presented herein. Consequently, data presented or reported by other banks may not be comparable to the data presented below. Alternative Performance Measures should not be considered more important than the measures stemming directly from the financial statements, and the presentation of the Alternative Performance Measures should not divert attention from the presentation of the measures that stem directly from the financial statements. Therefore, investors should not consider this data in isolation or as a substitute for operating profit or the data provided in the rest of this section and elsewhere in this Prospectus. In the Bank's opinion, other financial data or ratios presented in the Prospectus should not be considered as Alternative Performance Measures.

Alternative performance measures of the Group

The following table shows the basic Alternative Performance Measures of the Group used by the Management Board as at the dates and for the periods indicated with justification for their use, as well as the method of calculation of the individual Alternative Performance Measures with reference to the specific financial statements items.

	As at and for the three months ended 31 March	As at and for the year ended 31 December		Justification for the presentation of the alternative performance measure
	2017	2016	2015	
		(%)		
CAPITAL RATIOS				
Tier 1 ratio for the Group = A/(B*C)	**14.77**	**14.51**	**13.27**	***Tier 1 is the core measure of the Group's capital strength, expressed as a ratio of the Group's core equity capital to the total risk-weighted assets***
A. Tier 1 capital (in PLN million)	28,671	28,350	24,608	
B. Total capital requirements (in PLN million)	15,527	15,626	14,837	
C. 12.5	12.5	12.5	12.5	
Total capital ratio for the Group (TCR) = A/(B*C)	**15.60**	**15.81**	**14.61**	***Total capital ratio is the main capital adequacy measure and presents the own funds of the Group (being the sum of Tier 1 and Tier 2 capital) expressed as a percentage of the total risk-weighted assets***
A. Total own funds (in PLN million)	30,272	30,873	27,091	
B. Total capital requirements (in PLN million)	15,527	15,626	14,837	
C. 12.5	12.5	12.5	12.5	
LOAN PORTFOLIO QUALITY RATIOS				
Impaired loans ratio for the Group = A/B	**5.9**	**5.9**	**6.6**	***Impaired loans to gross loans and advances to customers is a key risk measure that presents what percentage of the Group's gross loan portfolio is impaired***
A. Impaired gross loans and advances to customers (in PLN million)	12,248	12,220	13,101	
B. Total gross loans and advances to customers (in PLN million)	208,722	208,609	198,701	
Coverage of impaired loans and advances for the Group = A/B	**66.5**	**65.5**	**63.3**	***Impairment allowances to impaired gross loans is a key risk measure that presents what percentage of impaired loans is covered with impairment allowances***
A. Impairment allowances on loans and advances to customers (in PLN million)	8,143	8,003	8,287	
B. Impaired gross loans and advances to	12,248	12,220	13,101	

	As at and for the three months ended 31 March	As at and for the year ended 31 December		Justification for the presentation of the alternative performance measure
	2017	2016	2015	
		(%)		
customers (in PLN million)				
PROFITABILITY RATIOS				
NIM for the Group = A/B	**3.2**	**3.2**	**3.0**	***Net interest margin presents the net interest margin that the Group generates on its business activities expressed as a percentage of the average interest-earning assets***
A. Net interest income[1] (in PLN million)	7,948	7,755	7,029	
B. Average interest-earning assets[2] (in PLN million)	249,881[3]	245,836[4]	231,238[5]	
Cost to income ratio for the Group (C/I) = -A/(B-A-C-D)	**48.0**	**47.4**	**56.6**	***Cost to income ratio measures the cost efficiency of the Group and presents how much cost is consumed to generate 1 unit of income, expressed as a percentage of income***
A. Administrative expenses[6] (in PLN million)	(5,793)	(5,590)	(6,036)	
B. Operating profit[7] (in PLN million)	3,740	3,749	3,153	
C. Tax on certain financial institutions[8] (in PLN million)	(914)	(829)	-	
D. Net impairment allowance and write-downs[9] (in PLN million)	(1,631)	(1,623)	(1,476)	
ROA net for the Group = A/B	**1.0**	**1.1**	**1.0**	***Net return on assets presents how much net profit the Group generates from its business activities expressed as a percentage of average total assets***
A. Net profit attributable to equity holders of the parent company[10] (in PLN million)	2,761	2,874	2,610	
B. Average total assets[11] (in PLN million)	277,846[12]	273,531[13]	256,534[14]	
ROE net for the Group = A/B	**8.6**	**9.1**	**9.0**	***Net return on equity presents how much net profit the Group generates from 1 unit of equity***
A. Net profit attributable to equity holders of the parent company[10] (in PLN million)	2,761	2,874	2,610	
B. Average total equity[15] (in PLN million)	32,169[16]	31,555[17]	28,891[18]	

Source: The Bank

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Notes:

[1] Net interest income of the Group for the four-quarter period ended 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

[2] Interest-earning assets consist of the following financial statements lines: amounts due from banks, trading assets excluding derivative financial instruments, financial assets designated upon initial recognition at fair value through profit and loss, loans and advances to customers, investment securities available for sale and investment securities held to maturity; average interest-earning assets are calculated as the arithmetical average of interest-earning assets at the end of the last five interim quarterly periods.

[3] Calculated as the arithmetical average of interest-earning assets as at the following dates: 31 March 2016, 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017, i.e.: PLN 237,804 million, PLN 246,544 million, PLN 248,049 million, PLN 257,357 million and PLN 259,652 million respectively.

[4] Calculated as the arithmetical average of interest-earning assets as at the following dates: 31 December 2015, 31 March 2016, 30 June 2016, 30 September 2016 and 31 December 2016, i.e.: PLN 239,424 million, PLN 237,804 million, PLN 246,544 million, PLN 248,049 million and PLN 257,357 million respectively.

[5] Calculated as the arithmetical average of interest-earning assets as at the following dates: 31 December 2014, 31 March 2015, 30 June 2015, 30 September 2015 and 31 December 2015, i.e.: PLN 222,144 million, PLN 231,357 million, PLN 230,280 million, PLN 232,985 million and PLN 239,424 million respectively.

[6] Administrative expenses of the Group for the four quarters period ended 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

[7] Operating profit of the Group for the four quarters period ended 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

[8] Tax on certain financial institutions of the Group for the four quarters period ended 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

[9] Net impairment allowance and write-downs of the Group for the four quarters period ended 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

[10] Net profit attributable to equity holders of the parent company for the four-quarter period ended 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

[11] Average total assets are calculated as the arithmetical average of total assets at the end of the last five interim quarterly periods.

[12] Calculated as the arithmetical average of total assets as at the following dates: 31 March 2016, 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017, i.e.: PLN 267,091 million, PLN 272,442 million, PLN 275,608 million, PLN 285,573 million and PLN 288,516 million respectively.

[13] Calculated as the arithmetical average of total assets as at the following dates: 31 December 2015, 31 March 2016, 30 June 2016, 30 September 2016 and 31 December 2016, i.e.: PLN 266,940 million, PLN 267,091 million, PLN 272,442 million, PLN 275,608 million and PLN 285,573 million respectively.

[14] Calculated as the arithmetical average of total assets as at the following dates: 31 December 2014, 31 March 2015, 30 June 2015, 30 September 2015 and 31 December 2015, i.e.: PLN 248,701 million, PLN 256,584 million, PLN 255,524 million, PLN 254,920 million and PLN 266,940 million respectively.

[15] Average total equity is calculated as the arithmetical average of capital and reserves attributable to equity holders of the parent company at the end of the last five interim quarterly periods.

[16] Calculated as the arithmetical average of total equity as at the following dates: 31 March 2016, 30 June 2016, 30 September 2016, 31 December 2016 and 31 March 2017, i.e.: PLN 31,035 million, PLN 31,589 million, PLN 32,319 million, PLN 32,569 million and PLN 33,336 million respectively.

[17] Calculated as the arithmetical average of total equity as at the following dates: 31 December 2015, 31 March 2016, 30 June 2016, 30 June 2016 and 31 December 2016, i.e.: PLN 30,265 million, PLN 31,035 million, PLN 31,589 million, PLN 32,319 million and PLN 32,569 million respectively.

[18] Calculated as the arithmetical average of total equity as at the following dates: 31 December 2014, 31 March 2015, 30 June 2015, 30 June 2015 and 31 December 2015, i.e.: PLN 27,616 million, PLN 28,265 million, PLN 28,731 million, PLN 29,578 million and PLN 30,265 million respectively.

DESCRIPTION OF THE GROUP

Overview

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of total assets, net income, total equity, loan and deposit portfolios, number of customers and size of the distribution network, as well as the largest commercial bank in CEE and one of the 25 leading banks in Europe in terms of market capitalisation as of the date of the Base Prospectus (based on PFSA data). Historically, the Group was focused mainly on providing banking products and services to individuals, but since 2004 the Group has also actively offered products and provided services to corporate clients. As of the date of the Base Prospectus, the Group is the Polish market leader in terms of the value of loans granted to business entities. The Bank's share in the net profit, assets and equity of the Polish banking sector as at and for the year ended 31 December 2016 amounted to 20.4%, 15.9% and 17.7%, respectively, and for the three months ended 31 March 2017 it amounted to 14.6%, 15.8% and 17.6%, respectively (based on PFSA data).

As at 31 December 2016, the Bank serviced approximately 9.2 million customers (including 8.8 million individual customers, 429 thousand small and medium enterprise ("**SME**") clients and 14.5 thousand corporate clients).

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

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

With 1,238 branches, 837 agencies and 3,206 ATMs as at 31 December 2016 (1,230; 819 and 3,196, respectively, as at 31 March 2017), the Bank has the largest and most extensive distribution network for banking products and services in Poland which enables it to attract and service clients throughout Poland. The Bank employed 25,381 full-time equivalent staff and employees as at 31 December 2016 (25,035 as at 31 March 2017).

As at 31 December 2016, the Group had total assets of PLN 285.6 billion, amounts due to customers of PLN 205.1 billion and loans and advances to customers of PLN 200.6 billion (PLN 288.5 billion, PLN 207.1 billion and PLN 200.6 billion, respectively, as at 31 March 2017). The Bank had market shares in the Polish banking sector of 15.8%, 17.3% and 17.7% in respect of the assets, deposits and loans, respectively, as at 31 March 2017 (based on PFSA and NBP data).

The Group has a strong capital base, with a total capital ratio of 15.81% and a Tier 1 ratio of 14.51% with Tier 1 capital of PLN 28,350 million as at 31 December 2016 and no hybrid capital on the Group's balance sheet, whereas as at 31 March 2017, it had a total capital ratio of 15.60% and a Tier 1 ratio of 14.77% with Tier 1 capital of PLN 28,671 million.

History

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

In 1991, the Bank established its brokerage division, Bankowy Dom Maklerski (now DM PKO BP), a specialist organisational entity of the Bank. In the early 1990s the formation of the Group commenced; the Group consists of the Bank and its subsidiaries that supplement and support the fundamental business segments by rendering specialist financial and non-financial services. In 1997, the Bank sought to broaden its product offering beyond its traditional banking business and, jointly with Credit Suisse Group, established PKO Bank Polski/Credit

Suisse Towarzystwo Funduszy Inwestycyjnych S.A. (presently, PKO Towarzystwo Funduszy Inwestycyjnych S.A.), an asset management company. In the second half of 1998, the Bank, together with Bank Handlowy w Warszawie S.A. jointly established PKO Bank Polski/Handlowy Powszechne Towarzystwo Emerytalne S.A. (now PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.), a universal pension fund company that manages an open pension fund. In 1999, the Bank established a leasing company under the name Bankowy Fundusz Leasingowy S.A. (currently PKO Leasing S.A.) and established an electronic payment services centre – CEUP eService.

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

In 2002, the Bank acquired an existing online banking company, Inteligo, a leader on the Polish market.

Since 2004, the Bank has been offering banking products and services in Ukraine through its subsidiary Kredobank.

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

In the second half of 2009, the Group, through its indirect subsidiary PKO BP Faktoring S.A., started operational activity by offering factoring services in Poland.

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

In 2013, the Bank sold a 66% stake in CEUP eService sp. z o.o. (formerly CEUP eService S.A.) and the company became a joint venture of the Bank.

In 2013, Bank signed an agreement to acquire Nordea Bank Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. and Nordea Finance Polska S.A.

As a result of the transaction finalised in April 2014, the Group grew due to the addition of Nordea Bank Polska S.A., Nordea Polska Towarzystwo Ubezpieczeń na Życie S.A. (currently PKO Życie Towarzystwo Ubezpieczeń S.A.) and a lease and factoring company, Nordea Finance Polska S.A., which was merged in September 2014 with PKO Leasing S.A. On 31 October 2014, Nordea Bank Polska S.A. merged with PKO Bank Polski and ceased to operate as a separate entity.

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

In April 2015, the operational merger of PKO Bank Polski and Nordea Bank Polska S.A. was successfully completed.

As a part of the strategic initiatives in 2015, PKO BP Faktoring S.A. was transferred to the PKO Leasing S.A. Group.

On 7 December 2015, a new branch of the Bank, PKO Bank Polski Niederlassung Deutschland, commenced operational activities in the Federal Republic of Germany.

In the first half of 2015, NEPTUN – a private equity closed-end investment fund was created, which is managed by PKO TFI S.A., to which PKO Bank Polski is successively disposing of shares of entities the business activity of which is not complementary to the financial service offer provided by the Bank. In June 2015, the Bank sold to the Fund all of its shares in "CENTRUM HAFFNERA" sp. z o.o., a real estate development company which became a part of the Group in 2014.

In 2015, PKO Bank Polski established PKO Towarzystwo Ubezpieczeń S.A., a non-life insurance company and PKO Bank Hipoteczny S.A., a mortgage bank. PKO Bank Hipoteczny S.A. started operational activity in 2015. In January 2016, PKO Towarzystwo Ubezpieczeń S.A. started to sell insurance.

On 31 October 2016 the merger of PKO Leasing SA (as the acquirer) and PKO Bankowy Leasing Sp. z o.o. (as the acquiree) was entered in the register.

On 2 November 2016, the Bank (as the guarantor), Raiffeisen Bank International AG (as the seller) and PKO Leasing SA (as the purchaser) signed an agreement for the sale by Raiffeisen Bank International AG (RBI AG) of 100% shares in Raiffeisen-Leasing Polska SA (RLPL) to PKO Leasing S.A. The transaction was closed on 1 December 2016 following the fulfilment of conditions precedent.

As a result of the acquisition of RLPL, the following subsidiaries of RLPL were incorporated into the Capital Group of PKO Leasing S.A.: Raiffeisen-Leasing Real Estate Sp. z o.o., "Raiffeisen Insurance Agency" Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o. and the Ireland-based ROOF Poland Leasing 2014 DAC.

On 8 December 2016, the change of the name of PKO BP Faktoring SA was entered in the National Court Register, the current name being PKO Faktoring SA.

On 28 April 2017 the merger of PKO Leasing SA (as the acquirer) and Raiffeisen-Leasing Polska SA (as the acquiree) was registered along with the changes of names of the following members of the Capital Group of PKO Leasing SA.: Raiffeisen-Leasing Real Estate Sp. z o.o. changed its name to PKO Leasing Nieruchomości Sp. z o.o., "Raiffeisen Insurance Agency" Sp. z o.o. changed its name to PKO Agencja Ubezpieczeniowa Sp. z o.o., and Raiffeisen-Leasing Service Sp. z o.o. changed its name to PKO Leasing Finanse Sp. z o.o.

On 26 January 2017 the Bank purchased 100% shares in ZenCard.

On 3 April 2017, a new foreign branch of the Bank, Bank PKO Polski Czech Branch in Prague, commenced operational activities in the Czech Republic.

Competitive Strengths

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

The Leader in a Large and Attractive Market

PKO Bank Polski is the market leader in Poland – the largest bank in the country, as measured by total equity, total assets, net income, loans and deposits, size of the customer base and breadth of geographic coverage (based on PFSA data). As of the date of the Base Prospectus, the Group's business is focused on the Polish market and as of 31 December 2016, 99.4 % (as at 31 March 2017, 99.4%) of the Group's total assets were located in Poland. Poland is the largest economy in Central and Eastern Europe (nominal GDP amounted to PLN 1,851 billion in the year ended 31 December 2016, according to GUS) and has the largest population of all the countries in the region (38.4 million as at 31 December 2016, according to GUS). The Polish economy has been highly resilient in recent years, despite the difficult macroeconomic environment in Western Europe and globally. Poland was the only country in the EU that showed positive real GDP growth in each of the years 2009-2012 (real GDP growth of 1.6%, 3.9%, 4.3% and 2.0% in 2009, 2010, 2011 and 2012, respectively, according to GUS). In 2013 and 2015 and 2016, real GDP growth was also positive and amounted to 1.6% and 2.2% and 2.7%, respectively. Polish macroeconomic fundamentals are sound and the economy, based on the latest EU budget for 2014-2020, is expected to continue to benefit from EU funds in this period. According to NBP, GUS and European Central Bank, as of 31 December 2013, the Polish banking sector was relatively underpenetrated with loans and deposits as a percentage of GDP at 58% and 54%, respectively, compared to the Eurozone average of 147% and 138%, providing substantial room for future growth. The Management Board believes that the Group has withstood the recent economic and financial turmoil with greater financial strength than many of its local and foreign competitors. The Group also believes that its market leadership position in an attractive market, together with a comprehensive range of products and services, will provide the Group with a strong platform for sustained and profitable growth.

Strong Capital Base, Liquidity and Balance Sheet

The Group maintains a strong capital position with a Tier 1 ratio of 14.51% with Tier 1 capital at the level of PLN 28,350 million as at 31 December 2016, whereas as at 31 March 2017 it had a Tier 1 ratio of 14.77% with Tier 1 capital of PLN 28,671 million and no hybrid capital on the Group's balance sheet. The Group's total capital ratio stood at 15.81% as at 31 December 2016 and 15.60% as at 31 March 2017. The Group's total equity of PLN 32,569 million as at 31 December 2016 was the largest among Polish banks (based on the reports of the banks for 2016), and the Group maintains an effective balance sheet structure reflected by a loan-to-deposit ratio (calculated by dividing net loans and advances to customers by amounts due to customers) of 97.8% as at 31 December 2016 and 96.8% as at 31 March 2017. In July 2011 the Bank successfully passed the stress-test, coordinated by the European Banking Authority ("**EBA**"), conducted on a bank-by-bank basis for a sample of 91 EU banks from 20 EU Member States. In June 2012, the Bank was also included in the results of a study conducted by EBA of 61 banks (certain Greek banks and other European banks monitored on an individual basis were removed from the original sample of 71 banks in the course of the study) regarding the fulfilment of certain capital adequacy recommendations as a bank fully in compliance with such recommendations, and not negatively directly influenced by the decrease of creditworthiness of some of the EU member states. In the EU-wide Transparency Exercise 2013 Summary Report, which was carried out in December 2013 on a sample of 64

banks with a significant position in EU member states (PKO Bank Polski has been the only Polish bank taking part in the test), PKO Bank Polski confirmed its strong capital position by maintaining (in both reviewed periods, i.e. June 2012 and December 2013) its Tier 1 capital ratio at the level exceeding 12%, significantly higher than the 9% recommended by the EBA. On 6 October 2014, the EBA and the European Central Bank ("**ECB**") published the results of stress testing of banks operating in the European Union and the outcomes of the asset quality review ("**AQR**") for banks operating in the Eurozone. The stress testing in the EU was conducted on a sample of 123 EU banks, covering at least 50% of every country's banking sector, and was carried out at the highest consolidation level. The assessment test of the banks comprised two parts: (i) the first part involved the AQR – a bank passed this assessment if its Common Equity Tier 1 capital ratio (CET1) reached 8 in the baseline scenario (in which the Bank has a surplus of 6.34 pp) and CET1 above 5.5% in the adverse scenario (in which the Bank has a surplus of 7.78 pp); and (ii) the second part testing the extent to which a bank's own funds would change over three consecutive years if the scenarios (the baseline and the adverse) specified in the stress-tests were to materialise. The results the Bank achieved both in the AQR and the stress testing confirm its strong capital position. In each scenario, even the most extreme, the Bank's results significantly exceed the required capital adequacy ratios – in the baseline scenario about 80%, and about 140% in the adverse scenario. These positive results were achieved in spite of the conservative financial forecast assumptions imposed by the EBA.

In July 2016 the Bank participated in a subsequent stress test organized by the EBA in cooperation with the PFSA, the ECB and the European Systemic Risk Board (the "**ESRB**"). The stress test was designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. In this case, as in the previous year, the results of stress test have proved that the Bank is one of the most resistant banking institutions to adverse market conditions of those 91 participating in the stress tests.

EBA in cooperation with the Bank for International Settlements launched the Quantitative Impact Study (the "**QIS**") in August 2016 which lasted until November 2016. The objective of QIS was to analyse an impact of proposed changes with respect to, among others, capital definition and liquidity standard on bank's functioning. The Bank participated in the QIS.

In December 2016 the Bank took part in the transparency exercise at EU-wide level covering 131 banks. The exercise's objective was to increase transparency of the European banking sector and support of market discipline. Overall, banks in Poland have further strengthened their capital position.

Moreover, the Group is almost entirely funded by deposits, with amounts due to customers representing 81.1% of the Group's total liabilities as at 31 December 2016 (81.2% as at 31 March 2017), with 72.2% (72.6% as at 31 March 2017) of the amounts due to customers being retail deposits that have traditionally proven to provide a more stable funding base than corporate deposits. In addition, the Group's conservative business focus has enabled it to maintain a comparatively high quality loan portfolio, with an impaired loans ratio of 5.9% as at 31 December 2016 (5.9% as at 31 March 2017).

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

Largest Customer Base and Distribution Network in Poland

As at 31 December 2016, the Bank serviced approximately 9.2 million customers (including 8.8 million private individual customers, 429 thousand SME clients and approximately 14.5 thousand corporate clients). The Bank has an extensive distribution network that offers significant opportunities to attract additional customers and expand its range of products and services to existing customers. As at 31 March 2017, the Bank had 1,230 branches, 819 agencies and 3,196 ATMs, the most of any bank in Poland. Consequently, it can provide clients with convenient access to services throughout the country, and itself obtain access to a large number of prospective customers throughout Poland, representing a significant potential source of growth for deposits and loan portfolios. The Bank's distribution network is supported by iPKO, which provides customers with web-based access to their accounts, and Inteligo, an exclusively electronic banking platform. The Group believes it has significant potential to increase the size of its retail customer base by pursuing opportunities among affluent customers, students and young people at the beginning of their careers.

Integrated and Comprehensive Product and Service Offering

While historically the Group primarily focused on providing retail banking products and services, the Group has been actively providing dedicated corporate banking services since 2004 and, as of the date of the Base Prospectus, is the market leader in the banking corporate segment in terms of value of loans and advances to corporate customers. Moreover, the Group provides a wide range of complementary financial products and

services, including specialised financial services such as leasing, factoring, investment funds, pension funds, investment banking, electronic payment services and online banking. The Group is able to capitalise on its diverse range of products and services to strengthen relationships by cross-selling such products and services to meet increasing customer needs. Moreover, the significant scale and range of the Group's distribution network ensures that current and potential clients have easy access to the Group's products and services and provides it with a competitive advantage in the development, distribution and cross-selling of new products and services.

Established Brand and Decisions Made Locally in Poland

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

Stable Financial Performance and Effective Cost Management

The Group's core banking activities have continued to generate consistent profits. For the three months ended 31 March 2017 and for the years ended 31 December 2016 and 31 December 2015, the Group's ROE net and ROA net were 8.6%, 9.1% and 9.0% and 1.0%, 1.1% and 1.0%, respectively. The Management Board believes that the Group's size, financial stability and liquidity position have enabled the Group to generate operating margins exceeding the operating margins of most of its competitors. Moreover, the Group's NIM stood at 3.2% for the three months ended 31 March 2017, 3.2% for the year ended 31 December 2016 and 3.0% for the year ended 31 December 2015, which was above the average market levels of 2.5%, 2.5% and 2.5%, respectively, for the same periods (based on PFSA data) and created a sufficient buffer for loan losses. The Group has focused on enhancing its operating efficiencies and cost management, with a C/I ratio of 47.4% for the year ended 31 December 2016 compared to 56.6% for the year ended 31 December 2015. From 1 February 2016, domestic banks are subject to the Act on Tax Imposed on Certain Financial Institutions (see – "*Tax Imposed on Certain Financial Institutions*"). The amount of the tax on certain financial institutions incurred by the Group in the three months ended 31 March 2017 resulting from this regulation amounted to PLN 233 million.

Prudent Risk Management

An integral part of the Bank's organisation and culture is its prudent approach to risk management. The Bank's consistent focus on risk management has resulted in lower loan losses and sound asset quality relative to the average levels on the Polish banking market, even in the recent global economic crisis. The Bank has maintained its orientation towards core retail and corporate banking products, thereby enabling it to avoid material losses resulting from investments in structured credit instruments. The Bank's long-standing experience in risk management has enabled it to create the largest databases of risk profiles in Poland which was recently expanded to also cover SMEs. The Bank uses such databases to prepare detailed risk management models. In addition, the Bank in 2009 completed the development and implementation of a centralised, integrated IT system, one of the largest information technology projects ever carried out in Poland. Among other benefits, the new system has enabled the Bank to improve its lending practices and actively manage its client exposures. The Bank continues to refine its risk management techniques, including the implementation of a behavioural scoring system that is based on a customer's risk profile, rather than risks associated with individual products.

Strategy

Overview

At the end of 2015, PKO Bank Polski completed the implementation of its three-year strategy "The Best Every Day". In November 2016, the Management Board adopted the main goals and foundations of the development of the Bank's strategy for 2016-2020 "We Support the Growth of Poland and the Poles" which was approved by the Supervisory Board.

In recent years, PKO Bank Polski has strengthened its market position as a Polish banking sector leader. The new strategy is, in many aspects, based on unchanged values and development directions.

PKO Bank Polski's new strategy for 2016-2020 is a response to long-term challenges faced by the banking sector, i.e. regulatory challenges, polarising of customer needs, dynamic diffusion of new technologies, the local market

- e.g. the decreased profitability of the banking sector, consolidation of the financial market and the ageing of the population.

In light of being the undisputed leader of the financial sector in Poland and maintaining its leading positions in all the key market segments, at the beginning of the new five-year strategy for PKO Bank Polski, the Bank defined the major challenges that it will face by the end of 2020 in its strategic goals, which include:

- supporting the development of Polish entrepreneurship, especially in the segment of Small and Medium-sized Enterprises;
- ensuring customer satisfaction;
- digitalisation of tools for customers and an increase in the number of customers using them;
- using simple and efficient processes – "faster and paperless";
- striving to be the best employer in the Polish banking sector;
- innovation and new sources of income;
- leader of cooperation in the area of cybersecurity.

Thanks to the strategy based on the levers of sustainable growth, the Bank's goals in 2020 will be:

1) Aligned with the customer and customer needs:

Close to customers - offering products tailored to customer needs by building a simple and transparent product offer, high quality advice, flexible pricing, fast services in all channels and intuitiveness of offered solutions tailored to the customer segment;

2) Available whenever and wherever the clients need:

Distribution excellence - offering a modern and at the same time accessible, local physical distribution network across the country, top class experience in digital channels, channel integration and supporting the processes with top of the range tools;

3) Steadily growing thanks to effective internal processes:

Operational effectiveness - speed and effectiveness of decision-making using high-quality data and analytical tools, automatisation and digitalisation of processes - user-friendly and without unnecessary printouts ("Paperless bank for the customer and employees"); maximising the effective use of capital;

4) Open and dynamic, friendly and attractive as an employer

Modern organisation - modern corporate culture and engaging leadership as a catalyst for change, a pleasant and inclusive workplace supporting diversity, friendliness and mutual trust coupled with responsibility and modern solutions eradicating bureaucracy;

5) Innovative for customers and the Polish economy:

Innovation and technology - active involvement in the creation of new market-wide standards, innovative tools for the customers and the organisation, reinforcement of the role of a public trust institution and counteracting cyber threats;

6) The leader in the area of financial products and added services:

Business model expansion - new non-interest income streams, new markets and business areas driven by customer needs, enhancing the availability of the offerings of the companies belonging to the Group. The main strategic priorities include:

- development of an integrated model of the corporate group, enhancing synergies among the companies and monitoring the potential for non-organic growth,
- support for Polish undertakings abroad and the development of a foreign banking model,
- development of cooperation with strategic partners via loyalty platforms and open APIs,
- commitment to new ideas and areas with future potential creating growth opportunities.

The Bank will continue to focus on combining the growth of shareholder value with social commitment and aim to achieve sustainable growth. In day-to-day operations, it will integrate its business objectives with actions benefiting all the stakeholder groups, while at the same time being involved in social initiatives. The Bank's values and transparent communication will be the key to developing a dialogue with its customers, employees, shareholders and local communities.

Strategic Targets until 2020

The Bank intends to achieve the following targets by the end of 2020:

- achieve a return on equity (ROE) over 10%;
- reduce the Cost to Income (C/I) ratio to below 45%;
- maintain the risk cost in the range of 75-85 bps;
- effectively and rationally manage its capital adequacy, ensuring that the TCR and CET1 are above the regulatory and supervisory minima allowing it to pay out dividend.

Operations

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of assets, net profit, total equity, loans and deposits portfolio, the number of customers and size of the distribution network (based on PFSA data). The Group offers a broad range of retail and commercial banking products and services to private individuals, SMEs, corporate and public sector entities as well as certain non-banking financial services products. Furthermore, Group is the largest bank in CEE by assets (as of 31 December 2016) and market capitalisation (as of the date of this Base Prospectus). The Bank is the market leader in retail banking (based on NBP data and the reports of the banks for 2016) and enjoys a strong market position in corporate banking.

In addition to products and services offered in its retail banking and corporate banking, the Group offers a range of products and services relating to leasing, factoring, investment funds, pension funds, insurance, internet banking and servicing, as well as card payment settlement through the Bank's subsidiaries. For the three months ended 31 March 2017 and for the years ended 31 December 2016 and 31 December 2015, the net profit of the Bank's fully consolidated subsidiaries (before consolidation adjustments) accounted for 23.2%, 7.4% and 0.2%, respectively, of the Group's consolidated net profit attributable to equity holders of the parent company.

As of the date of this Base Prospectus, the Group conducts its operations through the following business segments:

- *The retail segment.* The retail segment offers a full range of services for individuals as part of retail and private banking as well as mortgage banking. Moreover, it comprises transactions conducted with legal persons, i.e. small and medium enterprises. The products and services offered to customers in this segment include, amongst others: current accounts, savings accounts, term deposits, private banking services, investment and insurance products, credit and debit cards, electronic banking services. With regard to financing, it covers consumer loans, mortgage loans, including those offered by PKO Bank Hipoteczny SA, as well as business loans to small and medium-sized enterprises, developers, cooperatives and property managers, and leases and factoring offered by the PKO Leasing Group. In addition, the results of the retail segment comprise the results of the following companies: PKO TFI SA, PKO BP BANKOWY PTE SA, PKO Życie Towarzystwo Ubezpieczeń SA, PKO Towarzystwo Ubezpieczeń SA, PKO BP Finat Sp. z o.o. and ZenCard Sp. z o.o.
- *The corporate and investment segment.* The corporate and investment segment includes transactions concluded with large corporate clients and financial institutions. This segment comprises, i.a., the following products and services: current accounts, term deposits, depositary services, currency and derivative products, corporate loans, leases and factoring offered by the PKO Leasing Group. Within this segment, PKO Bank Polski SA also enters, individually or in a syndicate with other banks, into loan agreements financing large investment projects and issuance of non-Treasury securities. This segment also comprises the Bank's portfolio activity on its own account i.e. investing and brokerage activities, interbank transactions, derivative instruments and debt securities. The results of the corporate and investment segments also comprise the results of the companies operating in Ukraine, mainly KREDOBANK SA and the companies which conduct real estate development and real estate management activities.
- *Transfer Centre.* The result on the transfer centre comprises the result on internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting. Internal funds transfer is based on transfer pricing dependent on market rates. The

transactions between business segments are conducted at arms' length. Long-term external financing includes the issuance of securities, including the issuance of covered bonds, subordinated liabilities and loans received from financial institutions. As part of this segment, the results of PKO Finance AB are presented.

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

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

	For the three months ended 31 March 2017		For the three months ended 31 March 2016		For the year ended 31 December 2016		For the year ended 31 December 2015	
	(in PLN million)							
		%		%		%		%
Retail segment	624	79	693	87	2,704	71	2,666	84
Corporate and Investment segment	168	21	147	18	614	16	697	22
Transfer Centre	(7)	(1)	(45)	(6)	430	11	(211)	(7)
Share of profit (loss) of associates and joint ventures	5	1	3	0	35	1	38	1
Gross profit	**790**	**100**	**798**	**100**	**3,783**	**100**	**3,191**	**100**

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

For the purposes of the discussion and presentation of the operations of the various business segments below, the segment reporting has been based on the stand-alone management accounts of the Bank only and thus differs from the segment reporting based on the 2016 Consolidated Financial Statements and the Interim Financial Statements, as presented in the table above.

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

	As at 31 March	As at 31 December	
	2017	2016	2015
	(in PLN million)		
Loans and advances to customers gross, of which:	**196,080**	**196,387**	**196,443**
Retail segment	**136,703**	**137,929**	**139,870**
Mortgage banking	91,655	93,078	95,217
Retail and private banking	24,472	24,280	23,340
Small and medium enterprises	20,576	20,571	21,313
Corporate segment	**58,342**	**57,106**	**52,130**
Corporate	58,342	57,106	52,130
Other	**1,035**	**1,352**	**4,442**
Receivables due from repurchase agreements	1,022	1,339	4,432
Other receivables	13	13	10
Impairment allowances on loans and advances to customers	**(7,450)**	**(7,320)**	**(7,890)**
Loans and advances to customers net	**188,630**	**189,067**	**188,552**

Source: 2016 Stand-Alone Financial Statements and Interim Financial Statements

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

	As at 31 March	As at 31 December	
	2017	2016	2015
	(in PLN million)		
Retail segment	**163,670**	**161,666**	**147,636**
Retail and private banking	142,291	139,423	127,833
Small and medium enterprises	21,379	22,243	19,803
Corporate segment	**38,558**	**38,025**	**42,908**
Corporate	38,558	38,025	42,908
Other liabilities	**9,057**	**9,680**	**11,265**
Loans and advances received*	9,037	9,680	10,436
Amounts due from repurchase agreements	20	-	829

	As at 31 March	As at 31 December	
	2017	2016	2015
		(in PLN million)	
Total	**211,285**	**209,371**	**201,809**

Source: 2016 Stand-Alone Financial Statements and Interim Financial Statements

** Including loans and advances from financial institutions and loans received from PKO Finance AB in relation to the issue of notes under the EMTN Programme.*

Retail Banking

Overview

PKO Bank Polski is the leading retail banking institution in Poland. As at 31 March 2017, the Bank had the leading position in terms of total assets, loans, deposits, number of personal accounts maintained and bank cards serviced. As at 31 December 2016, the Bank also had 1,198 retail branches (including 11 regional retail branches and 8 private banking bureaus), which constitute the main distribution channel of the Bank's products and services, and 837 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. In addition, the Bank offers online banking services to its clients using the iPKO and Inteligo platforms and mobile banking services using the IKO application.

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

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

As at 31 December 2016, the Bank serviced approximately 9.2 million customers including customers of the Bank using the Inteligo electronic banking platform (including approximately 8.8 million individual customers and 429 thousand SMEs clients).

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

Distribution Channels

PKO Bank Polski offers its products and services to retail banking customers through the largest network of branches and agencies in Poland. The Bank's branch network represented 16.9% of the total number of commercial bank branches in Poland as at 31 March 2017 (based on PFSA data). The Bank is also continuing to refurbish its existing branches to standardise its image throughout its branch network, refresh its branding, upgrade its branches to respond to changing client expectations and develop other distribution channels based on new technologies. The Bank's branch and agency network is complemented by non-exclusive financial intermediaries. As at 31 March 2017, the Bank was distributing products on the basis of 430 agreements with non-exclusive financial intermediaries. The Bank reviews the locations of its distribution channels on an ongoing basis to provide better access to its targeted customer base. As part of its strategy, the Bank will continue to optimise its network of branches and agencies to ensure a strong presence in all large cities.

As at 31 December 2016, the Bank operated 3,206 ATMs (3,196 as at 31 March 2017). As at 31 December 2016, the Bank had 13.7% of the total number of ATMs on the Polish market (according to NBP data). In addition, the Bank's customers can access their accounts and effect banking transactions through all non-Bank ATM networks in Poland as well as ATMs outside Poland that accept VISA, MasterCard and Diners Club. Customers use the Bank's ATMs for a variety of transactions, including cash withdrawals and ATM deposits and other services.

With the goal of expanding the reach of its distribution network and satisfying evolving client expectations in an increasingly competitive market, the Bank continues to develop and implement new technology-based distribution channels, including a call centre, online banking, and SMS and mobile banking. The Bank offers online banking services to its clients using the iPKO platform and to customers that have an Inteligo account. The iPKO platform offers the Bank's clients the same products and services that are offered at the Bank's branches. Inteligo offers PI and SME customers online access to bank accounts, term deposits and various other products. The Bank is in the process of adding further functionalities to its online distribution platforms, including lending and long-term savings products. As at 31 March 2017, approximately 8.0 million retail banking customers were using iPKO online banking services.

In March 2013, the Bank introduced a new product, the IKO application: a mobile application that is a new solution in the Polish banking sector that combines banking and payment functions, allowing customers to pay with their mobile phones in retail and online stores, as well as to make withdrawals from the Bank's ATM network. A user can also send money to other users with the IKO application. As at 31 March 2017, the IKO application was used by more than 1,243 thousand users, and the acceptance network covers over 180 thousand eService payment terminals and more than 25 thousand online stores. At present, IKO users have access to more than 23.3 thousand ATMs. PKO Bank Polski SA has implemented for customers a new option in the payment method "Płacę z iPKO" - transaction authorization by using the BLIK code generated in IKO application. This change enable customer to pay using IKO in most Internet stores in Poland, including those serviced by the largest integrator - PayU. In the analysed period, a new version of the IKO application was made available to PKO Bank Polski customers. The upgrading of the software made the application operate more quickly and brought a number of improvements in the area of security due to, *inter alia*, modifications to the application registration process.

In 2013, the Bank introduced one of the first online banking products for children in the world, which at the same time is a comprehensive financial education programme, called "PKO Junior". The "PKO Junior oferta dla segmentu wiekowego 0–12" project (PKO Junior offer for the segment aged 0–12) offers two new types of accounts: PKO Konto Dziecka (a child account) and PKO Konto Rodzica (a parent account), which enable the purchasing of long-term deposits and investment products for children under one consistent offer. When the holder of a PKO Konto Dziecka reaches the age of 13, the account is automatically converted into a PKO Konto Pierwsze account; when the account holder reaches the age of 18, the account is automatically converted into a PKO Konto dla Młodych account. In 2016, more than 106.9 thousand PKO Konto Dziecka accounts and more than 3.0 thousand Inteligo Konto Dziecka accounts were opened.

Products and Services

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

Products and Services for PI Customers

Current Accounts

The current account product is the most important product offered by the Bank to its PI customers. The Bank's current account provides access to several other products and services such as various credit lines, overdraft facilities, life and non-life insurance products, wire transfers, direct debits, standing orders and debit cards. As at 31 March 2017, the Bank's customers held approximately 6.9 million current accounts maintained as part of the Superkonto offer and the new "PKO Konto" current account offer, and the Bank issued approximately 7.0 million debit cards in connection with such accounts.

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

Personal and Private Banking

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

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

The Bank offers specialised products and services to such customer segment as part of its personal and private banking program, which provides customers with the services of a personal adviser, separate VIP teller areas at selected branch locations, the ability to negotiate terms of certain services as well as negotiated rate term deposit products, loan products with flexible approval procedures and payment schedules, foreign exchange products and services, bank cards for affluent customers, and various insurance products. As at 31 March 2017, the Bank had approximately 508.6 thousand personal banking clients and signed approximately 8,019 thousand agreements with private banking customers.

Deposit Products

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

Loan Products

Consumer Loans

The Bank offers consumer loans to its PI customers in the form of overdraft facilities, including credit lines, cash loans and credit cards. Consumer loans amounted to 17.9%, 17.6% and 16.7% of the Bank's total loans to retail banking customers (including mortgage banking, retail and private banking and small and medium enterprises) as at 31 March 2017, 31 December 2016 and 31 December 2015, respectively. As at 31 March 2017, the average tenor of a consumer loan equalled to 72 months (excluding early repayments).

The cash loan is the Bank's basic consumer finance product addressed to mass clients PI customers and personal and private banking customers.

Payment Cards

The Bank offers its retail customers a comprehensive range of payment card products, issued by the Bank in conjunction with Visa, MasterCard and Diners Club programs. The Bank also offers VISA Infinite and Master Card Platinum credit cards to its private banking customers. As at 31 March 2017, the Bank had issued approximately 8.0 million payment cards, including 0.9 million credit cards for retail customers.

On 29 January 2016, the Management Board of PKO Bank Polski SA accepted the conditions of the Group's participation in the acquisition of Visa Europe Ltd. by Visa Inc. presented to the Group by Visa Europe Ltd. On 16 June 2016, the final amounts due to the Group were confirmed. On 21 June 2016, the Group obtained from Visa Europe Ltd. information on completing the acquisition of Visa Europe Ltd. by Visa Inc.

The final Group's participation in above-mentioned transaction included:

- the amount of EUR 70.5 million in cash, paid to the Group's account on 21 June 2016 (equivalent to PLN 309.9 million according to NBP average exchange rate of 21 June 2016),
- 25,612 preference C-series shares of Visa Inc., the value of which as at the transaction date was estimated at the amount of USD 20.9 million (equivalent to PLN 81 million according to NBP average exchange rate of 21 June 2016),
- the receivable due to deferred payment in cash equivalent to 0.5435987989% from the amount of EUR 1.12 billion, i.e. the amount attributable to all transaction participants, paid on the 3rd anniversary of the transaction, unless potential adjustments, in case of occurrence of situation described in the transaction terms; the value of above-mentioned receivable as at 21 June 2016 amounted to EUR 6.1 million (equivalent to PLN 26.7 million according to NBP average exchange rate of 21 June 2016).

The Group recognised in the income statement due to settlement of the transaction the total amount of PLN 417.6 million (the profit before taxation). Within this amount, the amount settled in the other comprehensive income due to valuation of Visa Europe Ltd. shares amounted to PLN 336.7 million.

Received preference C-series shares will be converted to ordinary Visa Inc. shares, and terms of transaction provide progressive shares conversion. The conversion of all preference shares shall occur not later than in 2028. Current conversion ratio equals to 13.952 and may be reduced in the period until 2028, which is depended on potential liabilities due to legal claims in that period relating to acquired company, i.e. Visa Europe Ltd.

Preference shares of Visa Inc. have been classified to the portfolio of securities available for sale and they are measured at its fair value based on the market price of quoted ordinary shares, taking into consideration discount due to the limited liquidity of the preference shares and the conditions of shares conversions (adjustments resulting from court proceedings).

The fair value of the mentioned above shares as at 31 December 2016 was estimated at USD 22.1 million (equivalent to PLN 92.4 million according to NBP average exchange rate of 30 December 2016 applicable as of the end of 2016).

The fair value of such shares as at 31 March 2017 was estimated at USD 26.2 million (equivalent to PLN 103.3 million according to NBP average exchange rate of 31 March 2017).

Mortgage Loans

The Bank holds a leading position in the Polish housing mortgage loan market and such loans amounted to 67.0% , 67.5% and 68.1% of the Bank's total loans to retail banking customers (including mortgage banking, retail and private banking and small and medium enterprises) as at 31 March 2017, 31 December 2016 and 31 December 2015, respectively. The Bank offers mortgage loans in PLN. The Bank also has a legacy portfolio of CHF denominated mortgage loans, the active selling of which has been materially restricted since the fourth quarter of 2008. The sale of mortgage loans denominated in convertible currencies ceased in December 2011 in PKO Bank Polski, while in Nordea Bank Polska S.A. it ceased in June 2012. Due to the acquisition, the share of foreign currency mortgage loans has increased. As at 31 March 2017 and as at 31 December 2016 and 31 December 2015, the share of foreign currency mortgage loans (excluding accrued interest and EIR adjustment) stood at 32.0%, 33.9% and 36.9%, respectively. As at 31 March 2017, the average tenor of a mortgage loan amounted to 24.9 years (excluding early repayments).

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

Products and Services for SME Customers

The Bank was one of the first Polish banks to introduce a line of products and services specially designed for SME clients of every type. The package for SME customers includes, among others, current accounts, auxiliary current accounts in a range of currencies, standard and negotiated term deposits, loans and credit facilities, a full range of bank cards: debit, credit and charge, and other services. The Bank also introduced a few new products to the offer, mainly: a new debit card which allows contactless payments, a new internet debit card and a new package including POS terminals. The Bank also introduced the first stage of an on-boarding process for SME customers as well as a retention program. As at 31 March 2017, the Bank maintained approximately 448.2 thousand SME deposit accounts. In addition, SME customers had approximately 33.1 thousand Inteligo accounts.

The Bank offers investment and working capital loans to its SME customers. Investment loans amounted to PLN 12.1 billion, PLN 12.3 billion and PLN 13.0 billion as at 31 March 2017, 31 December 2016 and 31 December 2015 respectively, whereas working capital loans amounted to PLN 8.5 billion, PLN 8.2 billion and PLN 8.3 billion as at 31 March 2017, 31 December 2016 and 31 December 2015, respectively.

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

The Bank offers credit cards dedicated to its SME customers under the brands "PKO Euro Biznes". As at 31 March 2017, the Bank had issued approximately 20.2 thousand of such cards. In addition, SME customers had approximately 25.0 thousand Inteligo debit cards.

Products and Services for Housing Sector Entities

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

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

Other Products and Services Offered to Retail Banking Customers

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

PKO Bank Polski consistently expands its offer of insurance products which results in increasing the attractiveness of related banking products and gives customers the ability to take advantage of additional financial services tailored to their needs and expectations.

In 2015, the Bank, in accordance with the Recommendation U, implemented good practices in the area of bancassurance and, consequently, changed the current business model of insurance sales to an agency model (see – "*Capital Adequacy and Risk Management Requirements*" – "*Polish Law Requirements*"). As a result of these changes, PKO Bank Polski included in its offer new individual insurance that replaced the insurance offered in packages, such as a package of individual insurance for PG (cash loan (base and extended)), Inteligo Loan and AUR ("*Kredyt Aurum*") / PLA ("*Kredyt Platinum*" (base and extended)), individual life insurance for customers who entered into a loan agreement or loan secured by a mortgage, individual insurance of mortgage for customers with mortgage loans and individual insurance of homes and residential premises "*Superochrona domów i lokali mieszkalnych*" dedicated to the mortgage creditors of the Bank.

With respect to life insurance, PKO Bank Polski offers products primarily prepared in cooperation with PKO Towarzystwo Ubezpieczeń S.A. In the three months ended 31 March 2016, PKO Towarzystwo Ubezpieczeń S.A. launched its activities, however, at the same time the Bank continued to cooperate with existing partners. The Bank together with PKO Towarzystwo Ubezpieczeń S.A. offer group insurance against loss of income or hospital treatment following an accident, cash loan repayment insurance against loss of income or disability following an accident, mortgage payment insurance, mortgage loan insurance in the case of loss of income, disability and hospital treatment and property insurance for clients who have entered into a credit agreement or loan secured by a mortgage. Insurance is offered to the clients of PKO Bank Polski and PKO Bank Hipoteczny S.A.

Corporate and Investment Banking

Overview

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

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

The Bank has divided its corporate and investment banking customers into the following categories:

- corporate companies meeting the following criteria:
  - annual turnover in excess of PLN 30 million,
  - newly established entities that have not achieved their normal production capacity and that apply for loans with a total value in excess of PLN 30 million;
- strategic clients – selected group of the most important clients (most of them with an annual turnover of more than PLN 500 million);
- public sector entities – local government units ("**LGUs**"), central and local public administration and public institutions; and

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

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

As at 31 March 2017, the Bank serviced a total of approximately 14.5 thousand corporate banking customers (of which corporate companies, strategic clients, public sector customers and foreign clients held a 59.1%, 7.2%, 29.5% and 4.2% share, respectively).

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

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

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

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

Distribution Channels

In 2013, a new organisational structure of the sales network was implemented in the corporate segment. By adjusting the organisation of its sales network and the model of its functioning to suit existing market needs, the Bank improved its co-operation with all groups of corporate customers. The sales network of the corporate segment includes seven corporate macroregions covering 32 regional corporate centers and foreign branches in Frankfurt and Prague, which serve corporate clients of PKO Bank Polski in Germany and Czech Republic, respectively.

Loan and Deposit Products

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

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

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

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

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

Transactional Products

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

cash collection, mass payments, trade finance and permit the Bank to optimise the costs of the customer transactions.

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

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

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

Operations

As at 31 March 2017, the Bank's treasury asset portfolio amounted to PLN 49.9 billion and was composed primarily of PLN-denominated treasury bonds and NBP bills.

As at 31 December 2016, the Bank's treasury asset portfolio amounted to PLN 48.0 billion and was composed primarily of PLN-denominated treasury bonds and NBP bills.

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

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

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

The Bank is certified as a primary money market dealer and as a primary government debt dealer. The Bank's certification as a primary government debt dealer allows it to participate directly in treasury bond auctions. The Bank is the sole sales agent of retail government bonds in Poland. In the past year, the Bank issued three series of PLN-denominated bonds and one series of EUR-denominated bonds on the domestic market. As at 31 March 2017, the nominal value of such issuances amounted to PLN 810 million and EUR 0 million, respectively.

Treasury Products

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

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

	As at 31 March	As at 31 December	
	2017	2016	2015
		(in PLN million)	
Securities	49,927	48,032	41,449
Trading book[1]	1,415	358	793
Banking book[2]	48,512	47,674	40,656
Deposits with banks	4,539	3,851	2,485
Receivables due from repurchase agreements due from banks	97	661	981

Source: 2016 Stand-Alone Financial Statements and Interim Financial Statements

Notes:
[1] *Trading assets excluding derivative financial instruments.*

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

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

	As at 31 December	
	2016	2015
	(in PLN million)	
FRA (forward rate agreement)	19,727	52,778
IRS (interest rate swap)	347,897	411,336
FX swaps	39,389	51,640
Cross Currency (CIRS)	42,999	41,900
FX forwards	23,381	16,012
Options	33,882	23,685
Other	2,495	2,336

Source: 2016 Stand-Alone Financial Statements

Investment in Corporate and Municipal Debt Securities

The Bank makes investments as part of its corporate banking operations. These investments are made as a result of underwriting issues of debt securities for the Bank's corporate clients. During 2016, the Bank arranged 7 corporate bond issues (of which four were underwritten) with an aggregate value of PLN 5.1 billion and 178 municipal bond issues with an aggregate value over PLN 1.2 billion. As at 31 December 2016 and 31 March 2017, respectively, the total net amount of corporate and municipal debt securities held by the Bank in connection with its underwriting activities was PLN 14.6 billion and PLN 14.7 billion (including PLN 4.9 billion and PLN 5.0 billion of debt securities classified to loans and advances to customers).

Brokerage House

DM PKO BP is a securities brokerage house that operates as an internal division within the Bank. DM PKO BP is one of the largest brokers in Poland and has operated as a broker in the Polish capital market since 1991. DM PKO BP offers its clients a wide range of brokerage services, including accepting and executing clients' orders, acting as a market-maker, conducting tender offers, offering financial instruments, investment advisory, asset management, financial analysis, equity research and corporate finance advisory services. As at 31 March 2017, DM PKO BP's services were offered through 33 brokerage outlets and approximately 1,146 of the Bank's branches that comprise the Bank's distribution network.

DM PKO BP's customer base consists of both retail and institutional investors (including foreign institutional investors). As at 31 March 2017, customers of DM PKO BP held 155 thousand investment accounts and 174 thousand active registry accounts, to evidence securities that were bought on the primary market, with PLN 107.6 billion in equities, and PLN 19.4 billion in debt securities and other instruments.

During 2016, DM PKO BP ranked second in the Polish market in equities trading with a 9.41% market share in equities trading based on WSE data (9.9% as at 31 March 2017). DM PKO BP is one of the largest bond trading houses in Poland, with an over 46% market share in bond trading on WSE for the year ended 31 December 2016 (77% as at 31 March 2017).

DM PKO BP is the only distributor of retail treasury bonds on the Polish market and sold 46,336,657 bonds (total nominal value – PLN 4.6 billion) to customers during the year ended 31 December 2016 and 13,897,273 bonds (total nominal value – PLN 1.4 billion) during the three months ended 31 March 2017.

It also offers investment units of 464 investment funds (464 as at 31 March 2017) managed by 18 investment management companies, including PKO TFI. In addition to equities and bonds, DM PKO BP also trades derivatives and held a 5.1% futures and 29.73% index options (respectively 5.4% and 25.5% as at 31 March 2017) local market share by volume for the year ended 31 December 2016. DM PKO BP aims to increase its institutional client base and product offer for such clients.

Key Subsidiaries

The Group also provides other specialised financial services through its wholly or partly owned subsidiaries. The contribution from the subsidiaries (before consolidation adjustments) to the Group's consolidated net profit attributable to the equity holders of the parent company was 23.2% for the three months ended 31 March 2017, 7.4% for the year ended 31 December 2016 and 0.2% for the year ended 31 December 2015. The Group is in the process of reorganisation to increase efficiencies and may dispose of certain non-strategic Group companies. The key subsidiaries are described below.

PKO Bank Hipoteczny S.A.

PKO Bank Hipoteczny S.A. commenced its operations on 1 April 2015. The bank offers long-term mortgage loans to retail customers and issues long-term covered bonds. Up to 31 March 2017, PKO Bank Hipoteczny S.A. completed transfer of mortgage loans of the Bank in the total amount of over PLN 6.7 billion. Total value of covered bonds issued (at the nominal value) as at the end of March 2017 amounted to PLN 5.4 billion.

In the period from 1 April to 5 May 2017 PKO Bank Hipoteczny SA acquired another portfolio of receivables of mortgage-secured housing loans of PLN 1,068 million under the Framework Receivables Sale Agreement concluded on 17 November 2015 with PKO Bank Polski S.A. On 28 April 2017, PKO Bank Hipoteczny S.A. issued covered bonds addressed to institutional investors with a nominal value of PLN 500 million and redemption period of 5 years and 20 days from the date of issue. The interest rate is based on a variable interest rate and amounts to WIBOR 3M + margin of 0.69 pp. The issuance of covered bonds was conducted based on a Base Prospectus approved by the PFSA in November 2015. The covered bonds issued will be quoted on the parallel market of the WSE and on a regulated OTC market operated by BondSpot S.A.

PKO Towarzystwo Funduszy Inwestycyjnych S.A. – asset management

PKO TFI is an asset management company established in 1997. As at 31 March 2017, PKO TFI was the third largest asset management company in Poland by funds under management, managing 42 investment funds and sub-funds with total assets of PLN 20.6 billion and had a share of the Polish asset management market of approximately 7.6% based on publicly available financial reports of asset management companies. Since 1 January 2010, PKO TFI has managed the investment funds portfolios independently. The Bank provides PKO TFI with certain administrative services. These include the use of the Bank's extensive branch and distribution network to sell participation units in PKO TFI funds, the execution by the Bank's treasury department of PKO TFI's fixed-income transactions and the execution by DM PKO BP of PKO TFI's transactions on the WSE.

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

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A. ("**PTE BANKOWY**") manages the open pension fund PKO BP Bankowy and since 13 February 2012 also PKO Dobrowolny Fundusz Emerytalny. PTE BANKOWY was founded in 1998. As at 31 March 2017, PTE BANKOWY held assets under management of PLN 7.6 billion and was ranked eight on the Polish market in terms of total assets under management (based on data provided by the PFSA). Its management intends to focus on increasing PTE BANKOWY's current market position, its profitability and the Bank's return on investment.

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

PKO Leasing S.A. was established in 1999. PKO Leasing S.A. and its subsidiaries provide operational and financial leasing of tangible and real estate assets. In 2014 Nordea Finance Polska S.A., a company acquired by the Bank, was merged with PKO Leasing S.A. In June 2015, PKO Leasing S.A. acquired from Bankowe Towarzystwo Kapitałowe S.A. and from PKO Bank Polski 100% of the shares in PKO Faktoring S.A. (factoring services).

In December 2016, PKO Leasing SA acquired 100% of the shares in Raiffeisen-Leasing Polska SA (RLPL). The PKO Leasing SA Group includes also the RLPL's subsidiaries: Raiffeisen-Leasing Real Estate Sp. z o.o. (real estate financing), „Raiffeisen Insurance Agency" Sp. z o.o. (insurance brokerage), Raiffeisen-Leasing Service Sp. z o.o. (storage and sale of post-leasing items) and ROOF Poland Leasing 2014 DAC with its registered office in Ireland (a special-purpose vehicle established to service the securitisation of lease receivables).

On 28 April 2017, the following changes to the names of the Companies were registered: Raiffeisen-Leasing Real Estate Sp. z o.o. to PKO Leasing Nieruchomości Sp. z o.o., "Raiffeisen Insurance Agency" Sp. z o.o. to PKO Agencja Ubezpieczeniowa Sp. z o.o. and Raiffeisen-Leasing Service Sp. z o.o. to PKO Leasing Finanse Sp. z o.o.

As at 31 March 2017, PKO Leasing S.A. (including its subsidiaries) held a market share of approximately 12.8% by value of assets leased over the period and was the first largest leasing company in Poland (based on data provided by the Polish Leasing Association).

PKO Życie Towarzystwo Ubezpieczeń S.A.- life insurance

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

PKO Życie Towarzystwo Ubezpieczen S.A. offers a wide range of insurance products starting from protective products to investment products. Company focuses its operations on offering to their customers life insurance and health protecting products, the Company has in offer individual products, as well as products complementing offer provided by PKO Bank Polski S.A.

As at 31 March 2017, the company provided insurance coverage to 674 thousand individuals.

PKO Życie Towarzystwo Ubezpieczeń S.A. holds a 100% stake in Ubezpieczeniowe Usługi Finansowe sp. z o.o. The core business of Ubezpieczeniowe Usługi Finansowe sp. z o.o. is the provision of services supporting insurance operations.

PKO Towarzystwo Ubezpieczeń S.A.- other personal and property insurance

PKO Towarzystwo Ubezpieczeń S.A. was registered in the National Court register in April 2015 and pursuant to a permit issued by the PFSA, it operates in the property insurance business. In January 2016 PKO Towarzystwo Ubezpieczeń S.A. started to sell insurance.

As at 31 March 2017, PKO Towarzystwo Ubezpieczeń S.A. offered individual insurance against loss of income for borrowers of cash loans in the Bank and a comprehensive offer of insurance against permanent disablement resulting from an accident, hospitalisation, property insurance, immovable property insurance, private third party liability insurance and Assistance, and insurance against loss of income for clients of PKO Bank Polski S.A. and PKO Bank Hipoteczny S.A. who draw mortgage loans. As at the end of March 2017, the Company insured 414 thousand people.

PKO BP Finat sp. z o.o. - services activity, including transfer agent services and outsourcing of IT specialists.

The company was formed in 2000. The merger of Inteligo Financial Services S.A. with PKO BP Finat sp. z o.o. was finalised on 28 November 2014. As at the date of the Base Prospectus, the company renders comprehensive services to companies operating in the financial sector, such as: transfer agent services or accounting services for funds and companies. It also specializes in competency outsourcing of IT specialists, project teams and IT processes. On the basis of the authorization of the Polish Financial Supervision Authority, the Company also provides services as a national payment institution. Its clients are both companies of the Group, as well as companies outside the Group. In 2016, the Company began to handle group insurance dedicated to the products offered by the Bank.

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

The core business of the companies from the Qualia Development Sp. z o.o. Group is to carry out developer activity and in particular the implementation of construction projects, building installations and finishing construction works. Moreover, the Group is engaged in the hotel business, and intermediary activity in real estate turnover. In the first quarter of 2017, the Group continued activities related to the execution of current projects and selling selected property and companies.

ZenCard sp. z o.o.- developing discount and loyalty programme solutions using payment cards

On 26 January 2017 the Bank purchased 100% shares in ZenCard.

The Company is engaged in services in the area of IT and computer technologies. It specialises in developing discount and loyalty programme solutions using payment cards.

The Company built a platform for establishing discount and loyalty programmes by sellers, at the same time enabling virtualisation of the loyalty cards. The platform is integrated with a POS terminal and makes it possible to resign from many separate loyalty cards or separate applications installed on a phone and replace them with a single payment card which is also a virtual loyalty card for each of the sellers.

CEUP eService Sp. z o.o., one of the largest clearing agents in Poland, is the Company's strategic partner.

Certain other subsidiaries and significant joint ventures

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

As at 31 March 2017, the Bank held shares in CEUP eService sp. z o.o. constituting 34% of CEUP eService sp. z o.o.'s share capital, which entitled the Bank to 34% of the votes at the meeting of the shareholders of CEUP eService sp. z o.o. Due to the provisions of the investment agreement with EVO, and the company's articles of association, CEUP eService sp. z o.o. has been classified as a joint venture since 31 December 2014.

CEUP eService sp. z o.o. established two subsidiaries: EVO Payments International sp. z o.o., with its registered office in Poland (the share of the capital of which amounts to PLN 696.4 thousand), and EVO Payments International s.r.o., with its registered office in the Czech Republic (the share of the capital of which amounts to CZK 30,200 thousand).

Both entities conduct business activities involving supporting financial services.

Kredobank S.A. – banking services in Ukraine

In August 2004, attracted by the high growth potential and the low saturation of banking products and services on the Ukrainian banking market, the Bank acquired an interest in Kredobank S.A. ("**Kredobank**"), a bank registered and operating in Ukraine. Following purchases of shares from non-controlling shareholders in 2005 and EBRD in 2007, and as a result of share capital increases, the Bank, as of the date of the Base Prospectus, owns 99.63% of the share capital of Kredobank.

Kredobank is a commercial bank providing banking services to both individual and corporate clients. As at 31 March 2017, Kredobank's distribution network consisted of 107 subordinated branches in 22 of the 24 regions of Ukraine. Kredobank's scope of operations includes deposit taking, lending activity, servicing bank accounts, foreign exchange transactions and offering securities brokerage services. According to data published by the NBU, Kredobank's market share (calculated as a percentage of the total assets of the banking sector of Ukraine) was 0.89% as at 31 March 2017.

The recession experienced by the Ukrainian economy following the outbreak of the global financial crisis was a result of domestic financial instability, a sharp drop in external demand and the prices of steel, Ukraine's major export. From the beginning of the downturn, domestic banks have been adversely affected by the shortage of liquidity, reduced inflows of foreign capital, declines in household earnings and the depreciation of the Ukrainian currency against key currencies. Moreover, the annexation of Crimea and the risk of bankruptcy pushed Ukraine to seek help from the IMF. It managed to reach an agreement with the IMF on 27 March 2014 and obtained loans totalling USD 17 billion in exchange for the implementation of a reform package. However, the war-related destruction of Ukraine's economic capacity in 2014 once again negatively affected Ukraine's economic and financial standing:

GDP in 2014 fell by 6.6%, in 2015, the fall in GDP amounted to 9.9%. The Ukrainian government was forced to ask the IMF to replace the old programme with a new one. The New Extended Fund Facility (EFF) raised the Fund's commitment to USD 17.5 billion over the next four years under the assumption that other creditors would commit a further USD 9.2 billion. In 2015, Ukraine received from the IMF under the EFF program two tranches of support totalling USD 6.7 billion. In 2016, Ukraine received from the IMF one more tranche totalling USD 1.0 billion. This enabled the growth of NBU's foreign reserves from USD 7.5 billion at the end of 2014 to USD 13.3 billion at the end of 2015 and to USD 15.5 billion at the end of 2016.

In 2016 for the first time after the prolonged downturn, macroeconomic stabilization and economic recovery occurred – GDP increased by 2.3% in 2016. The main driving force of the economic growth was the domestic investment demand as well as increasing budget expenditures. In 2016 for the first time in last 5 years, the industrial production increased by 2.4% compared to the fall of -13% in 2015. Given the developments in eastern Ukraine and Crimea, Kredobank closed its branches in Crimea and in the Donetsk Region. The Bank also had to create loan loss provisions for loans that had been granted in those regions. As at 31 March 2017, the total net exposure of the Kredobank Group to loans granted in these regions was not significant and amounted to UAH 4,478.7 thousand (PLN 653,9 thousand).

In 2014, the National Bank of Ukraine abandoned its support for a stable UAH exchange rate which was followed by deep devaluation of the UAH against the USD (from UAH 8 /USD 1 at the beginning of 2014 to UAH 27/USD 1 in March 2017). This devaluation contributed to a high rate of inflation that, in 2014, reached 25,4% on a year-on-year basis, and continued to grow reaching 43.3% in 2015 on a year-on-year basis. The inflation slowdown occurred only in 2016 when its rate dropped to 12.4% on a year-on-year basis. Such devaluation and loan quality deterioration led to considerable losses in the banking sector which amounted to UAH 67 billion in 2015 and UAH 159 billion in 2016. More than 90 banks have been declared insolvent, and a consolidation process in the banking sector has started. In December 2016, Privatbank, the largest bank of Ukraine whose market share was 18.9% as at 31 March 2017, was nationalized.

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

In the three months ended 31 March 2017, the company's gross loan portfolio increased by UAH 389 million, i.e. by 5.9%, and amounted to UAH 6,941 million (PLN 1,013 million). In the first quarter of 2017, Kredobank clients' term deposits increased by UAH 2.5 million, i.e. by 0.06%, and amounted to UAH 4,022 million (PLN 587 million) as at 31 March 2017.

In 2016 Kredobank successfully completed the implementation of its two-year strategy which was approved by the Supervisory Board in December 2014. This strategy included organic growth of Kredobank and concentration of its activities on sevicing retail customers as well as cooperation with small and medium businesses with a more selective approach in the corporate customer segment. In the framework of the Strategy 11 strategic projects were implemented in Kredobank aimed at the growth of incomes or optimization of expenses. The successful implementation of the Strategy has led to increased market share of Kredobank to the maximum level over the past 9 years.

For the period of 2017-2020 Kredobank developed a new Strategy "Creating Value in Banking" and submitted the draft for consideration and approval of the Supervisory Board (as at the date of this Base Prospectus, the new strategy has not been formally approved). The project of the new Strategy envisages the continuation of organic growth as a universal bank, providing a high level of return on equity (ROE), maintaining the growth rate of the loan portfolio twice as high as the average in the sector, maintaining focus on retail lending, capturing growth potential of Kyiv city and major cities of Ukraine while maintaining strong positions in Western Ukraine, focusing on service quality and digitalization while maintaining the moderate risk appetite, etc.

In 2015, Kredobank was ranked first by Forbes Ukraine in the ranking of banks with the highest solvency scores. The objective of the ranking was to identify banks which demonstrate the best ability to survive in a period of instability.

In 2016 Kredobank twice occupied the 1st place in the quarterly ranking of bank deposits reliability held by Ukrainian rating agency "Standard Rating" and took the 2nd place in the ranking of reliability of the largest banks in Ukraine held by Ukrainian business magazine "Money". The Internet Banking of Kredobank was in the Top 5 in the category "Best Internet Banking in Ukraine" in competition "PaySpace Magazine Awards 2016".

Prywatne Inwestycje and Inter Risk

On 29 November 2011, PKO Bank Polski granted to Finansowa Kompania "Prywatne Inwestycje" sp. z o.o. ("**Prywatne Inwestycje**") a loan in the amount of USD 63,070 thousand for the purchase from Kredobank of a loan portfolio. The debt of Prywatne Inwestycje towards PKO Bank Polski was being gradually repaid. In March 2015, PKO Bank Polski redeemed a USD 8,250 thousand loan granted to Prywatne Inwestycje together with interest payable on the loan (i.e., the amount of the loan that was outstanding). The redemption was made at the request of Prywatne Inwestycje, due to the economic situation in Ukraine, in particular given the progressive devaluation of the hryvnia resulting in the inability to generate revenue from recoveries of receivables in UAH at the amount required to repay the loans received from the Bank and the limitations of the NBU in terms of exchange and transfer of currency abroad. As at 31 December 2016, there was no outstanding amount of the loan.

As at 31 March 2017, PKO Bank Polski was the sole shareholder of the Company.

In June 2015, according to IFRS 5, PKO Bank Polski reclassified the shares in Prywatne Inwestycje and in Inter-Risk Ukraina Sp. z d.o. to the position of 'Non-current assets held for sale' - the Bank intends to recover the value of the above-mentioned assets through a sale transaction within the Group.

On 28 April 2017 the Group completed an inter-Group transfer of all of its interests in "Inter-Risk Ukraine". 99.9% of shares was purchased by Bankowe Towarzystwo Kapitałowe S.A. and the remaining interest by Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.

NEPTUN - a closed-end private investment fund with its seat in Warsaw, managed by PKO Towarzystwo Funduszy Inwestycyjnych, is the sole shareholder of Bankowe Towarzystwo Kapitałowe.

Merkury Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych

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

The Fund conducts investment activity (mainly real estate and land investments) through its eight subsidiaries (as at 31 March 2017). As at 31 March 2017, the Fund (including its subsidiaries) was fully consolidated in the Consolidated Financial Statements of the Group.

NEPTUN Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych

The Fund's activity involves investing funds collected by way of non-public proposals to purchase investment certificates in securities, money market instruments and other property rights specified in the fund's articles of association and the Investment Funds Act. In 2015, PKO Bank Polski acquired a total of 8,588,953 investment certificates (100%) of NEPTUN – Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The total value of the acquisition was PLN 94,663 thousand. Some of the certificates were subscribed for in exchange for an in-kind contribution comprising the shares in Bankowe Towarzystwo Kapitałowe S.A. and shares in selected public companies which constituted the Bank's financial assets. The above-mentioned fund is managed by PKO TFI S.A. In June 2015, PKO Bank Polski sold to the above-mentioned fund all of its shares in "CENTRUM HAFFNERA" sp. z o.o. – a subsidiary of the bank, and in "Centrum Obsługi Biznesu" sp. z o.o. – a company which was a joint venture of the Bank. As at 31 March 2017, the Fund (including its subsidiaries) was fully consolidated in the Consolidated Financial Statements of the Group.

Acquisition of Raiffeisen Leasing Polska S.A.

On 2 November 2016, the Bank (as the guarantor), Raiffeisen Bank International AG (as the seller) and PKO Leasing SA (as the purchaser) signed an agreement for the sale by Raiffeisen Bank International AG (RBI AG) of 100% shares in Raiffeisen-Leasing Polska SA (RLPL) to PKO Leasing SA. The transaction was closed on 1 December 2016 following the fulfilment of conditions precedent, including inter alia, obtaining the required merger clearance in Poland and Ukraine.

As a result of the aforementioned transaction, PKO Leasing SA purchased 1,500,038 ordinary shares in RLPL with a nominal value of PLN 100 each, representing 100% of the share capital of RLPL and entitling to 100% of votes at the general meeting of the Company. The purchase price amounted to PLN 850 million. The purchase of the shares was entirely funded with a loan granted by PKO Bank Polski SA. The business activity of the acquired company involves leasing operations.

As a result of the acquisition of RLPL, the following subsidiaries of RBPL were incorporated into the PKO Leasing SA Group: Raiffeisen-Leasing Real Estate Sp. z o.o. (real estate financing), "Raiffeisen Insurance Agency" Sp. z o.o. (insurance brokerage), Raiffeisen-Leasing Service Sp. z o.o. (storage and sale of post-leasing items) and the Ireland-based ROOF Poland Leasing 2014 DAC (a special-purpose vehicle established to service the securitisation of lease receivables).

Ratings

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

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

The Bank has been assigned ratings by Moody's as set forth in the table below.

Category	Moody's
Long-term deposit rating with stable outlook	A2 (1)
Short-term deposits rating	P – 1(2)
Senior unsecured debt rating with stable outlook	A3
Other short-term debt Program rating	(P)P-2 (3)
Long-term counterparty risk assessment	A2(cr) (4)
Short-term counterparty risk assessment	P-1(cr)(5)

Source: The Bank

Notes:

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

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

3 *Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.*

4 *Issuers assessed Aa(cr) are judged to be of high quality and are subject to a very low risk of defaulting on certain senior operating obligations and other contractual commitments.*

5 *Issuers assessed Prime-1(cr) have a superior ability to honour short-term operating obligations.*

On 4 September 2012, notes issued under the Programme were assigned an A2 rating by Moody's and this rating was maintained on 22 January 2014. On 21 May 2015, such notes were assigned an A3 rating by Moody's and such rating was maintained on 16 May 2016 and on 16 May 2017. (see: "*Material Contracts – Material Issues of Debt Securities – Programme for the issuance of PKO Finance notes with a value of up to EUR 3,000,000,000 to finance senior and subordinated loans extended by PKO Finance to the Bank*").

Intellectual Property

The Group uses a number of trademarks in its activities. As of the date of the Base Prospectus, the Group has been granted rights of protection to 215 trademarks, including 177 trademarks of the Bank. The Group has filed motions with the Patent Office for the rights of protection with respect to an additional 6 trademarks, all of them being trademarks of the Bank. The Bank has obtained a right of protection to three trademarks abroad under national procedure. The Group has also filed motions with the European Union Intellectual Property Office in respect of the registration of 16 trademarks. Eight community designs have been registered by the European Union Intellectual Property Office.

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

Licenses

License for the Bank to use the Inteligo logo

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

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

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

Website Domains

As of the date of the Base Prospectus, the Group uses 409 registered internet domains, including the www.pkobp.pl domain.

Information Technology

The operations of PKO Bank Polski are supported by over 200 information technology ("**IT**") systems simultaneously operating within the unified architecture based on an integrated IT system (the "**Integrated IT System**") and other key software applications supporting banking products and the implementation of business and internal processes at the Bank. The other key elements of the architecture include: the enterprise service bus (ESB), the business process management (BPM) platform which provides data flow for the electronic banking channels (iPKO and iPKO Biznes) and the IKO application (mobile banking platform). The Bank's internet banking platform with more than 7 million users and IKO, the Bank's mobile application, with 1.2 million users, are market leaders. Recently, a new corporate mobile application have been released.

Integrated card systems are enabled to process large volumes of data both during the card issuing process and the card authorisation process. Management reporting processes are based on the central data warehouse. Thanks to the components and services available through the Bank's key software applications, the Bank is able to build integrated solutions in accordance with the Service-Oriented Architecture (SOA) approach, which improves cost-effectiveness and reduces the lead time for delivering new solutions.

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

In order to meet the growing needs of the business, the Bank is expanding its Data Centres in compliance with global security and performance standards.

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

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

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

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

Material Contracts

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

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

Financing Agreements

EUR 150,000,000 Finance Contract between the Bank and the EIB dated 31 July 2009

On 31 July 2009, the Bank and the EIB entered into a finance contract based on which the EIB made available to the Bank a credit facility in the amount of EUR 150,000,000 for the purposes of financing loans to small and medium-sized projects promoted by SMEs or public sector entities in the field of environmental protection, energy savings, infrastructure (including health and education), industry, creative and cultural industries, services or tourism in Poland. The terms of the disbursement of each tranche, including in particular the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period, are to be proposed by the Bank in a disbursement request and are subject to the acceptance by the EIB in a disbursement notice. As at 31 March 2017, the outstanding principal of the loan was CHF 227,250,000 (PLN 896,751,225).

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

The agreement provides that the Bank will be subject to a reporting requirement also in the event of a probable change of control event regarding the Bank. In such circumstances, or if the EIB has any reasonable grounds to

claim that a change of control over the Bank has occurred or a change of control over the Bank will occur, the EIB may request that the Bank conduct consultations therewith.

EUR 150,000,000 Finance Contract between the Bank and the EIB dated 21 December 2012

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

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

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

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

As at 31 March 2017, the outstanding principal of the loan was CHF 184,980,000 (PLN 729,949,578).

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

On 31 July 2008, the Bank and the CEB entered into a framework loan agreement based on which the CEB made available to the Bank a loan of EUR 100,000,000 for the partial financing of investment projects aimed at job creation and preservation in SMEs in Poland. For each tranche, the terms of disbursement, including, in particular, the amount of the loan, the disbursement date, the interest rate and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. As at 31 March 2017, the outstanding principal of the loan was CHF 45,360,000 (PLN 178,995,096) and EUR 29,888,476 (PLN 126,123,389).

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

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

On 6 December 2010, the Bank and the CEB entered into a framework loan agreement, based on which the CEB made available to the Bank a loan of EUR 150,000,000 for the partial financing of investment projects aimed at job creation and preservation in the SME sector in Poland. For each tranche the terms of disbursement, including,

in particular, the amount of the loan, the disbursement date, the interest and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. No disbursement may be made after 31 December 2012. As at 31 March 2017 the outstanding principal of the loan was EUR 135,000,000 (PLN 569,673,000).

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

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

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

On 22 December 2005, Nordea Bank Polska S.A. and the EIB entered into a finance contract based on which the EIB made available to Nordea Bank Polska S.A. a credit facility of up to EUR 120,000,000 for the purposes of financing smaller scale projects in the Baltic Sea region carried out by SMEs and/or public sector entities in the field of environment, infrastructure (including health and urban renewal), the development of a knowledge-based economy, rational use of energy, and education and training in the Republic of Poland. The terms of disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period proposed by the Bank in a disbursement request, are subject to the EIB's consent in a disbursement notice. As at 31 March 2017, the outstanding principal of the credit facility was PLN 261,474,852.

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

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

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

The Credit Facility is secured by a transfer of certain receivables related to the Mortgage Portfolio made by Nordea Bank Polska S.A. in favour of Nordea Bank AB Spółka Akcyjna Branch in Poland or directly to Nordea Bank AB (publ). The average effective margin over the maximum crediting period under the Credit Facility is 63 bps above the relevant reference rate. The Credit Facility does not involve any commissions related to the granting of the financing.

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

In addition to the above-described change of control and change of rating clauses, the agreement contains clauses typical of facility agreements, including: (i) a *pari passu* clause (the obligation of the borrower to ensure at least

equal treatment of the liabilities under the loan agreement compared to any of its other, existing or future, obligations); (ii) a negative pledge (a warranty of the borrower not to establish any encumbrances on its existing or future assets which could hinder the satisfaction of the lender's claims); and (iii) a regulatory change clause. As at 31 March 2017, the outstanding principal of the loan was PLN 16,365,410 thousand (i.e. CHF 3,645,818 thousand, EUR 465,414 thousand and USD 3,725 thousand).

CHF 224,000,000 Subordinated Loan for the Bank

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

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

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

As at 31 March 2017, the outstanding principal of the subordinated loan amounted to CHF 224 million (PLN 884 million). The Subordinated Loan was repaid by the Bank on 25 April 2017, following receipt of the approval from the PFSA.

Material Issues of Debt Securities

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

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

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

The first series of the Notes under the Programme, issued on 21 October 2010, matured on 21 October 2015 and were redeemed in line with the Final Terms of the Series 1 Notes.

The second series of Notes under the Programme has a rating of "A3" by Moody's. On 7 July 2011, PKO Finance issued the second series of Notes under the Programme, with a total nominal value of CHF 250,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 5 July 2011. The issued Notes bore interest at a fixed rate of 3.538% per annum, paid annually and had a maturity of five years. The Notes were listed on the SIX Swiss Exchange. In connection with the issuance, on 7 July 2011 the Bank borrowed from PKO Finance funds representing the proceeds from the issuance of the Notes, to be earmarked for the general financing purposes of the Bank. The loan bore interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan was unsecured and was extended for a term of five years. In September 2012, such notes were assigned "A-" by Standard & Poor's. The second series of the Notes under the Programme issued on 7 July 2011 matured on 7 July 2016 and were redeemed in line with the Final Terms of the Series 2 Notes.

The third series of Notes under the Programme has a rating of "A3" by Moody's. On 25 July 2012, PKO Finance issued a third series of Notes under the Programme, with a total nominal value of EUR 50,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 25 July 2012. The issued Notes bear interest at a fixed rate of 4.00% per annum, paid annually, and have a maturity of ten years. The Notes are listed on the Luxembourg Stock Exchange. In connection with the issuance, on 25 July 2012, the Bank borrowed from the Issuer Programme funds representing the proceeds from the issuance of the Notes, to be earmarked for general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and was granted for a term of ten years.

On 21 September 2012, PKO Finance issued a fourth series of the Notes under the Programme, with a total nominal value of CHF 500,000,000, which subsequently matured and were redeemed on 21 December 2015.

On 23 January 2014, PKO Finance issued a fifth series of the Notes under the Programme, with a total nominal value of EUR 500,000,000, on the terms and conditions set out in the supplement to the Trust Deed dated 23 January 2014. The issued Notes bear interest at a fixed rate of 2.324% per annum and will mature on 23 January 2019. The notes are listed on the Luxembourg Stock Exchange. In January 2014, such notes were assigned ratings of "A2" by Moody's and "A-" by Standard & Poor's. On 17 June 2015, Standard & Poor's lowered the rating for the notes from 'A-' to 'BBB+'. On 21 May 2015, notes were assigned a rating of "A3" by Moody's and such rating was maintained on 16 May 2016. In connection with the issuance, on 20 January 2014 the Bank borrowed from the Issuer Programme funds representing the proceeds from the issuance of the Notes, to be earmarked for general financing purposes of the Bank. The loan bears interest at a fixed rate that corresponds to the rate of interest borne by the Notes issued. The loan is unsecured and will need to be repaid on 23 January 2019.

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

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

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

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

On 15 May 2013, Moody's confirmed the rating for the Programme to be at the level of A2 for unsecured debt and A3 for secured debt and Prime-1 for long-term debt (issuers who are assigned such rating have the greatest ability to repay short-term financial obligations). On 21 May 2015, Moody's assigned a rating for the Programme at the level of "A3", a long-term debt rating at the level of "A3" and a short-term debt rating at the level of (P)P2, and such rating was maintained on 16 May 2016. On 17 May 2013, Standard & Poor's Ratings Services assigned a credit rating of "A-" for long-term senior notes to be issued under the Programme. On 17 June 2015, Standard & Poor's lowered the rating for the long-term senior notes to be issued under the Programme from 'A-' to 'BBB+'.

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

On 26 September 2012, PKO Finance AB (publ) issued USD 1 billion of unsecured loan participation notes due September 2022 (the "**USD Notes**"). The USD Notes bear a fixed interest rate of 4.630% per annum, payable semi-annually. The USD Notes are listed on the Luxembourg Stock Exchange (Bourse de Luxembourg). The gross proceeds from the offering of the USD Notes were used by PKO Finance AB (publ) for the sole purpose of funding a senior loan granted to the Bank. The Bank received the gross proceeds of the senior loan and separately paid commissions and fees connected with the offering and certain expenses incurred in connection with the offering of the USD Notes. The Bank will use the proceeds of the senior loan to refinance its existing financial indebtedness as well as for general corporate purposes.

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

The USD Notes were rated "A-" by Standard & Poor's on 20 September 2012 and "A2" by Moody's on 3 October 2012. On 21 May 2015, Moody's rated the USD Notes "A3". On 17 June 2015, Standard & Poor's lowered the rating for the notes from 'A-' to 'BBB+'.

Issue of Subordinated Bonds by the Bank

On 14 September 2012, the Bank issued 16,007 subordinated bonds with a nominal value of PLN 100,000 each (the "**OP0922 Issue**"). The issue price of each bond equalled to its nominal value. The bonds bear variable interest based on the six-month WIBOR rate plus 164 basis points. Interest on the bonds is payable semi-

annually until the date of their redemption. The bonds are dematerialised bearer bonds deposited with the National Depositary for Securities (*Krajowy Depozyt Papierów Wartościowych*, the "**NDS**") and are listed on the Warsaw Stock Exchange (Catalyst). The bonds were issued under Polish Law and the proceeds from the issue, following the approval of the PFSA, were used to augment the Bank's Tier 2 supplementary funds under the CRR.

On 16 May 2017 the Bank's Management Board adopted a resolution on an intended early redemption of all subordinated bonds (the "call option") for the OP0922 Issue (the "**OP0922 Issue Call Option**"). Exercising the call option with respect to the OP0922 Issue is dependent upon the Bank's receipt of the required permission from the PFSA.

Concurrently therewith, on 16 May 2017, the Bank's Management Board adopted a resolution approving an issue of subordinated bonds (the "**New Issue**") in 10NC5 format, i.e., with a maturity of 10 years, whereby the Bank has the right to early redemption of all the bonds in the New Issue (the "call option") within five years from the issue date, pending approval from the PFSA. The total nominal value of the bonds issued under the New Issue shall not exceed PLN 1,700,000,000. The bonds shall be issued under the terms of the Bonds Act, whilst the proceeds from the New Issue shall, pending approval from the PFSA, be used to augment the Bank's supplementary funds under the terms of Article 127 par. 2 pt. 2 of the Banking Act of 29 August 1997, and Article 63 of the Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013. The nominal value of one bond shall be not less than PLN 1,000. The benefits under the bonds shall be pecuniary only. The bonds shall earn interest under market conditions at six-monthly intervals. The interest shall be paid on the nominal value.

The Bank wants the proceeds from the New Issue to replace the proceeds earned by the Bank from the OP0922 Issue in connection with the intended call option regarding the OP0922. Subject to prior approval from the PFSA, the call option regarding the OP0922 shall be exercised after the New Issue. During the period between the New Issue and the exercise of the OP0922 Issue Call Option, the Bank's total liabilities under the OP0922 and New Issue shall amount to PLN 3,300,700,000.

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

On 26 October 2016, PKO Leasing S.A. entered into an agreement with the Bank (as the arranger) for organizing, carrying out and arranging a bond issue program. Within the framework of the program PKO Leasing S.A. agreed to issue, in private offerings by 1 October 2021, bonds in several series and the total value of the program of up to PLN 600 million. The bonds have been issued as bearer, dematerialised and unsecured bonds. As at 31 March 2017, PKO Leasing S.A. has issued bonds with a total nominal value of PLN 206.5 million. Pursuant to the program, PKO Leasing S.A. undertook to redeem all of the issued bonds at their nominal value by 26 October 2021. The agreement governing the program provides for certain standard events of default following the occurrence of which the Bank may terminate the agreement with 14 days' notice.

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

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

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

As at the date of this Base Prospectus, the total nominal value of the bonds outstanding under the Domestic Market Programme amounts to PLN 670 million with a six-month tenor.

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

Bank securities ("**BPWs**") are issued to procure financing for the general operations of the Bank in accordance with the terms and conditions of the issue of BPWs, which constitute an integral part of the purchase proposal

for BPWs. BPWs are issued pursuant to Articles 89-90 of the Polish Banking Law and the resolution of the Management Board of the Bank dated 14 December 2010.

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

As of the date of this Base Prospectus, there are no outstanding BPWs issued under the Programme.

Programme for the Issuance of Covered Bonds of PKO Bank Hipoteczny S.A.

On 12 November 2015, the PFSA approved the base prospectus prepared in connection with a programme for the issuance of covered bonds (*listy zastawne*) by PKO Bank Hipoteczny S.A. Based on the prospectus, PKO Bank Hipoteczny S.A. may seek the admission to trading and the listing of particular series of the covered bonds to be issued under the programme on regulated market for debt securities maintained by the WSE or Bond Spot. The Bank acts as the arranger for the programme, while DM PKO BP, the Bank's brokerage house, is the offering agent. So far PKO Bank Hipoteczny S.A. has issued the following PLN denominated covered bonds under the programme:

- On 11 December 2015, covered bonds with a total nominal value of PLN 30,000 thousand and a maturity date of 11 December 2020. The interest rate is based on a variable interest rate comprising WIBOR 3M increased by a margin of 0.75 p.p.
- On 27 April 2016, covered bonds with a total nominal value of PLN 500,000 thousand and a maturity date of 28 April 2021. The interest rate is based on a variable interest rate comprising WIBOR 3M increased by a margin of 0.65 p.p.
- On 17 June 2016, covered bonds with a total nominal value of PLN 500,000 thousand and a maturity date of 18 June 2021. The interest rate is based on a variable interest rate comprising WIBOR 3M increased by a margin of 0.59 p.p.
- On 28 April 2017, covered bonds with a total nominal value of PLN 500,000 thousand and a maturity date of 18 May 2022. The interest rate is based on a variable interest rate comprising WIBOR 3M increased by a margin of 0.69 p.p.

Such covered bonds are listed on the regulated market operated by the Warsaw Stock Exchange and Bond Spot.

On 28 September 2016 the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg approved the Base Prospectus for PKO Bank Hipoteczny S.A. European covered bond issuance programme. The value of the programme was set at EUR 4 billion.

So far PKO Bank Hipoteczny S.A. has issued the following EUR denominated covered bonds under the programme:

- On 24 October 2016, covered bonds with a total nominal value of EUR 500,000 thousand and a maturity date of 24 June 2022. The interest rate is fixed and the annual coupon is set at the level of 0.125%.
- On the 2 February 2017, covered bonds with a total nominal value of EUR 25,000 thousand and maturity date of 2 February 2024. The interest rate is fixed and the annual coupon is set at the level of 0.82%.
- On the 30 march 2017, covered bonds with a total nominal value of EUR 500,000 thousand and maturity date of 24 January 2023. The interest rate is fixed and the annual coupon is set at the level of 0.625%.

Material Share Purchase Agreements

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

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

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

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

During the period from 13 January 2014 to 18 September 2014, the company was a subsidiary of PKO Bank Polski, and since 19 September 2014, shares in the company have been recognised as investment securities available for sale.

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

The new mobile payment system was launched on 9 February 2015 under the name BLIK. As at 31 March 2017, the BLIK system enabled clients to make payments via more than 185 thousand devices and through more than 65 thousand internet stores in Poland, and to withdraw cash from approximately 16 thousand ATMs. At that time, the BLIK system was used by more than 1.5 million users.

Acquisition of the Shares in Raiffeisen-Leasing Polska S.A.

On 2 November 2016, the Bank (as the guarantor), Raiffeisen Bank International AG ("**RBI**") (as the seller) and PKO Leasing S.A. ("**PKO Leasing**") (as the purchaser) entered into a share purchase agreement related to the sale by RBI of 100% of the shares in Raiffeisen-Leasing Polska S.A. ("**RLPL**") to PKO Leasing (the "**RBI Transaction**"). The purchase price agreed in the RBI Transaction for 100% of the shares in RLPL amounts to PLN 850 million. As part of the RBI Transaction, the Bank agreed to guarantee the payment obligations of PKO Leasing and agreed to replace the funding provided to RLPL by RBI and/or other members of RBI's group.

The transaction was closed on 1 December 2016 following the fulfilment of conditions precedent, including inter alia, obtaining the required merger clearance in Poland and Ukraine.

In connection with the acquisition of RLPL, the following subsidiaries were incorporated into the PKO Leasing Group: Raiffeisen-Leasing Real Estate Sp. z o.o., "Raiffeisen Insurance Agency" Sp. z o.o., Raiffeisen-Leasing Service Sp. z o.o. and the Ireland-based ROOF Poland Leasing 2014 DAC.

Acquisition of the shares in ZenCard sp. z o.o.

On 26 January 2017 the Bank purchased 1,374 shares in ZenCard with a nominal value of PLN 50 each, constituting 100% of the Company's share capital and entitling to 100% of votes at the General Shareholder's Meeting of the Company. Simultaneously, on 26 January 2017 the Extraordinary General Shareholder's Meeting of ZenCard (represented by the Bank as the Company's sole shareholder) passed a resolution regarding an increase in the Company's share capital of PLN 22,050 by issuing 441 new shares with a nominal value of PLN 50 each. All the newly issued shares were taken up by the Bank at a price of PLN 4,493,349 – the difference between the purchase value and the nominal value of the shares was disclosed in supplementary capital. The above-mentioned changes were registered with the National Court Register on 14 March 2017.

As at 31 March 2017 the share capital of ZenCard amounted to PLN 90,750 and is made up of 1,815 shares with a nominal value of PLN 50 each.

IT Agreements

Agreement for the Delivery and Implementation of the Integrated IT System

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

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

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

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

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

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

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

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

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

As of the date of the Prospectus, the Bank uses over 200 applications. Compared to other financial institutions of a similar scale, the Bank has a relatively simple application environment which allows for the effective management of operating costs and facilitates potential future development. All such systems have been tailored to the specific needs of the Bank's business. The Bank has concluded standard agreements with service providers for all IT systems that are material to its operations. Such agreements grant the Bank licenses to use the relevant systems and ensure the provision of support services in cases of system failures, as well as the opportunity to receive updates and upgrades.

Insurance Coverage

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

Significant Tangible Fixed Assets

Significant Tangible Fixed Assets

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

	As at 31 March	As at 31 December	
	2017	2016	2015
		(in PLN million)	
Land and buildings	1,842	1,864	1,674
Machinery and equipment	486	488	427
Assets under construction	60	103	261
Other	639	631	421
Total	**3,027**	**3,086**	**2,782**

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

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

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

The Bank's Properties

As at the date of the Base Prospectus, the Bank has 743 plots of land which are either owned by the Bank, held under usufruct or occupied under lease agreements. Moreover, the Bank holds five pieces of real estate without legal titles. As at 31 March 2017, the total book gross value of the properties held by the Bank was PLN 2,610.7 million, including that presented in the "land and buildings" item of PLN 2,597.1 million and in the "investment property" item of PLN 13.6 million.

The Bank holds as the owner or holder of a cooperative member's ownership right to 593 buildings or premises with a total area of 734,887 m^2. Furthermore, the Bank utilises five pieces of real estate including five facilities with the total area of 3,452 m^2 without legal titles. The Bank, under lease agreements, occupies 2,557 buildings and premises with a total usable area of approximately 244,966 m^2. Leases are usually made for five years or unspecified term periods.

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

The Bank leases parts of its buildings and premises which are not used by the Bank for its operation to third parties. As at 31 March 2017, the total area leased by the Bank is approximately 26,613 m^2.

Material Intangible Assets

The most significant item of capital expenditure of the Group relates to outlays on the Integrated IT System. The cumulative capital expenditure incurred for the Integrated IT System between 2006 and 2016 amounted to PLN 1,079 million. As at 31 December 2016, the net outstanding principal of the Integrated IT System was PLN 679.1 million and its remaining useful life was seven years.

As a result of the merger with Nordea Bank Polska S.A., the Bank recognised goodwill, as a separate component of intangible assets as at the legal merger date, amounting to PLN 863 million. The amount of such goodwill was calculated as the difference between the consideration paid for Nordea Bank Polska S.A.'s shares, including the assets of the 'Swedish portfolio', and the fair value of the net assets, including adjustments resulting from standardised accounting policies.

Environmental Protection

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

Regulatory Issues

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

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

- Kredobank;
- PKO Bank Hipoteczny S.A.;
- PKO Życie Towarzystwo Ubezpieczeń S.A.;
- PKO Towarzystwo Ubezpieczeń S.A.;
- PKO TFI;
- PTE BANKOWY;
- PKO BP Finat sp. z o.o.; and
- PKO Bank Polski Niederlassung Deutschland (the Bank's branch in Germany).

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

The aforementioned operations of the Group are subject to strict supervision of the Polish and foreign regulatory authorities, including the PFSA and the NBU, and the limited supervision of BaFin (the Federal Financial Supervisory Authority), and must be carried out in compliance with community regulations and the provisions of Polish law and other countries in which the Group operates, as well as with specific recommendations,

instructions, guidelines and operational and equity-related requirements (see "*Banking Regulations in Poland"*). In the course of its business the Group is subject to numerous inspections, controls, audits and investigations carried out by different regulatory authorities supervising the financial services sector and the other areas of activities of the Group. None of such inspections have, however, identified any breaches of operational requirements and guidelines or internal regulations, which could have a material effect on the Group's business, financial condition or results.

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

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

Legal, Administrative and Arbitration Proceedings

The Group in the ordinary course of business is routinely involved in legal proceedings concerning its operational activities. To the Bank's best knowledge, as at 31 March 2017, with respect to proceedings involving claims of at least PLN 2 million each, the Group was (i) a plaintiff in 83 proceedings; and (ii) a defendant in 29 proceedings.

According to the Bank's best knowledge, as at 31 March 2017, the total value of claims subject to court disputes where the Group was as a defendant amounted to PLN 579.6 million, while the total value of claims brought by the Group as a plaintiff had a value of PLN 1,067.8 million. As at 31 March 2017, the total value of the provisions created in the companies of the Group (excluding the Bank) as a result of the court disputes amounted to PLN 3 million. With respect to the Bank, such figure amounted to PLN 17 million.

According to the information held by the Bank as of the date of the Base Prospectus, except for one proceeding related to the operation of PKO Bankowy Leasing sp. z o.o. (see – "*Other Proceedings*" – "*Tax disputes relating to PKO Bankowy Leasing sp. z o.o.*"), within the 12 months preceding the date of the Base Prospectus there were no administrative proceedings, proceedings before administrative courts or civil, criminal or arbitration proceedings pending or instituted against the Group which could significantly affect or have recently affected the financial standing or operations of the Group. To the best knowledge of the Bank, there are no legal, administrative proceedings, proceedings before administrative courts, arbitration or criminal proceedings pending or threatened which could significantly affect the financial standing or operational activity of the Group other than those described in this section.

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

Proceedings regarding reprivatisation claims regarding properties held by the Group

As at the date of the Base Prospectus, the Group is a party to five administrative proceedings and two administrative court proceedings, all of which are pending (of which two administrative court proceedings have been suspended). Eight proceedings (five administrative and three court proceeding) regard the invalidation of administrative decisions issued by public administration authorities with respect to properties held by the Group. In the event of an unfavourable outcome for the Bank, these proceedings may result in reprivatisation claims being raised. Five court proceedings (one of which have been suspended) with respect to two of the Bank's properties regard the release or return of property, the payment of a fee for non-contractual use and the regulation of the legal status of the properties; following the execution of an out-of-court settlement regarding four proceedings regarding one property, the claims have been withdrawn and the proceedings have been validly discontinued.

As at the date of this Base Prospectus the Group is a party to: (i) eight administrative proceedings, of which three are suspended, in relation to properties owned by the Bank, regarding: the invalidation of administrative decisions refusing to grant the right to temporary ownership, giving the property under management and on acquisition in accordance with law the perpetual usufruct of land and ownership title to the building, the return of the property, remuneration for property usage without contractual basis as well as regulation of legal status of the properties; and (ii) fourteen proceedings, of which one is suspended, in relation to properties of other Group entities, regarding the invalidation of administrative decisions or return of the property.

The proceedings concerning a complaint brought by Centrum Finansowe Puławska sp. z o.o. ("**CFP**") concerning the use of the property located at ul. Puławska and ul. Chocimska in Warsaw on which the Bank's office is currently located. The proceedings concern the declaration of invalidity of the decision of the Local Government Court of Appeal of 10 April 2001, which stated that the decision of the Council of the Capital City

of Warsaw of 1 March 1954 was issued in gross violation of applicable law. Due to the liquidation of CFP and it being removed from the register of companies and the distribution of its assets, the transfer of the right to perpetual usufruct of said plot was issued to the Bank; a motion for participation in the proceedings was filed on 23 May 2012 on behalf of the Bank. During the hearing on 18 December 2012, the Regional Administrative Court in Warsaw granted the Bank the right to participate in the proceeding given that the rights to the property in question had been transferred to the Bank. After the hearing on 7 May 2013, the court dismissed the complaint. A cassation appeal was filed by the Bank on 17 July 2013. During a hearing held on 3 June 2015, the Supreme Administrative Court granted the cassation appeal (*kasacja*) filed by the Bank against a judgment of the Regional Administrative Court in Warsaw dated 23 August 2012 regarding the reprivatisation of certain land located at ul. Puławska 15. On 3 June 2015, the Supreme Administrative Court set aside the judgment of the Regional Administrative Court in Warsaw, which means that the last binding act should be the Decision of the Local Government Court of Appeal in Warsaw. On 15 September 2015, the Bank sent a letter to the Minister of Infrastructure and Development to resume the proceedings together with a motion to either discontinue the proceedings or to refuse to declare the resolution of the Warsaw voivode (*wojewoda warszawski*) of 29 September 1991 invalid. At the same time, the Bank filed a motion to the Local Government to refuse to declare the resolution of SKO in Warsaw of 10 April 2001 invalid. On 5 April 2016, a notice of initiation of the proceedings from the Local Government Court of Appeal was sent to the parties. As of the date of this Base Prospectus, the case is pending.

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

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

The Bank is a party to proceedings currently before the Court for the Competition and Consumer Protection (*Sąd Ochrony Konkurencji i Konsumentów)* (the "**SOKiK**") initiated on the basis of a decision dated 23 April 2001 of the President of the Competition and Consumer Protection Office (*Urząd Ochrony Konkurencji i Konsumentów*) (the "**UOKiK**") upon a request from the Polish Trade and Distribution Organisation – Employers' Association (*Polska Organizacja Handlu i Dystrybucji – Związek Pracodawców*) against the operators of the Visa and Europay payment systems and the banks issuing Visa and Europay/Eurocard/Mastercard cards. The claims under these proceedings relate to the use of practices limiting competition on the market of card payments in Poland, consisting of applying pre-agreed 'interchange' fees for transactions made using Visa and Europay/Eurocard/Mastercard cards and limiting access to this market by external entities. On 29 December 2006, the UOKiK decided that the practices consisting of joint establishment of 'interchange' fees did limit market competition and ordered that any such practices should be discontinued, and imposed a fine on, *inter alia*, PKO Bank Polski, in the amount of PLN 16.6 million.

The Bank appealed against the decision of the President of the UOKiK to the SOKiK. On 20 December 2011, a hearing was held during which no resolution of the appeals was reached. The Court required MasterCard to submit explanations concerning the issue and set the date for another sitting of the Court for 9 February 2012, which upon an application of the plaintiffs' attorney was postponed until 24 April 2012 and afterwards the SOKiK postponed announcing the resolution on the request for suspension of the case until 8 May 2012. On 8 May 2012, the SOKiK suspended proceedings until the final conclusion of proceedings before the European Union Court in the case of MasterCard against the European Commission. On 24 May 2012, the European Union Court upheld the decision of the European Commission banning multilaterally agreed 'interchange' fees applied by MasterCard. On 28 May 2012, a participant to the proceedings, Visa Europe Ltd, and on 29 May 2012 the plaintiffs' attorney, including PKO Bank Polski, filed a complaint against the decision of the SOKiK dated 8 May 2012. In August 2012, the appeal of MasterCard against the verdict of the EU Court dated 24 May 2012 rejecting the appeal of MasterCard was received by the European Court of Justice. On 25 October 2012, the Court of Appeal in Warsaw changed the decision of 8 May 2012 and dismissed the motion of MasterCard for the suspension of the proceedings. In February 2013 the court files were transferred to the court of first instance.

On 21 November 2013 the judgement was announced in which the SOKiK reduced the penalty imposed on the Bank to the amount of PLN 10.1 million. On 7 February 2014, the judgement was appealed on behalf of the Bank and eight other plaintiffs. The judgement was also appealed by other participants to the proceeding.

On 6 October 2015, the Court of Appeals in Warsaw dismissed the appeals of the Bank and, as a result, the decision of the President of the UOKiK declaring that the Bank and other banks have infringed competition law and imposing a penalty on the Bank in the amount of PLN 16.6 million and a penalty in the amount of PLN 4.8 million, has become final. The penalties were paid by the Bank in October 2015. On 3 March 2016, the Bank received a justification of the judgment. On 27 April 2016, the Bank filed a cassation appeal with the Supreme Court against the judgment of the Court of Appeals. On 4 April 2017 the Supreme Court agreed to review the matter and the Bank is currently awaiting information on the date of the hearing.

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

As at 31 March 2017, the Group, including the Bank, is a party to proceedings before the Court of Appeals as a result of an appeal against the decision of the President of the UOKiK due to the suspicion of unfair proceedings violating the collective interests of consumers by way of the presentation in the advertising campaigns for a consumer loan under the marketing name 'Max pożyczka Mini Ratka' information that might not be clear for an average consumer and might mislead him as to the availability of loans on the conditions advertised. On 28 December 2012, the President of the UOKiK imposed a fine on the Bank in the amount of PLN 2.8 million. With respect to the said consumer loan, on 28 April 2016, the Court of Appeals in Warsaw dismissed an appeal filed by the President of the UOKiK against the judgment of the Regional Court in Warsaw handed down in the case regarding the advertising campaign for the "Max pożyczka Mini Ratka" loan and awarded against the President of the UOKiK in favour of the Bank an amount of PLN 270 as reimbursement of the costs of the appeal proceedings.

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

By a decision of 31 December 2013, the Bank's activities were deemed to be practices violating the collective interests of consumers and fines in the amount of PLN 17.2 million and PLN 11.8 million (i.e. PLN 29.1 million in total) were imposed on the Bank. The Bank appealed against this decision. On 9 July 2015 SOKiK fully annulled the decision of the President of the UOKiK. On 28 August 2015 the President of UOKiK appealed against that judgment. On 11 September 2015 the Bank responded to the appeal rejecting the allegations of the President of the UOKiK. No trial date has been set. By a decision of 22 November 2016, the Court of Appeal suspended the proceedings.

As at 31 March 2017, the Bank had not set up a provision in connection with such proceedings.

Proceedings before the SOKiK initiated by an individual

As at 31 March 2017, the Group, including the Bank, was a party to seven proceedings before the SOKiK that were initiated by individuals. The claimants are seeking that the court prohibits the Bank from using certain provisions of the forms of contracts concerning a loan, including CFH-denominated loans, forms of contracts used in relation to the conduct of business activity and forms of surety agreements in its transactions with consumers, and declares such forms of contracts to be unlawful. As at the date of the Base Prospectus, all such proceedings are pending.

Proceedings before the Court of Appeals

As at 31 March 2017, the Bank was the plaintiff in proceedings before the Court of Appeals as a result of the completion of an appeal before the SOKiK initiated by the Bank against the decision of the President of the UOKiK due to the possibility of use of unfair contractual provisions in forms for individual pension account ("**IKE**") agreements.

On 19 December 2012, the President of the UOKiK imposed a fine on the Bank in a total amount of PLN 14.7 million, of which:

1) PLN 7.1 million was a fine for failing to indicate in the IKE agreements the responsibilities of the Bank for timely and properly carrying out monetary settlements and compensation for the delay in execution of an instruction from the holder;

2) PLN 4.7 million was a fine for the use in forms for IKE agreements of an open list of termination conditions;

3) PLN 2.9 million was a fine for the use of a clause (such clause being already entered in the register of Prohibited Clauses kept by the President of the UOKiK) specifying that a court with jurisdiction over the seat of PKO Bank Polski's branch carrying a given IKE deposit account as having jurisdiction over for disputes with customers.

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

The SOKiK reduced the penalty imposed on the Bank to the amount of PLN 4.0 million, based on the court decision of 25 November 2014. With regards to:

1) the practice described in the point 1 above, it reduced the penalty to the amount of PLN 2.5 million;

2) the practice described in the point 2 above, it reduced the penalty to the amount of PLN 1.5 million;

3) the practice described in the point 3 above, the penalty was repealed, as the Court determined that the practice of the Bank did not violate the collective interests of consumers.

In January 2015, both the Bank and the President of the UOKiK appealed against the judgment. In its judgment of 10 February 2016, the Court of Appeals dismissed the appeal of the Bank and the appeal of the President of the UOKiK. Since the judgment is final, the Bank paid a fine in the amount of PLN 4 million on 23 February 2016. On 26 September 2016 the Bank submitted a cassation appeal to the Supreme Court. The case is pending.

Proceedings before the President of UOKiK

As of the date of the Base Prospectus two proceedings are in progress before the President of the UOKiK on the Bank's practices that allegedly violated the consumers' collective interests:

1) proceedings instigated ex officio by the President of the UOKiK on applying practices which violate collective consumers' interests by the Bank. The practices consisted of informing in marketing communications and conditioning the exemption of consumers from paying monthly fees for servicing debit cards on settling cashless transactions using the card (a quota or number limit) in the period for which the monthly fee for the card is collected, when the settlement of the cashless transactions in the said period does not depend on the consumer, but on receiving the settlement of the transactions by the Bank from the settlement agent. The decision to instigate proceedings against the Bank was delivered to the Bank on 4 January 2017. In the letter dated 3 March 2017 addressed to the President of UOKiK the Bank's plenipotentiary signaled that the Bank will apply for the consent decree referred to in Article 28 of the Act on protection of competition and consumers;

2) the proceedings instigated ex officio by the President of UOKiK in respect of the alleged practices applied by the Bank which violate the collective interests of consumers who are party to an agreement for payment services and have access to the electronic banking system, by informing of the proposed changes to the conditions of the agreement for the payment services during its performance exclusively using electronic communications sent through electronic banking channels, which do not constitute a permanent information carrier, and not including in the information appendices in the form of electronic documents (regulations and banking fee and commission tariffs for individuals) sent to consumers on changes introduced to PKO Bank Polski SA and Inteligo branded products, i.e.: bank accounts and debit cards, credit cards, payment cards, and thus making the verification of admissibility of changing the conditions of an agreement by consumers impossible. The decision to instigate proceedings against the Bank was delivered to the Bank on 17 October 2016. The Bank's position on the case is being prepared.

Moreover, there are twelve investigation procedures pending before the President of UOKiK, relating to the Bank's activities and one contact by the President of UOKiK without instituting proceedings (in accordance with Article 49a of the Act on Competition and Consumer Protection).

As at 31 March 2017 PKO Życie Towarzystwo Ubezpieczeń S.A. – a subsidiary of the Bank – is a party to:

1) six proceedings before SOKiK initiated by individuals to determine some of the provisions in the forms of life insurance agreements to be illegal. In all cases the Company responded to the lawsuit and applied for its dismissed due to bringing legal action to late; in these cases there is no risk of imposing financial penalty on the Company,

2) proceeding connected to the cassation complaint brought by PKO Życie Towarzystwo Ubezpieczeń SA against the judgment of the Court of Appeal in relation to the fine imposed on the Company in 2010 by the President of UOKiK for the violation of the collective interests of consumers by the Company (fine was paid in 2013).

The Supreme Court issued in 2015 the verdict repealing the appealed judgment concerning the amount of the fine and referred the case for reconsideration to the court of second instance. The second instance upheld its previous position not taking into account the guidelines of the Supreme Court. The Company made another cassation complaint to the Supreme Court.

At the same time, in the first quarter of 2017 PKO TUŻ SA conducted actions related to implementing the following:

(a) the consent decree issued in October 2015 by the President of UOKiK regarding changes in respect of payments for early surrender of insurance policies linked to capital funds;

(b) the arrangement reached on 19 December 2016 with the President of UOKiK, under which the terms and conditions for the decision indicated above were extended to the whole active (as at 1 December 2016) portfolio of products with insurance capital fund held by the Company's customers and analogous solutions were applied to customers who had underwritten policies with insurance capital fund after 1 January 2008 and were at least 61 years old, and whose contracts were terminated after they turned 65.

As at 31 March 2017, PKO TUŻ SA does not have a provision for administrative penalties in respect of proceedings relating to insurance products with an insurance capital fund (a provision of PLN 8 million in

connection with the consent decree of the President of the UOKiK becoming final and binding was released in 2015). At the same time, the Company maintains an adequate (in respect of the consent decree and the agreement) level of claims provisions.

In the first quarter of 2017 PKO Bank Hipoteczny S.A. participated in explanatory proceedings conducted before the President of UOKiK regarding research on the mortgage market.

A clarification proceeding conducted before the President of UOKiK in connection with the broadcast of an advertisement in 2014 used by insurance companies when selling life insurance agreements with a unit-linked insurance plan. On 26 November 2014, PKO Życie Towarzystwo Ubezpieczeń SA provided the required documents and information. In a letter dated 23 February 2016, PKO Życie Towarzystwo Ubezpieczeń SA responded to another request of the UOKiK and stated that in connection with a considerable limitation of its offer of insurance agreements with a unit-linked insurance plan, it ceased to use all of the advertising and informational materials subject to the examination of the UOKiK.

Other Proceedings

PKO Leasing SA

Following the issuance of an unfavourable judgment of the Supreme Administrative Court (NSA) in August 2016 and the resulting dismissal by the Regional Administrative Court in Łódź (WSA), under judgments dated 10 January, 13 January and 8 February 2017, of all complaints filed by PKO Leasing SA seeking the crediting of overpayments and rebates towards the overdue VAT liabilities, the PKO Leasing SA Capital Group posted, as at 31 March 2017, a total of PLN 21.1 million in receivables representing interest on overdue VAT. The entire amount has been written down.

The receivables representing interest on overdue VAT, the payment of which is being sought before administrative courts, result from decisions of the Tax Office in Łódź concerning the crediting of VAT overpayments and rebates for settlement periods from January 2011 to June 2013 towards overdue VAT liabilities. According to these decisions, the VAT rebates and overpayments were credited towards overdue VAT liabilities on the date on which the corrective tax declarations were filed (in December 2014), instead of on the date on which the tax overpayment occurred, as is argued by the Company.

In 2017, PKO Leasing SA intends to continue appealing the tax office decisions. On 7 April 2017, the Company filed a motion to quash (*skarga kasacyjna*) the WSA judgment on crediting the VAT rebate of PLN 20.8 million stemming from the February 2011 declaration towards overdue VAT liabilities for January 2011. The Company has also undertaken other means of appeal within the limits provided for by the law, *inter alia*, involving the correction of declarations for January and February 2011.

Tax dispute relating to PKO Bankowy Leasing sp. z o.o.

As at 31 December 2015, PKO Bankowy Leasing sp. z o.o. showed a receivable in the amount of PLN 20.4 million due to an overpayment of VAT and penalty interest on tax liabilities in connection with the adjustments of VAT declarations submitted in December 2014 for the periods from January 2011 to June 2013. On 7 January 2015, the company made a payment of arrears of outstanding VAT. At the same time, on 26 January 2015 the company applied for a refund of overpaid tax. On 6 February 2015, the Tax Office issued an unfavourable decision on the settlement of overpayments and VAT returns for the periods from January 2011 to June 2013. The settlement of the overpaid VAT refunds and arrears of VAT does not occur until the date of the submission of a corrected declaration and the application for the refund of overpaid tax. The settlement does not occur on the date of the payment of tax in an amount greater than the tax due, as argued by the company. On 19 February 2015, the company filed a complaint to the Head of the Tax Chamber and, subsequently, on 14 August 2015 filed a complaint to the Regional Administrative Court against the decision of the tax authority of 6 February 2015 on the method of settlement of overpaid tax and tax refunds on account of tax arrears, indicating that the basis of the complaint was a breach of the Tax Ordinance resulting in misinterpretation and the incorrect application of its provisions and the failure to apply the principle of proportionality for charging interest on tax debts.

On 30 December 2015, the Regional Administrative Court issued a favourable judgment to the company, repealing the appealed decision of the tax authority of 6 February 2015 and upholding the company's objections regarding the misinterpretation of the Tax Ordinance's provisions and the failure to apply the principle of proportionality by the tax authorities. The court judgement is not binding. On 19 February 2016, the Head of the Tax Office in Łódź filed a cassation appeal to the Supreme Administrative Court. The date of the hearing has not yet been set. On the basis of the opinion of tax consultants and the Regional Administrative Court's judgment of 30 December 2015, as at 31 March 2017 no evidence of impairment has been found for receivables from the overpayment of VAT and the receivables were not covered by an impairment allowance.

Employees

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

	As at 31 March	As at 31 December	
Headcount	**2017**	**2016**	**2015**
PKO Bank Polski	25,035	25,381	25,909
Other companies in the Group	4,134	4,060	3,311
Total	**29,169**	**29,441**	**29,221**

Source: The Bank

As at 31 March 2017, approximately 70% of the employees of the Bank held higher education qualifications, and approximately 30% have secondary and post-secondary education.

The average monthly basic salary paid to the Bank's employees (excluding the Management Board members) amounted to PLN 5,791, and PLN 5,568 in the years ended 31 December 2016 and 2015, respectively.

The provision for retirements benefits for the Group employees as at 31 March 2017 stood at PLN 46 million.

The number of redundancies due to reasons not attributable to employees was 363 and 860 jobs in the years ended 31 December 2016 and 2015, respectively.

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

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

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

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

Trade Unions and Collective Labour Agreements

As at 31 March 2017, there were two trade unions operating at the Bank which hold special status:

- Niezależny Samorządny Związek Zawodowy "Solidarność" Pracowników PKO BP S.A. with 1,382 members; and
- Krajowy Związek Zawodowy Pracowników PKO BP S.A. with 3,002 members;

of which only the second is representative.

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

Under the Collective Labour Agreement, the Bank's employees, apart from base salary, are entitled to bonuses, performance bonuses and severance payments upon retirement or becoming disabled. Detailed rules are introduced in the form of resolutions of the Management Board and are subject to agreement with trade unions.

The Collective Labour Agreement was entered into for an unspecified term and may be terminated by mutual agreement or by either party giving a three-month notice in writing.

On 20 December 2016 the Bank and the trade unions operating at the Bank executed an understanding regarding the rules applicable for terminating employment relationships with the employees of PKO Bank Polski for reasons other than caused by employees in 2017. The understanding specifically regulates the selection rules for layoffs, the principles of granting benefits and the employer's duties within the scope required to settle other employee-related issues with respect to the employees subject to layoffs in 2017. The understanding was executed for the period between 1 January 2017 and 31 December 2017. The understanding provided:

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

In 2015 the value of severance pay and damages paid by the Bank to the employees subject to the group layoffs amounted to PLN 27.4 million. The value of such payments paid for the year ended 31 December 2016 amounted to PLN 17.7 million and for the three months ended 31 March 2017 amounted to PLN 13.2 million.

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

Employee Pension System

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

Incentive system

The Bank has implemented a remuneration and incentive system (the "**Incentive System**") in which the level of the variable component of the salary is determined by the degree of achievement of the targets set. The Incentive System consists of four pillars:

- I pillar, the so-called management by objectives system (the "**MbO**"), covers managerial and expert positions crucial for the Bank's key objectives. The MbO consists of granting bonuses the amount of which depend on the quality and degree of completion of the tasks.
- II pillar, the so-called individual bonus System (the "**IBS**") is the system of bonuses that depends on the degree of completion of specific tasks in the areas of sales and effectiveness. The system covers those employees who are performing business tasks, mainly in corporate and investment banking, as well as in debt collection.
- III pillar, the so-called sales bonus system (the "**SBS**") is aimed to positions in retail branches, which perform the sale of banking products.
- IV pillar, the so-called support bonus system includes other employees not covered by the MbO, IBS and SBS systems.

In addition to the Incentive System, there is a system of rewarding employees, under which the Bank creates a prize fund for individual discretionary awards to employees of the Bank, who obtain outstanding results in their work or for achievements, which led to results important for the Bank, and for awards in competitions relating to performance.

In addition, the Bank and the Group companies have implemented separate regulations fixing the variable salary components policy, which applied to persons in managerial positions.

The PKO Bank Polski SA Group entities have incentive and remuneration systems in which the degree of achievement of individual targets determines the bonus. The procedure for target setting and belonging to the particular system depends on performed tasks including sales tasks and the size of the particular group company. Management of most of the entities from the PKO Bank Polski SA Group and the directors of selected Group entities are covered by the MbO System.

Other than the above-described Incentive System and regulations, as of the date of this Base Prospectus, the employees did not participate in any other share or profit distribution incentive scheme of the Bank.

Risk Management

Risk management is one the most important internal processes in PKO Bank Polski, including the Bank's branches in Czech Republic and Germany as well as in other entities of the Group. Risk management aims at supporting the profitability of business activity, by ensuring control of the risk level and maintaining it within the risk tolerance and limits system applied by the Bank and the Group, in the changing macroeconomic and legal environment. The level of risks and tolerance plays an important role in the planning process.

PKO Bank Polski identified the following types of risk, which are subject to management: credit risk, FX risk of retail mortgages, interest rate risk, foreign exchange risk, liquidity risk, commodity price risk, price risk of equity securities, derivative instruments risk, operational risk, compliance and conduct risk, macroeconomic changes risk, model risk, business risk (including strategic risk), loss of reputation, capital risk, excessive leverage and concentration risk.

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

- the Bank Group manages all defined types of risk,
- the risk management process corresponds to the volume of activities and to significance, level and complexity of the risk concerned and it is adjusted to new risk factors and sources on an ongoing basic,
- risk management methods (in particular models and their assumptions) and risk measurement systems are adjusted to the volume and complexity of risk and they are verified and validated periodically,
- organisational separation of the risk management process and debt recovery from business functions is maintained,
- risk management is integrated with the planning and controlling systems,
- the risk level is monitored and controlled on an ongoing basis,
- the risk management process supports the pursuit of the Group's strategy while being compliant with the risk management strategy, in particular with regard to the risk tolerance level.

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

(i) **risk identification:**

which consists in recognition of both current and potential risk sources and assessment of significance of potential impact of such type of risk on the activities of the Bank and the Group; risk identification includes defining of such types of risk that are considered to be significant in the activity of the Bank, an individual entity of the Group or the entire Group,

(ii) **risk measurement and assessment:**

risk measurement includes determining risk measures adequate to the type, significance of risk and data availability, as well as quantitative measurement of risk by means of defined measures and risk assessment in a form of a determination of volume or scope of risks from the perspective of risk management objectives; the risk measurements include risk assessment for price policy purposes and stress tests performed on the basis of assumptions ensuring reliable risk assessment. The stress test scenarios take into account i.a. PFSA's requirements. Moreover, comprehensive stress tests are also performed at the Bank, forming an integral part of risk management and complementing stress testing of specific risk types. Comprehensive stress tests analyse the impact of changes in the environment as well as in the functioning of the Bank on the financial situation of the Bank and the Group,

(iii) **risk control:**

defining the tools used in diagnosis and mitigation of risk levels in individual business areas of the Bank and the Group. Risk control includes establishment of control mechanisms, tailored to the scale and complexity of the Bank's activities, in particular in the form of actively monitored tolerance limits for particular risk types and, in case they are exceeded, undertaking management actions,

(iv) **risk forecasting and monitoring:**

consists in preparation of risk level forecasts and monitoring differences between execution and forecasts or assumed references (e.g. limits, thresholds, plans, previous measurements, issued recommendations and suggestions issued by the supervisory body), as well as of conducting of specific and comprehensive stress tests. Risk forecasting is subject to verification. Risk monitoring is performed at a frequency appropriate for significance and volatility of a given type of risk,

(v) **risk reporting:**

informing the Bank's Management on a cyclical basis on results of risk measurement or assessment, activities undertaken and recommendations of activities. The reporting scope, frequency and form are adjusted to the management level of addressees. In case of potential liquidity problems of the Bank, the Supervisory Board is notified immediately on the Bank's liquidity level, threats and undertaken remedial actions, as well as in the case of significant operating events or security incidents,

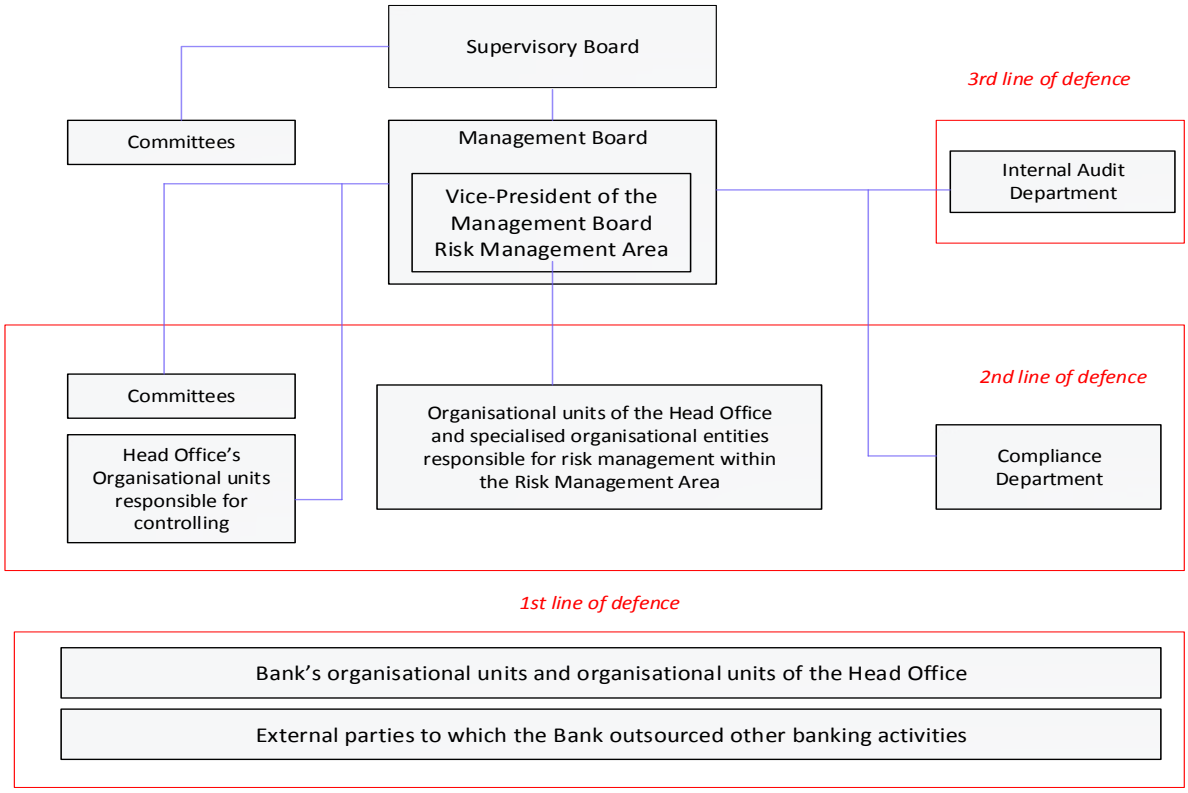
(vi) **management actions:**

including in particular, issuance of internal regulations developing the management process of individual risk types, defining risk tolerance levels, limits and thresholds, issuing recommendations, including use of risk management tools. Management activities are aimed at designing risk management process and influencing the risk level.

Risk Management Organisation

Risk management in the Bank takes place in all of the organisational units of the Bank.

The organisation of risk management is presented in the chart below.



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

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

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

- the first line of defence embraces risk management within defined self-controlling limits pursuant to internal regulations, compliance with binding legal provisions and internal regulations of the Bank as well as implemented market standards; the function is performed by all of the Bank's units, the Head Office units and entities of the Bank and includes such aspects of activities of individual units and entities that may generate risk. The Bank's organisational units and the Bank entities are responsible for identification of risks, designing and implementing respective controls, if controls have not been implemented within the scope of activities undertaken in the second line of defence. At the same time

the Group's companies are obliged to comply with the principles of coherence and comparability of risk assessment and control in the Bank and Group entities, taking into account the specific nature of the company's business and market at which it operates;

- the second line of defence includes measurement, evaluation, control, monitoring and reporting of risks deemed significant by the Bank, reporting of identified hazards and irregularities, preparing of the Bank's internal rules defining the principles, methods, tools and mode of risk management, as well as measurement of the effectiveness of operations. Risk management system, including the risk management methods, tools, process and organisation; this function is performed in particular by the Risk Management Area, Compliance Department, Planning and Controlling Department and relevant committees. Second line of defence is complemented by activities aimed at elimination of unfavourable deviations from the financial plan that may affect the strategic tolerance limits laid down in by units of the Head Office responsible for controlling; and
- the third line of defence is being performed as part of an internal audit, including the audit of the effectiveness of the system of managing the risk.

The independence of the lines of defence consists of preserving organisational independence in the following areas:

- the function of the second line of defence as regards creating system solutions is independent of the function of the first line of defence;
- the function of the third line of defence is independent of the functions of the first and second lines of defence; and
- the function of managing the compliance risk reports directly to the President of the Management Board.

The Risk Management Area is formed within the Banking Risk Division, the Model Validation Department, the Department of Restructuring and Debt Collection of Corporate Clients and the Analysis and Credit Risk Assessment Centre as well as the Restructuring and Debt Collection Centre, which manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for:

- identification of risk factors and its sources,
- risk measurement, assessment, control and cyclical monitoring and reporting of the risk level,
- coordination of risk management strategy-related activities,
- measurement and assessment of capital adequacy,
- preparing recommendations for the Management Board or committees as to the acceptable risk level,
- developing and reviewing of internal regulations relating to risk and capital adequacy management,
- developing IT systems to support risk and capital adequacy management,
- coordination of implementation of coherent risk management standards in the Group.

The Model Validation Department is responsible for, in particular:

- validation of models used in risk management,
- management of model risk.

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

- recovery (and/or restructuring) of non-performing receivables,
- collateral foreclosure during recovery process,
- reviewing and classifying of receivables and off-balance sheet liabilities managed by the Department and defining the amount of impairment allowances.

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

- preparation of systemic solutions, including internal regulations, applications and models utilized in the processes of non-performing debt monitoring
- debt collection through restructuring, recovery, as well as improving effectiveness of those activities,

- outsourcing of monitoring and debt collection and management of collateral foreclosed as a result of recovering Bank's receivables, as well as efficient sale of non-performing debts,
- interventions in the context of early monitoring of delays in repayment of debts of individual and institutional clients in the Retail Banking Area.

The Analysis and Credit Risk Assessment Centre is responsible for, in particular:

- assessment and mitigation of credit risk of individual credit exposures,
- risk assessment of financial institutions and monitoring of limits on wholesale market related to the credit of financial institutions,
- improvement and optimization of IT solutions used in the credit process.

The Compliance Department, in the context of risk management, is responsible in particular for:

- compliance risk management,
- conduct risk management,
- loss of reputation risk management,
- creation of internal control standards.

The Planning and Controlling Department, in the context of risk management, is responsible in particular for:

- capital risk management,
- planning and monitoring of the Bank and the Group's financial and sales plans execution.

Risk Management Committees

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

The Risk Committee (the "**RC**"):

RC monitors the integrity, adequacy and efficiency of the risk management system, capital adequacy and implementation of the risk management principles, in compliance with the Bank's strategy, analyses and evaluates compliance with strategic risk tolerance limits defined in the risk management strategy of PKO Bank Polski S.A. RC supports the Management Board in the process of banking risk management through preparation of recommendations and making decision on capital adequacy and efficiency of the risk control system.

The Assets & Liabilities Management Committee (the "**ALCO**"):

ALCO manages the Bank's assets and liabilities by influencing the structure of Bank's balance and off-balance positions in a way optimal in relation to profitability. The Committee supports the Bank's Management Board in the scope of both Bank and Group's activities related to the balance sheet structure, capital adequacy, profitability, as well as financial, market, liquidity, business, credit (both settlement and pre-settlement) risk and wholesale market transactions.

The Bank's Credit Committee (the "**BCC**"):

BCC issues opinions and takes credit decisions in respect of individual significant credit exposures or issues recommendations in this respect to the Management Board of the Bank, issues recommendations and makes decisions regarding non-performing debt management, as well as makes decisions related to approval of credit risk models, credit risk parameters and results of their validation, with representatives from the Area of Finance and Accounting included in the decision making process.

The Operational Risk Committee (the "**ORC**"):

ORC supports the Management Board in operational risk management through decision taking, issuing recommendations and opinions, for instance strategic tolerance limits and operational risk limits, key risk indicators (KRI), assumptions of stress tests, results of validation of operation risk measurement models, expansions and changes in AMA approach and by supporting all activities aimed at lowering of operational risk in all of the areas of the Group's activities. ORC formulates recommendations regarding operational risk management in Group's entities, which are forwarded to Group's subsidiaries as part of the Bank's ownership supervision over those subsidiaries.

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

Credit Risk

Credit risk is defined as the risk of an occurrence of losses due to the counterparty's default on payments to the Bank or as a risk of the decrease in economic value of amounts due to the Bank as a result of the deterioration of the counterparty's ability to repay amounts due to the Bank. The objective of credit risk management is to minimise losses on the credit portfolio as well as to minimise the risk of the occurrence of loans threatened with impairment exposure, while at the same time keeping the expected level of profitability and the value of the credit portfolio.

The Bank and the companies of the Group apply, primarily the following credit risk management principles:

The Bank applies the following principles of credit risk management:

- a credit transaction requires a comprehensive credit risk assessment, expressed as an internal rating or scoring,
- credit risk transaction is measured at the application stage and on a cyclical basis as part of monitoring, and takes into account both the changing external conditions and changes in the financial standing of the borrowers,
- the credit risk assessment of exposures significant for their risk level or value is executed by credit risk assessment units, irrespective of business units,
- the terms and conditions of credit transactions offered to clients depend on the assessment of credit risk level generated by the transaction concerned,
- credit decisions may be taken only by authorised persons,
- credit risk, in particular is diversified by geographical areas, industries, products and clients,
- the expected level of credit risk is mitigated by legal collateral accepted by the Bank, credit spreads charged to clients as well as by impairment allowances and provisions for credit exposures.

The above-mentioned principles are executed by the Bank through the use of advanced credit risk management methods, both on a level of individual credit exposures and on the level of the whole credit portfolio of the Bank. These methods are verified and developed to ensure compliance with the internal rating-based requirements (IRB), i.e., an advanced credit risk measurement method that can be used while calculating requirements with regards to own funds for credit risk after being approved by the PFSA.

Rating and Scoring Methods

The Bank assesses the risk of individual credit transactions through the use of scoring and rating methods, which are created, developed and supervised by the Banking Risk Division. These methods are supported by specialist IT application software. The scoring method is defined in the Bank's internal regulations the main aim of which is to ensure the uniform and objective assessment of credit risk during the lending process.

Rating models for corporate clients

The evaluation of credit risk related to financing corporate clients is performed on two levels: in respect of the client and of the transaction. The assessment comprises an assessment of the credibility of the client (i.e. rating), and an assessment of the transaction (i.e. the liability repayment capacity in the specified amount and time).

Rating models for corporate clients were prepared using the internal data of the Bank which ensures that they are tailored to the risk profile of the Bank's clients. Models are based on a statistical dependence analysis between the default and a customer's risk scoring. Scoring includes an assessment of the financial indicators, qualitative factors and an evaluation of behavioural factors. The client's risk assessment depends on the size of the enterprise for which the analysis is being made. In addition, the Bank uses a model for the assessment of creditors to whom specialist financing is to be extended, which allows adequate credit risk assessment of large projects involving real estate financing (e.g. office space, retail areas, industrial areas) and infrastructure projects (e.g. telecommunications, industrial, public utility infrastructure).

Rating models are implemented into an IT tool that supports the Bank's credit risk assessment related to corporate client financing.

In order to examine the correctness of the functioning of the method applied by the Bank, the methodologies of credit risk assessment connected with individual credit exposures are subject to periodical review.

Credit Evaluation and Approval Process

The Bank assesses the credit risk of retail clients on two levels: creditworthiness is assessed quantitatively and qualitatively. The qualitative assessment of creditworthiness consists of an evaluation of the financial situation,

whereas the quantitative assessment involves scoring and evaluating the client's credit history obtained from the internal records of the Bank and external databases. The credit risk assessment process in the Bank takes into account the requirements of the PFSA as defined in Recommendation S, relating to best practices for the management of mortgage-secured loan exposures and Recommendation T relating to best practices for the management of retail credit exposures.

In the case of corporate clients from the small and medium enterprise segment that meet certain criteria, the Bank assesses credit risk using the scoring method. Such assessment refers to low-value, uncomplicated loan transactions and is performed on two levels: the client's borrowing capacity and his creditworthiness. The assessment of borrowing capacity involves an examination of the client's economic and financial situation, whereas the creditworthiness assessment involves scoring and evaluation of the client's credit history obtained from internal records of the Bank and external databases. In other cases, the rating method is widely used.

Information about ratings and scores are widely used in the Bank for the purposes of credit risk management, the credit decision-making system, determining the conditions in which credit assessment services are activated and in the credit risk assessment and reporting system.

In the case of corporate clients in the corporate client segment, the Bank made improvements in the functioning of the lending process. These changes relate to changes in portfolio segmentation, organisational changes that meet a client's needs in a much better way and, on the other hand, allow comprehensive credit risk assessments to be made independently of the offered corporate and transaction banking products.

The Bank has a tiered system for dividing competencies within the credit approval process. The so-called competence limit depends on the position of the decision maker within the Bank's organisational hierarchy: the higher the level, the greater the limit. The competence limit also depends on the loan amount, the Bank's exposure to the borrower (or group of borrowers), the term of the loan, the results of the evaluation based on the scoring methodology (negative or positive) and the client segment.

The following bodies are authorised to grant credit approvals, on a scale running from the largest approval limit to the smallest approval limit: the Management Board, the BCC, individual members of the Management Board supervising appropriate business areas, the directors of the Bank's organisational entities, branch directors, directors of corporate branches, the director of the Analysis Centre and Credit Risk Assessment. In addition, employees of certain corporate branches have credit approval authority within approved limits.

Collateral Policy

The collateral policy followed by the Bank is to appropriately secure the interests of the Bank and to establish collateral that offers the best possible level of debt recovery if a recovery procedure proves necessary.

The specific types of collateral that are accepted depend on the nature and term of a loan and the customer's standing.

In connection with housing loans the principal and mandatory collateral is a mortgage on the financed property and an assignment of receivables under the insurance agreement covering such property. Until a mortgage can be established effectively, depending on the amount of the loan and its type, the Bank accepts temporary collateral in other form.

When granting consumer loans to individual clients, the Bank usually accepts personal collateral (a guarantee under civil law or an aval) or establishes collateral on the client's current account, car or securities.

To secure loans which finance SMEs, as well as corporate clients, the following forms of collateral, among others, are used: bank guarantees, transfers of receivables as collateral, transfers (payment) of cash to the Bank's account within the meaning of Art. 102 of the Banking Law, transfers of ownership rights to movables (repossession) as collateral, contractual pledges on movables on general terms and conditions (ordinary pledge), registered pledges, pledges over rights, in particular pledges over participation units in open-ended investment funds, mortgages on real estate, repossession of securities as collateral, pledges and registered pledges on securities and irrevocable blocks on securities admitted to public trading and held in a securities account.

In accepting legal collateral for loans, the Bank applies the following policies:

- in the case of high-ticket, several types of collateral are established, combining personal and tangible collateral whenever possible;
- liquid collateral is preferred, for which there is a high probability that the Bank will quickly satisfy its debt by achieving prices approximating the value of the assets determined at the time of accepting the collateral;

- in the case of the acceptance of property collateral, the Bank accepts as additional security the transfer of the rights from the insurance policy for the subject of the collateral, or an insurance policy issued in favour of the Bank; and
- effective establishment of collateral in accordance with the agreement is a condition for the release of the loan funds.

Perfected collateral is subject to periodic monitoring in order to determine the current credit risk level of the transaction. The Bank monitors the property and financial standing of the entity that issues personal collateral, the condition and value of the object serving as property collateral, and other circumstances affecting the possibility of debt recovery by the Bank.

Collateral in the form of a mortgage is subject to special assessment. The Bank performs periodic monitoring of real properties accepted as collateral (the LTV ratio is taken into account) and monitors the prices on the real estate market. If this analysis shows a significant drop in prices on the real estate market, the Bank activates emergency procedures.

Portfolio Risk Measurement

In order to assess the level of credit risk and credit portfolio profitability, the Group uses various credit risk measurement and assessment methods, including the following:

- probability of default (PD);
- expected loss (EL);
- unexpected loss (UL);
- loss given default (LGD);
- credit value at risk (CVaR);
- share and structure of impaired loans (according to IFRS);
- coverage ratio for impaired loans (according to IFRS) with impairment allowances; and
- cost of risk.

PKO Bank Polski SA systematically improves the scope of its credit risk parameters, taking into account the IRB approach, as well as the scope of application of risk measures so as to fully cover the Bank's credit portfolio with those methods.

The portfolio credit risk measurement methods allow, among other things, to include credit risk in the price of products; to determine the optimum conditions of financing availability; and to determine impairment allowances.

The Bank performs analysis and stress-tests regarding the influence of potential changes in macroeconomic environment on the quality of Bank's loan portfolio. The test results are reported to the Bank's authorities. The above mentioned information enables the Bank to identify and take measures to limit the negative influence of unfavourable market changes on the Bank's performance.

Impairment of Credit Exposure

The Bank periodically reviews its credit exposures to identify which loans are threatened with impairment, measures the impairment of its credit exposure and establishes impairment allowances and provisions. The process of establishing allowances and provisions comprises the following stages:

- identification of the objective evidence of impairment and of events significant for such identification;
- recording events material for the identification of the objective evidence of impairment of credit exposure in the Bank's IT systems;
- definition of the method for impairment measurement;
- measuring the impairment and determining an impairment charge or provision;
- verification and aggregation of the impairment allowance; and
- recording of the impairment allowance.

The method for defining the amount of the impairment allowance depends on the type of objective evidence of impairment identified and the individual significance of the credit exposure concerned. In particular, any delay in

the loan repayment of at least three months, a significant deterioration in a client's internal rating, and the conclusion of a restructuring agreement or a debt relief scheme (if the relief granted to the consumer is a result of his difficult legal or economic position) are each treated as objective evidence of impairment.

The Bank uses three methods for impairment assessment:

- the individual method for individually significant credit exposures for which objective evidence of impairment on an individual basis has been identified or which pertains to a debtor whose other types of exposure meet such conditions or which requires individual assessment due to the transaction specifics;
- the portfolio method, which is applied in the case of credit exposures which are not individually significant but for which objective evidence of impairment has been identified; and
- the group method (IBNR), which is used in the case of credit exposures where no objective evidence of impairment have been identified but there are conditions indicating the possibility of the occurrence of incurred but not reported losses.

The impairment allowance on a loan exposure is the difference between the outstanding principal of that exposure and the present value of the expected future cash flow from that exposure. When defining an allowance under the individual method, future cash flows are assessed for each credit exposure individually and the possible performance scenarios of the agreement are taken into account and weighed with the probability of their fulfilment. The impairment allowance defined under the portfolio or collective method is the difference between the outstanding principal of such exposure and the present value of the expected future cash flow, assessed with statistical methods on the basis of historical performance of exposures from homogenous portfolios. Calculations of portfolio parameters (probability of default and recovery rates) are performed on a quarterly basis. Recovery rates are calculated with the use of transition matrices and vectors of payments. Every single projected payment of principal, interest and collateral is taken into account. Estimates of payments are based on historical observations and they are discounted using the average effective interest rate for the portfolio.

The provision for off-balance sheet exposure is determined as the difference between the expected amount of exposure in the statement of financial position which will arise as a result of an off-balance sheet liability and the present value of the expected future cash flows obtained from the exposure in the statement of financial position arising out of the liability.

When defining the provision for off-balance sheet exposure with respect to individually significant credit exposure for which objective evidence of impairment on an individual basis has been identified or pertains to debtors whose other types of exposure meet such conditions, the Bank uses the individual method.

Recoveries on overdue loans are initially handled by the Restructuring and Debt Collection Centre and the Department of Restructuring and Debt Collection of Corporate Clients. Depending on the type of liability, overdue status of the loan and, if applicable, the financial standing of the borrower or the status of the collateral, the collection team takes various actions, including, among others, restructuring, instituting legal proceedings against the borrower and foreclosing on the collateral. The Bank cooperates with third-party collection agencies selected following tender proceedings.

Risk Management Tools

The main credit risk management tools used by the Bank are, in particular:

- minimum transaction conditions (risk parameters) defined for a given type of transaction (e.g. the minimum value of the LTV rate, the maximum loan amount, the required collateral);
- the principles to determine crediting availability, including cut-off points – the minimum number of points awarded during the creditworthiness assessment made using the scoring system (for individual and SME) or the rating class (for institutional), from which the loan transaction can be made with a given client;
- concentration limits - defined in art. 395 item 1 of CRR and also in Banking Law;
- industry limits – defining the credit risk appetite that constrains the risk level related to financing of institutional clients that conduct their businesses in industries characterized by a high level of credit risk;
- limits related to the credit exposures of the Bank's clients – resulting for instance from Recommendations S and T;
- credit limits – defining the maximum Bank's concentration in case of a specific counterparty or country in relation to wholesale market transactions, settlement limits and tenor limits;

- competence limits – defining the maximum level of powers required to take credit decisions with respect to the Bank's clients; the limits depend mainly on the Bank's credit exposure amount to a given client (or a group of related clients) and the period of credit transaction; the competence limits depend on the credit decision-making level (within the Bank's organisational structure); and
- minimum credit spreads – credit risk spreads related to a specific credit transaction executed by the Bank with a given corporate client, and the interest rates offered to a client may not be lower than the reference rate plus credit risk spread.

The credit risk collateral policy plays particular role in determination of minimum conditions of transactions. The purpose of the collateral policy of the Bank and the Group is to properly hedge the credit risk, including through establishing securities characterized by a maximum potential recovery value, in the event of debt collection.

Risk Concentration

Concentration risk is understood as risk of arising significant losses or considerable change of the Bank's risk profile due to excessive concentration:

- related to exposure:

(i) of individual clients and the groups of related clients;

(ii) of clients operating in the same economic sector;

(iii) of clients operation in the same geographic region (considering both cross-border and domestic); and

(iv) of denominated or indexed to the same currency;

- related to the applied credit risk mitigation techniques and large indirect credit exposures, such as a singular security provider.

The purpose of concentration risk management is to provide a secure credit portfolio structure by constraining dangers resulted from excessive concentration related to exposures which are marked by the potential to generate such large losses that may affect the Bank's financial condition or capability to run core business or provide a significant change of the Bank risk profile.

Concentration risk identification consists in recognition and specification of all factors that may have impact on risk arising or changing the risk level, including:

- recognition of the groups of related clients, and all others factors;
- aggregation of exposures of clients or the groups of related clients;
- taking into account exclusion of large exposures form control limits, in accordance with CRR.

The Bank identifies the concentration risk to which is exposed by:

- including all significant concentration risk factors for the Bank;
- estimating concentration of balance sheet and off-balance sheet items;
- conducting analysis within intersections of different business lines and organisational units;
- application of methods and instruments that enable systematic identification of concentration risk;
- including concentration risk resulting from product specification exposure;
- including concentration risk resulting from exposures of both banking and trading books and risk resulting from combination of these two risks;
- taking into account development of economic and financial markets situations and activities of their participants, including system factors; and
- utilisation of stress tests.

To measure concentration risk on the unitary level, the concentration risk measures are applied, in particular:

- concentration rates;
- rates that estimate the degree of diversification (for instance Herfindahl–Hirschman index - HHI);
- Gini index; and

- graphical concentration portfolio measures (for instance the Lorenz curve).

The Bank controls concentration risk on both stand-alone and consolidated level.

At the beginning of the year 2017 the Bank has implemented changes in concentration risk exposures management process, which form a realisation of requirements of amended PFSA's Recommendation C concerning concentration risk management.

The Group monitors the exposures of concentration risk in respect of:

- exposures to individual clients or groups of related clients;
- exposures to groups of clients or credit portfolios exposed to a single risk factor.

The Group analyses the concentration in relation to:

- geographical region;
- currencies;
- industries;
- mortgage-backed credit exposures;
- the largest entities; and
- the largest capital groups.

The exposures of concentration risk to individual clients and groups of related clients is monitored in relation to the exposure concentration limit, where individual exposure may not exceed 25% of consolidated own funds.

As at 31 March 2017, 31 December 2016 and 31 December 2015, those concentration limits were not breached.

As at 31 March 2017, the level of concentration of the Bank's risk with respect to individual exposures was low – the largest exposure to a single entity was equal to 10.49% of the Bank's eligible capital.

The total exposure of the Bank towards its 20 largest non-banking sector clients as of 31 March 2017, 31 December 2016 and 31 December 2015 is presented in the table below:

As of 31 March 2017			As of 31 December 2016			As of 31 December 2015		
No.	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**
	(in PLN million)	*(in %)*		*(in PLN million)*	*(in %)*		*(in PLN million)*	*(in %)*
1*.	10,808	4.00	1*.	11,599	4.29	1.	4,073	1.54
2*.	4,138	1.53	2*.	4,205	1.55	2*.	3,907	1.47
3.	3,200	1.18	3.	3,200	1.18	3*.	2,910	1.10
4.	2,770	1.03	4.	2,856	1.06	4.	2,722	1.03
5.	2,450	0.91	5.	2,450	0.91	5.	2,080	0.78
6.	2,377	0.88	6.	2,371	0.88	6.	1,911	0.72
7.	1,903	0.70	7.	2,065	0.76	7.	1,842	0.70
8.	1,581	0.59	8.	1,571	0.58	8.	1,669	0.63
9.	1,502	0.56	9.	1,583	0.59	9.	1,594	0.60
10.	1,458	0.54	10.	1,482	0.55	10.	1,214	0.46
11.	1,263	0.47	11.	1,326	0.49	11.	1,213	0.46
12.	1,150	0.43	12.	1,150	0.43	12.	1,008	0.38
13.	1,081	0.40	13.	1,081	0.40	13.	964	0.36
14.	992	0.37	14.	992	0.37	14.	895	0.34
15.	832	0.31	15.	956	0.35	15.	894	0.34
16.	826	0.31	16.	883	0.33	16.	871	0.33
17.	821	0.30	17.	872	0.32	17.	853	0.32

As of 31 March 2017			As of 31 December 2016			As of 31 December 2015		
No.	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposures ****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**
	(in PLN million)	*(in %)*		*(in PLN million)*	*(in %)*		*(in PLN million)*	*(in %)*
18.	773	0.29	18.	828	0.31	18.	852	0.32
19.	772	0.29	19.	761	0.28	19.	811	0.31
20.	764	0.28	20.	706	0.26	20.	776	0.29
Total	**41,461**	**15.37**	**Total**	**42,934**	**15.88**	**Total**	**33,056**	**12.48**

Source: 2016 Stand-Alone Financial Statements and the Bank

Notes:
** Concentration exempted from concentration limits under Article 493 item 3 letter c of the Capital Requirements Regulation ("**CRR**").*
*** Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of Article 274 item 2 of the CRR).*

Concentration by largest capital groups

As at 31 March 2017 the concentration risk level by the largest capital groups was low – the largest exposure of the Bank towards a capital group amounted to 9.96% of the Bank's eligible capital.

The exposure of the Bank towards the five largest capital groups as at 31 March 2017, 31 December 2016 and 31 December 2015 is presented in the table below:

As of 31 March 2017			As of 31 December 2016			As of 31 December 2015		
No.	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**	**No.**	**Credit exposure including loans, advances, purchased debts, discounts on bills of exchange, realised guarantees, interest receivable and off-balance sheet and capital exposure****	**Share in credit portfolio, which includes off-balance sheet and capital exposures**
	(in PLN million)	*(in %)*		*(in PLN million)*	*(in %)*		*(in PLN million)*	*(in %)*
1.*	16,315	6.04	1.*	17,181	6.35	1.*	7,785	2.94
2.	3,037	1.12	2.	3,129	1.16	2.	4,214	1.59
3,	2,402	0.89	3.	2,468	0.91	3.	3,289	1.24
4.	2,326	0.86	4.	2,397	0.89	4.	2,926	1.10
5.	2,138	0.79	5.	2,113	0.78	5.	2,741	1.03
Total	**26,218**	**9.70**	**Total**	**27,288**	**10.09**	**Total**	**20,955**	**7.90**

Source: 2016 Stand-Alone Financial Statements and the Bank

Notes:
** Concentration exempted from concentration limits under Article 493 item 3 letter c of the CRR.*
*** Off-balance sheet exposure includes liability resulting from derivative transactions in the amount of their equivalent in the statement of financial position (according to the provisions of Article 274 item 2 of the CRR).*

FX denominated mortgages of households risk management

As a result of withdrawal from defence of EUR/CHF exchange rate by central bank of Switzerland in January 2015 the Swiss franc appreciated significantly in relation to foreign currencies, including the Polish zloty. In 2016 the Swiss franc rate sustained approximate level in comparison to 2015. The Bank is constantly analysing the impact of these events on financial results including quality deterioration risk of mortgage portfolio denominated in CHF. The risk is partly neutralised by supporting low reference interest rates LIBOR CHF.

The Bank has been undertaking various steps in order to help clients and constrain credit risk increase at once connected with CHF rate appreciation – among other things decreasing of CHF/PLN transaction exchange rate,

that the amount of CHF to repayment is converted (so-called FX spread) and inclusion of negative LIBOR rate for all clients.

The Bank particularly analyses FX mortgage portfolio of households. The Bank constantly monitors the quality and analyses quality deterioration risk of this portfolio. Currently, the quality of this portfolio is at an acceptable level.

The Bank includes the risk of FX mortgages of households in capital adequacy and own funds management.

Risk Reporting

The Bank prepares monthly and quarterly credit risk reports. Credit risk reporting comprises periodical information on the exposure level to the credit portfolio risk. Besides information on the Bank, the reports also include the credit risk data for the Group entities in which significant credit risk level is identified (for instance the KREDOBANK SA Group, PKO Leasing SA Group).

Moreover, the Bank prepares daily, weekly, monthly and quarterly reports on credit exposures related to derivatives risk, and the quarterly reports refer to the whole Group. The reports comprise information on the risk exposure of derivatives and information on the use of risk limits. The recipients of the reports are mainly: BCC, ALCO, RC, the Management Board and the Supervisory Board.

Financial Institutions and Derivatives

In the course of its business activities, the Bank uses various types of derivatives to manage the risk resulting from the business activities conducted. The main types of risk relating to derivatives include market and credit risk.

The derivatives used by the Bank within risk management and offered to its clients are mostly IRS, FRA, FX swap, CIRS, FX forward, and FX options.

In order to limit credit risk relating to derivatives, the Bank enters into framework agreements which are aimed at collateralizing the Bank's claims towards counterparties resulting from derivative transactions by netting due and payable liabilities (e.g., mitigation of settlement risk) and liabilities which are not due and payable (e.g., mitigation of pre-settlement risk).

Framework agreements with foreign counterparties are made in accordance with standards developed by the International Swaps and Derivatives Association and the International Capital Market Association, while those made with Polish counterparties are made in accordance with the standards developed by the Polish Bank Association (*Związek Banków Polskich*). Framework agreements with Polish financial institutions for debt securities are made based on the Bank's internal standards. To mitigate the credit risk of a financial institution that has entered into a framework agreement with the Bank, the parties enter into a collateral agreement (Credit Support Annex ("**CSA**") or a collateral agreement developed by the Polish Banking Association). Based on the collateral agreement, each of the parties, after meeting certain criteria specified in the agreement, undertakes to establish appropriate collateral along with the right to set such off.

The Bank has developed a standard policy with respect to signing ISDA master agreements which defines the protocol for negotiating, signing and administering such framework agreements and collateral agreements made with Polish banks and financial institutions, as well as for framework agreements and credit support annexes with foreign banks and credit institutions.

The ISDA and the Polish Bank Association agreements signed by the Bank contain provisions defining the permitted difference between credit exposure and collateral value. The collateral agreements provide that cash and securities may constitute collateral.

Entering into a master and collateral agreement with a counterparty is the basis for the verification of the internal limit per counterparty and of the length of the period of the Bank's engagement in derivative transactions. The client limit is based on an internal assessment (internal rating), as well as on the amount of own funds of the Bank and the client.

In order to mitigate counterparty credit risk, the Bank clears certain classes of OTC derivatives (IRS, FRA, OIS) in CCPs that have been authorised in the EU – in one as a direct and in the other as an indirect clearing member. The ten largest exposures to the counterparties on the inter-bank market (excluding exposure to the State Treasury and the NBP) as at 31 March 2017 and 31 December 2016 are presented in the table below.

	As at 31 March 2017					**As at 31 December 2016**			
Counterparty	(*in PLN million*)				**Counterparty**	(*in PLN million*)			
	Derivatives*	Deposits	Securities	Total		Derivatives*	Deposits	Securities	Total
Counterparty 1	0	-	900	**900**	Counterparty 1	0	-	900	**900**

Counterparty	As at 31 March 2017 (*in PLN million*)				Counterparty	As at 31 December 2016 (*in PLN million*)			
	Derivatives*	Deposits	Securities	Total		Derivatives*	Deposits	Securities	Total
Counterparty 2	-	633	-	**633**	Counterparty 2	-	494	-	**494**
Counterparty 3	5	591	-	**596**	Counterparty 3	7	398	-	**405**
Counterparty 4	-	464	-	**464**	Counterparty 4	-	397	-	**397**
Counterparty 5	7	447	-	**453**	Counterparty 5	-	323	-	**323**
Counterparty 6	-	422	-	**422**	Counterparty 6	-	288	-	**288**
Counterparty 7	-	395	-	**394**	Counterparty 7	-	167	-	**167**
Counterparty 8	(115)	290	-	**290**	Counterparty 8	(19)	-	155	**155**
Counterparty 9	11	-	155	**166**	Counterparty 9	132	-	-	**132**
Counterparty 10	143	-	-	**143**	Counterparty 10 ..	110	-	-	**110**

Source: 2016 Stand-Alone Financial Statements and the Bank

**Derivatives as MtM excluding collateral*

When a credit transaction is made with a financial institution which has its registered office outside Poland, the international standards of loan agreements of the Loan Market Association are applied.

The Bank co-operates on the wholesale market with financial institutions whose registered offices are located in the territories of more than 60 countries. Within the limits set, the Bank may enter into transactions with nearly 370 counterparties, including Polish and foreign banks, insurance companies and pension and investment funds. The transactions made include loan and deposit transactions, securities transactions, foreign exchange operations and derivative transactions.

The Bank monitors the financial standing of its counterparties on a regular basis and sets exposure limits adequate to the risk incurred for pre-settlement and settlement exposure of individual counterparties.

Market Risk

Market risk is defined as the risk of incurring a financial loss due to adverse changes in market parameters, e.g. interest rates and foreign exchange rates or their volatility.

The Bank applies the following market risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- the foreign exchange and interest rate positions must be kept within the accepted limits; and
- the financial results of the Bank are optimised while observing an accepted level of market risk.

In order to assess the level of market risk the Bank uses different risk measurement and assessment methods, including:

- setting general risk tolerance limits by market risk types;
- for interest rate risk – the VaR model, stress-tests, basis point value (BPV), interest rate gap and interest income sensitivity measures;
- for foreign exchange risk – FX positions, the VaR model as well as stress-tests.

The market risk management tools used by the Bank include:

- setting limits and threshold values by individual market risk types; and
- defining the allowed types of transactions which are exposed to specific market risks.

Interest Rate Risk

The interest rate risk is the risk of incurring losses on the Bank's balance sheet and off-balance sheet positions sensitive to interest rate fluctuations, as a result of changes in the interest rates on the market.

Interest rate risk is the most significant market risk faced by the Bank. In order to mitigate interest rate risk, the Bank defines limits and threshold values with regard to, among other things, the degree of price sensitivity and interest income sensitivity, the maximum amount of losses and allowed derivatives sensitive to interest rate fluctuations. Limits have been set for individual portfolios of the Bank.

In order to determine the level of interest rate risk, the VaR measure is applied with a 99% confidence level and a 10-day time horizon. Stress-tests are also used to supplement the VaR method. The following scenarios are applied at the Bank:

- hypothetical scenarios:
  - parallel shift (up or down) in interest rates of various currencies at the level of plus or minus 50, 100, 200 and 274 (crash-test) bps;
  - a peak-type bending of the yield curve, where the maximum interest rate sensitivity vertex is assumed to change by 80 bps and 20% of the interest rate for this vertex (up or down); for other vertices the change is faded out by applying proper multipliers;
  - a twist-type bending of the yield curve, where the longest and the shortest vertices are assumed to change by 80 bps and 20% of the interest rates for these vertices (up or down) and one of the vertices between them is assumed not to change, in order to generate the most pessimistic scenario;
  - historical changes in interest rates that result in a loss equal to 1% of the Bank's own funds (reverse stress-test);
- historical – assuming changes in yield curves based on the past movements of interest rates. Such scenarios used by the Bank include:
  - an extreme event, where the most substantial one-month change which occurred since June 2008 is calculated; in order to determine such change, the sum of the absolute values of the changes at all of the vertices is used; and
  - basis risk between yield curves: this scenario assumes a loss which may potentially be realised in connection with a change of the spread between yield curves which arises from imperfect correlation between the benchmark yield curve used for treasury bond valuation and the swap yield curve used for the valuation of bond risk hedging instruments.

The VaR of the Bank and stress-tests regarding the Group's interest rate risk sensitivity as at 31 March 2017, 31 December 2016 and 31 December 2015 are presented in the table below.

Name of the sensitivity measure	**As at 31 March**	**As at 31 December**	
	2017	**2016**	**2015**
	(in PLN million)	*(in PLN million)*	
10-day VaR* at 99% confidence level	380	269	272
Parallel movement of the interest rate curves by 200 bp (stress test)**	1,926	2,059	2,014

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

Notes:

** Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as a the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. Kredobank S.A. uses the 10-day interest rate VaR for the main currencies, which amounted to approx. PLN 9.2 million as at 31 March 2017, PLN 8.9 million as at 31 December 2016 and PLN 11.5 million as at 31 December 2015, respectively.*

***The table presents the value of the most adverse stress-test of the scenarios: movement of the interest rate curves by 200 bps up and by 200 bps down.*

As at 31 March 2017, the interest rate 10-day VaR ("**IR VaR**") was PLN 380 million, 1.2% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totalled PLN 30,495 million.

The interest rate risk was determined mostly by the risk of mismatch between the repricing dates of assets and liabilities. Interest rate risk is managed by the whole Bank within the limits determined by the Bank for interest rate risk. In addition, the Bank applies a separate limit on interest rate risk in connection with the operations of the brokerage house only.

The Group's exposure to interest rate risk as of 31 March 2017 consisted mostly of the Bank's exposure. The interest rate risk generated by the other Group companies did not have a material impact on the interest rate risk for the entire Group and thus did not significantly change its risk profile.

Foreign Exchange Risk

The Bank offers its customers a number of foreign exchange products and services (especially loans and deposits in foreign currencies) and, to a limited extent, trades in foreign exchange markets to realise additional returns.

Consequently the Bank faces foreign exchange risk, which is defined as the risk of incurring losses due to unfavourable changes in foreign exchange rates.

The Bank enters into FX forward transactions and FX options (FX vanilla options, FX binary options, FX barrier options, FX Asian options). The Bank also offers deposit products with various embedded options in order to potentially increase clients' returns, which are usually hedged back-to-back on the market.

In accordance with the requirements of the CRR, for over-the-counter options, or in case the value of delta cannot be obtained from a recognised exchange, the Bank is required to obtain approval from the competent regulatory authorities to use its own valuation model for the purposes of calculating the regulatory capital requirements. FX options for which the Bank has obtained approval from a regulatory authority to apply its own valuation models are managed under a delta-hedging strategy, whereas open risk positions are kept within the internal limits determined by the Bank. As at 31 March 2017, the Bank completed:

- 465 European plain vanilla option transactions, where the open delta position without hedge (gross in foreign currencies) was PLN 764.9 million;
- 5,166 European binary options transactions, where the open delta position without hedge (gross in foreign currencies) was approximately PLN 142.8 million;
- 46 European barrier options transactions, where the open delta position without hedge (gross in foreign currencies) was approximately PLN 416.7 million;
- 568 Asian options transactions, where the open delta position without hedge (gross in foreign currencies) was approximately PLN 318.3 million.

The Bank monitors open foreign exchange positions and measures the risk with the use of a VaR model. Stress-tests are used to assess potential losses on FX positions where market situations occur which cannot be described using statistical methods. The scenarios which are applied at the Bank are based on historical scenarios as well as on hypothetical scenarios. The following scenarios are applied at the Bank:

- 20% decrease or increase of foreign exchange rates in relation to PLN depending on which of these two market changes would cause larger loss on the portfolio of foreign currencies held in the Bank;
- 20% decrease or increase of USD, EUR, CHF in relation to PLN, respectively, depending on which of these two market changes would cause larger loss;
- maximum weekly increase of foreign exchange rates in relation to PLN observed since the beginning of May 2004 (historical scenario);
- maximum weekly decrease of foreign exchange rates in relation to PLN observed since the beginning of May 2004 (historical scenario);
- historical changes in foreign exchange rates that result in a loss equal to 0.1% of the Bank's own funds (reverse stress-test).

With respect to foreign exchange risk mitigation, the Bank defines limits with regard to, among other things, the value of FX position, Value at Risk for a 10-day time horizon at 99% confidence level and daily loss from trading transactions on the foreign exchange market.

The VaR of the Bank and stress-tests regarding the Group's exposure to foreign exchange risk, for all currencies jointly, as at 31 March 2017, 31 December 2016 and 31 December 2015 are presented in the table below.

Name of the sensitivity measure	**As at 31 March**	**As at 31 December**	
	2017	**2016**	**2015**
	(in PLN million)	*(in PLN million)*	
10-day VaR at 99% confidence level*	4	10	25
Change in FX/PLN by 20% (stress-test) **	86	25	2

Source: 2016 Consolidated Financial Statements and Interim Financial Statements

Notes:

** Due to the nature of the activities carried out by the other Group entities generating significant foreign exchange risk as well as the specific nature of the market on which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in their management of foreign exchange risk.*

***The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%.*

As at 31 March 2017, the 10-day VaR at a 99% confidence level resulting from foreign exchange operations ("**FX VaR**") was PLN 4 million, 0.01% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totalled PLN 30,495 million.

The foreign exchange positions in the Group as of 31 December 2016 and 31 December 2015 are presented in the table below.

	As at 31 December	
	2016	2015
	(in PLN million)	
USD	30	(87)
GBP	9	(2)
CHF	(37)	(73)
EUR	(170)	94
Other (Global Net)	89	171

Source: 2016 Consolidated Financial Statements

Commodity Risk

Commodity risk is the risk of incurring losses on the Bank's balance sheet and off-balance sheet positions sensitive to commodity exchange rates changes on the market. The Bank enters into various commodity transactions, such as commodity spots, commodity swaps, commodity futures and commodity forwards in more than 20 different commodities.

Commodity risk management consists of identification, measuring, monitoring, reporting and imposing limits on commodity activity. At the end of each day in 2016, the Bank's entire commodity positions were maintained at almost fully hedged levels (the gross net commodity position did not exceed PLN 0.15 million).

Market Risk Attributable to the Operations of DM PKO BP

The brokerage house also generates equity price risk primarily due to its function as a market-maker on the WSE and, if relevant agreements are entered into, risk involved in acting as underwriter. The equity price risk is managed within the limits regarding DM PKO BP's operations as a market-maker and an issuer of securities on the WSE, separately for the position in equity securities and equity derivatives and for the position in derivatives on the WSE index. The average equity portfolio position during 2015 was PLN 9.23 million. The average equity portfolio position during 2016 was PLN 6.88 million. The average absolute net position in the portfolio of derivatives on the WIG20 index in 2016 was PLN 1.4 million.

Liquidity Risk

Liquidity risk is defined as the lack of a possibility to pay due debts on time due to the lack of liquid assets. Lack of liquidity may arise from the inappropriate structure of a balance sheet, a misfit of cash flows, payments not being received from counterparties, a sudden withdrawal of cash by clients or other market events.

As part of its liquidity risk management, the Bank manages the financing risk which takes into account the risk of a loss of financing sources and a lack of opportunities to renew matured funding, or a loss of access to new financing sources.

The Bank applies the following liquidity risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- an appropriate level of liquidity surplus is maintained through an increase of the portfolio of liquid securities and stable financing sources (in particular, a stable deposit base); and
- the main sources of financing of the Bank's assets are stable sources, first of all a stable deposit base.

In order to assess the level of liquidity risk the Bank uses different risk measurement and assessment methods, including the contractual and real-term (adjusted) liquidity gap method, the liquidity reserve method, liquidity surplus (liquidity buffer) method, verification of the stability of the deposit base and loan portfolio and shock analyses.

The Bank has a highly diversified deposit base and a large portion of liquid assets on its books. The liquidity risk management tools used by the Bank include entering into transactions ensuring long-term financing of credit activities.

The methods for measuring liquidity risk are based on the evaluation of contractual and adjusted liquidity gaps. The contractual liquidity gap is a list of all balance positions by their maturity, whereas the adjusted liquidity gap

is a list of individual balance categories by their assumed actual maturity. The liquidity reserve is the difference between the most liquid assets and the expected and potential liabilities that mature in a given period. The most liquid assets include lockable treasury papers both in PLN as well as in major foreign currencies, money bills, Treasury bills, Treasury bonds and inter-bank loans less the inter-bank deposits (denominated in PLN, USD, EUR and CHF) which, as at 31 March 2017, amounted to PLN 41.6 billion and accounted for approximately 73.61% of all liquid assets. Additionally, the most liquid assets are funds in the current account kept with the NBP for PLN, the cash in the Bank's cash registers and the funds in the nostro accounts for major foreign currencies (in USD, EUR and CHF). As at 31 March 2017 these assets accounted for approximately 17.87%, 6.77% and below 1.75% of the most liquid assets, respectively.

The table below presents the adjusted liquidity gap as at 31 March 2017. The adjustments relate to, among others: transfer of core deposits and loans to adequate periods to reflect their actual maturity terms and transfer of liquid securities to the period up to one month.

	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
	(in PLN million)							
Group adjusted liquidity gap	15,669	20,006	(2,574)	1,064	7,882	8,823	25,359	76,229
Group adjusted cumulative liquidity gap	15,669	35,675	33,101	34,165	42,047	50,870	76,229	-

Source: Interim Financial Statements

In all time bands the adjusted cumulative liquidity gap is positive, which reflects a net surplus of maturing assets over maturing liabilities. As at 31 March 2017, the cumulative liquidity gap for up to one-month horizon was PLN 35,675 million.

The Bank reduces funding mismatch in exchangeable currencies (EUR, USD and CHF) with the use of derivative transactions such as CIRS and FX swaps, acquiring long term funds in EUR, USD and in CHF, or issuing notes. The Bank also offers savings accounts in exchangeable currencies (EUR, USD and CHF) in order to overcome its funding mismatch in foreign currencies. This product allows customers to manage their own FX risk resulting from loans drawn by them in foreign currencies (by providing them with the opportunity for earlier purchase of foreign currencies and repayment of outstanding loans with the funds from such account).

Risk Reporting

The Market Risk Department prepares reports on the level of market and liquidity risk for operating purposes on a daily and weekly basis. Reports on the level of market and liquidity risk for management purposes, which are presented to ALCO and the Management and Supervisory Boards, are prepared on a monthly and quarterly basis.

Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk but excludes business and reputational risk.

The objective of operational risk management is to enhance the security of the Bank's operational activity by improving and increasing the efficiency of the mechanisms for the identification, assessment and measurement, reduction, monitoring and reporting of operational risk which are tailored to the profile and scale of the operations of the Group. All Group entities manage operational risk according to the principles of risk management adopted by PKO Bank Polski, while at the same time taking into account the extent and nature of the relationship between the entities included in the Group, their specific nature and the scale of their activities.

The process of operational risk management is performed throughout the entire Bank and for all areas of operational risk management. "Systemic" management of operational risk involves finding solutions to exercise control by the Bank over the level of operational risk and to enable the accomplishment of the Bank's objectives. Ongoing operational risk management is conducted by each employee of the Group and includes the prevention of the occurrence of operational events arising during a product's life, the performance of processes and the use of applications as well as responses to occurring operational events.

In order to manage operational risk, the Bank gathers data about operational events that occurred internally and in other banks together with the causes and consequences thereof, data describing the factors of the business environment, the results of operational risk self-assessment, data on the key operational risk indicators (KRI) and data related to the quality of internal functional controls.

Operational risk self-assessment comprises the identification and assessment of operational risk of the Bank's products, processes and applications as well as organisational changes. Self-assessments are conducted periodically and before the introduction of new or changes to existing products, processes and applications of the Bank.

The purpose of operational risk measurement is to assess the scale of threats related to the existence of operational risk with the help of defined risk measures. The measurement of operational risk comprises:

- calculation of Key Risk Indicators (KRI);
- calculation of the own funds requirement in respect of operational risk in accordance with the BIA approach in activities of the Bank's branches in the Federal Republic of Germany, Czech Republic and the AMA with respect to the other activity of the Bank;
- stress-tests; and
- calculation of internal capital for the Group.

In 2016, the Bank carried out preparatory works for the launch of the Bank's new branch in Czech Republic, the opening of which took place in April 2017. As part of the works, in February 2017 the Bank obtained a permit from the PFSA regarding the combined use of the Advanced Measurement Approach (AMA) and the Basic Indicator Approach (BIA) for calculating the own funds requirement in respect of operating risk. The BIA approach will be used to calculate the requirement for operational risk with regards to the activities of the branches in Czech Republic and the Federal Republic of Germany (opened in December 2015).

The objective of operational risk management is to strive to maintain a fixed level of operational risk for the Bank and Group. Control of operational risk includes setting controls tailored to the scale and complexity of the risk of the Bank's activities in the form of limits on operational risk, in particular the strategic tolerance limits and loss limits for operational risk, KRI with threshold and critical values.

The purpose of monitoring operational risk is to diagnose areas requiring management actions. In particular, the Bank regularly monitors:

- the utilisation level of strategic tolerance and operational risk loss limits;
- operational risk events and their consequences;
- results of operational risk self-assessments;
- the own funds requirement in respect of operational risk for the Bank – calculated under the AMA, and for the financial operations conducted by the Group entities– calculated under the BIA;
- results of stress-tests;
- KRI in relation to threshold and critical values;
- level of risk for the Bank, areas and operational risk management tools;
- efficiency and timeliness of actions undertaken to reduce or transfer operational risk; and
- management activities undertaken because of increased or high level of operational risk and their effectiveness in reducing the operational risk level.

Quarterly reports concerning operational risk are designed to meet the information requirements of:

- bodies of the Bank such as ORC, the RC, Management Board, Supervisory Board's Audit Committee and the Supervisory Board and also of other members of the senior management;
- external supervisory and control authorities; and
- shareholders and financial market participants.

Reports contain, in particular, information regarding:

- the operational risk profile of the Bank resulting from the process related to the identification and assessment of threats for products, processes and applications of the Bank and LDA measurement;
- the operational risk level, areas and tools of operational risk management;
- results of measuring and monitoring operational risk;
- actions taken to reduce operational risk and evaluate the effectiveness of actions taken to reduce the operational risk level;
- recommendations and decisions of the ORC or the Management Board.

Each month, information on operational risk is prepared and forwarded to the members of the Management Board, organisational units of the Head Office and specialised units, as well as organisational units responsible for the 'systemic' management of operational risk. The scope of information is diversified and tailored to the scope of responsibilities of the individual recipients of the information.

The correctness of the operational risk management process is reviewed within the following framework:

- a review of the strategy and process of operational risk management;
- a self-assessment of compliance with the AMA approach requirements;
- a validation of the AMA model;
- an internal audit.

Management actions are taken in the following cases:

- at the ORC's initiative;
- at the initiative of the organisational units of the Bank in order to manage operational risk;
- when operational risk exceeded the levels described by the Management Board or the ORC.

In order to mitigate exposure to operational risk, the following management tools are used by the Bank:

- risk reduction – mitigating impact of risk factors or results of risk materialization by implementation or reinforcement of various operational risk management tools, such as:

(i) control instruments (authorisation, internal control, separation of duties);

(ii) human resources management instruments (staff selection, enhancement of the professional qualifications of employees, motivational packages);

(iii) determination or verification of the threshold and critical values of KRI;

(iv) determination or verification of the Group's strategic tolerance limits and the Bank's limits for operational risk losses;

(v) contingency plans;

- risk transfer – a transfer of responsibility for coverage of potential losses to an external party:

(i) insurance;

(ii) outsourcing;

(iii) financial instruments related to operational risk;

- risk avoidance – resignation from a risk generating activity or elimination of a possibility that a risk factor occurs.

Compliance Risk

"**Compliance risk**" is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of its failure to comply with the laws, regulations, rules and market standards adopted by the Bank.

The objective of compliance risk management is the strengthening of the Group companies' image as entities acting legally and according to the adopted standards and which are reliable, fair and honest by eliminating compliance risk, counteracting the potential loss of the Group's reputation for reliability and counteracting the risk of financial losses or legal sanctions which could be the result of violating regulations and operating standards. Compliance risk management specifically relates to the following issues:

- preventing the Group from becoming involved in operations which are non-compliant with the law;
- ensuring the protection of information;
- promoting ethical standards and monitoring their implementation;
- managing conflicts of interest;
- preventing situations in which the Group's employees could be seen as acting in their own self-interest with respect to business matters of the Group;

- professional, fair and clear phrasing of product offers and of advertising and marketing communications;
- immediate, fair and professional investigation of claims and complaints made by clients.

The Group adopted a zero tolerance policy in respect of lack of compliance, meaning that in its operations it seeks to eliminate compliance risk. Reports on compliance risk are prepared for the Management and Supervisory Boards on a quarterly basis.

The reports include, among other things, information on the identification and assessment of the compliance risk process, compliance risk monitoring, the Group's adaptation to new regulations, adopting post-inspection recommendations of the PFSA and correspondence with the PFSA.

Reputational Risk

Reputational risk is defined as the risk of the deterioration of the Bank's reputation among customers, counterparties, investors, supervisors, regulators and the general public as a result of the Bank's business decisions, operational incidents, non-compliant activities or other events.

The objective of managing reputational risk is to protect the Bank's reputation by preventing the occurrence of reputation-related losses and reducing the negative impact of image-related events on the Bank's reputation.

Reputational risk management includes mainly:

- risk identification and monitoring based on media publications monitoring, key risk indicators, risk identification surveys and other information regarding e.g. operational and compliance risk events;
- risk assessment regarding negative reputational effects of each image-related event and their overall impact for the Bank's reputation;
- risk reporting including semi-annual management reports for the Management Board and the Supervisory Board and its committees; and
- risk mitigation activities.

Activities relating to reputational risks are taken on the basis of a semi-annual management report presented to the Risk Committee, the Management Board and the Supervisory Board. Such activities are undertaken to in particular avoid or discontinue operations resulting in reputational risk and to conduct protective communication actions.

Business risk management

Business risk is the risk of losses resulting from unfavourable changes in the business environment, unfavourable decisions, improper implementation of decisions or a failure to take appropriate action in response to changes in the business environment; it specifically includes the strategic risk.

Managing business risk is aimed at maintaining, on an acceptable level, the potential negative financial consequences resulting from adverse changes in the business environment, making adverse decisions, improper implementation of adopted decisions or lack of appropriate actions, which would be a response to changes in the business environment.

Business risk identification recognises and determines both current and potential factors resulting from the current and planned activities of the Bank which may significantly affect the financial position of the Bank, and generate or change the Bank's income and expenses. Business risk identification is conducted among others:

- through an analysis of the results of an annual survey targeting senior management staff of the Bank; and
- through an analysis of selected items on the income statement related to the Bank's income and expenses. Only income and expenses arising from the Bank's business activity are selected for analysis, excluding items included in the measurement of other risks.

Business risk identification is performed by identifying and analysing the factors that had an impact on the significant deviations in the realisation of income and expense from their forecasted values.

Measurement of business risk is aimed at defining the scale of threats related to the existence of business risk with the use of defined risk measures. The measurement of business risk includes:

- calculation of internal capital;
- conducting stress-tests; and

- conducting of reverse stress test (annually).

The internal capital for covering business risk of the Bank is determined on the basis of analysis of historical volatility of deviations of realised net business income from their forecasted values, in accordance with the concept of 'Earnings at Risk'.

Forecasting of business risk in the Bank is conducted once a quarter on a yearly basis and includes a forecast of the level of business risk and internal capital. Once a quarter, the verification of business risk forecast (so-called backtesting) is also performed. Backtesting is based on a comparison of the internal capital amount, estimated for a particular quarter (performance) with the forecast of this capital, estimated in the previous quarter (forecast).

Monitoring of business risk aims to diagnose areas for management actions and includes, in particular:

- strategic levels of business risk tolerance – on a quarterly basis;
- stress-tests results – on an annual basis;
- reverse stress-tests results - on an annual basis;
- internal capital level – on a quarterly basis;
- deviations of business risk realisation from its projected values – on a quarterly basis; and
- results of a survey conducted among senior management staff of the Bank - on an annual basis.

The purpose of controlling business risk is to strive to maintain a level of business risk of the Group at an acceptable level.

Control of business risk involves the setting and periodic review of the risk controls in the form of tolerance limits on business risk along with its thresholds and critical values, adequate to the scale and complexity of the Bank.

Business risk reporting of the Bank is conducted quarterly. Reports on business risk are prepared for the ALCO, the RC, the Risk Supervisory Board Committee, the Management Board and Supervisory Board. The reports include in particular:

- results of business risk measurement, particularly internal capital, stress-tests results, results of the annual survey conducted among senior management staff of the Bank;
- utilisation level of strategic tolerance limits for business risk;
- business risk forecast and forecast backtesting;
- level of business risk; and
- information on business risk in the entities of the Group.

The main tools used in business risk management include:

- verification and updating of quarterly financial forecasts, including efforts to reduce business risk level in line with the approved limits; and
- monitoring of the strategic limit of business risk tolerance.

Management of the risk of excessive leverage

The risk of excessive leverage is defined as the risk resulting from vulnerability due to financial leverage or conditional leverage that may require unintended corrective actions of business plans, including an emergency sale of assets which could result in losses or result in the need for valuation adjustments of other assets.

The risk of excessive leverage materialises as a mismatch of the scale of activities and structure of the sources of financing and insufficient own funds of the Bank.

The objective of managing the risk of excessive leverage is, therefore, to ensure a sound relationship between the size of the core capital (Tier 1) and the sum of the balance sheet assets and off-balance sheet liabilities of both the Bank and the Group.

For the purposes of measuring the risk of excessive leverage, the bank leverage ratio is calculated in accordance with Article 429 of the CRR, i.e. as a measure of Tier 1 capital divided by the measure of total exposure and is expressed as a percentage rate.

The following parameters are, in particular, subject to the monitoring of the risk of excessive leverage:

- value of the leverage ratio;
- threshold of the risk of excessive leverage; and
- deviation of the leverage ratio from forecasts.

The values are monitored on a quarterly basis.

The risk of excessive leverage of the Bank is reported on a quarterly basis. The recipients of the reports regarding the risk of excessive leverage are the RC, the Management Board, the Risk Supervisory Board Committee and the Supervisory Board. Reports include, among others, information on the value of the leverage ratio, the threshold values for the excessive leverage risk and a forecast of the risk of excessive leverage.

Capital adequacy

Capital adequacy is a process aimed at ensuring that, for a given level of risk tolerance, the level of risk assumed by the Bank and its Group associated with the development of its business activity may be covered by capital held within a given period of time. The process of managing capital adequacy comprises, in particular, compliance with prevailing supervision standards and a risk tolerance level determined within the Bank, the process of capital planning, including a policy regarding capital acquiring sources.

The objective of capital adequacy management is to maintain own funds on a stable level that is adequate to the risk scale and profile of the Bank's and its Group's activities.

The process of managing the Bank's capital adequacy comprises:

- definition and implementation of desired capital adequacy objectives;
- identification and monitoring of significant types of risk;
- assessment of the amount of internal capital for individual significant types of risk and of total internal capital;
- definition of internal capital adequacy limits;
- forecasting, monitoring and reporting of internal capital levels and its structure as well as capital adequacy;
- balance sheet structure management with the aim of optimization of quality of the Bank's own funds;
- capital-related contingency actions;
- allocation of own funds requirement and internal capital to business areas, client segments and individual companies of the Group; and
- profitability assessment of individual business areas and client segments.

The basic regulations applicable in the process of the capital adequacy assessment process as at 31 December 2016 are:

- CRR, which constitutes a part of a so-called CRD IV/CRR package, which apart from the CRR comprises CRD IV Directive - Directive 2013/36/EU of the European Parliament and of the Council as of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC;
- the Banking Law; and
- The Act of 5 August 2015, on macroprudential supervision of the financial system and crisis management in the financial system (Journal of Laws of 2015, Item 1513).

In the case of a conflict between the provisions of the CRR and national regulations, precedence is given to the CRR.

Pursuant to the CRR and the Act on macroprudential supervision, financial institutions are obligated to hold additional capital buffers over the minimum levels set out in the CRR for:

- Total Capital Ratio (TCR);
- Tier 1 capital ratio (T1); and
- Common Equity Tier 1 capital ratio (CET1).

Buffers need to be covered with Common Equity Tier 1 capital.

Capital conservation buffer – imposed on all banks. The buffer will be increased on a yearly basis until its final, stable level of 2.5% (in 2019). As of 31 December 2016, the capital conservation buffer was equal to 1.25%.

Countercyclical buffer – imposed with the aim of mitigating the systemic risk resulting from the credit cycle. Countercyclical buffer is introduced by the finance ministry during an increased lending activity and cancelled during its slowdown. For exposures located in each Member State, the countercyclical buffer rate is set by authority designated by that Member State. As at 31 December 2016 the countercyclical buffer rate was set at 1.5% for exposures located in Norway and Sweden, 0.625% for exposures located in Hong Kong and 0% for exposures located in remaining countries. Since 1 January 2016 for exposures located in Poland the countercyclical buffer rate was set at 0% by Regulation of Polish Minister of Finance.

The Bank specific countercyclical buffer is set taking into account the countercyclical buffer rates set by each country where exposures of the Bank are located. As at 31 December 2016 the bank specific countercyclical buffer of the Group was equal to 0%.

In addition, with regard to the Act on macroprudential supervision of the financial system and crisis management in the financial system, the Bank received the following PFSA decisions:

- of 10 October 2016 classifying the Bank as other systemic important institution ("O-SII") on the basis of an assessment of the systemic importance of the Bank, and imposing on the Bank the buffer 0.75% of total amount of the risk exposure calculated in accordance with art. 92 sec. 3 of the EU Regulation No. 575/2013;
- of 18 October 2016 recommending to maintain by the Bank additional capital requirement equal to 83 bps above total capital ratio, for the purpose of foreign-denominated mortgage risk hedging, consisting of min. 75% of Tier 1 capital (equivalent to 62 bps above Tier 1 capital ratio) and of min. 56% of Common Equity Tier 1 capital (equivalent to 46 bps above Common Equity Tier 1 capital ratio); and
- of 30 December 2016 recommending to maintain by the Group additional capital requirement on a consolidated basis, for the purpose of foreign-denominated mortgage risk hedging, equal to 79 bps above total capital ratio, 59 bps above Tier 1 capital ratio and 44 bps above Common Equity Tier 1 capital ratio.

The level of capital adequacy of the Bank and the Group in 2016 remained at a safe level, significantly above the regulatory limits.

Model risk management

Model risk is the risk of incurring losses as a result of making incorrect business decisions on the basis of models. Within the Group, model risk is managed both on the part of a given Group entity (an owner of a model) and at the level of the Bank, as a parent company of the Group.

The objective of model risk management is to mitigate the level of model risk in the Group through a well-defined and implemented process of model management. In the Group, the solutions functioning in the Bank are used with the possibility of their individual adaptation to the specific nature of particular entities.

All significant models in the Bank and all significant models of the Group entities are covered by a regular process of independent validation carried out by the Bank's Models Validation Department.

The identification of model risk mainly consists of:

- gathering information on all existing and planned to be implemented models; and
- cyclical determining the significance of models.

The model risk assessment is aimed at determining the scale of threats associated with the occurrence of the model risk. Assessment of the risk is made on the singular model level and also in the aggregated terms at the level of each entity of the Bank.

The purpose of controlling model risk is to maintain the aggregated level of model risk of the Bank at an acceptable level. Control of model risk includes defining the tools used for diagnosis and for mitigation of the model risk level. Mechanisms used for diagnosis of the model risk level involve in particular the strategic tolerance limits and thresholds for model risk.

The purpose of the model risk monitoring is to diagnose areas for management actions. It involves, in particular, an update of the model risk level, monitoring of the strategic limit of tolerance for model risk, verification of the implementation status and effectiveness of the activities on the model risk mitigation.

Monitoring results are periodically presented in the reports addressed to the RC and the Management Board and the Supervisory Board and include, in particular:

- information on the utilization level of strategic limit of tolerance for model risk;
- information on the level of model risk (from the stand-alone and consolidated perspective);
- model risk map;
- evaluation of the effectiveness of recommendations made to reduce the model risk level; and
- potential new management actions aimed at reducing the model risk.

The purpose of management actions is to influence the model risk management process and to manage the level of such risk in the Group, in particular by determining acceptable risk levels and making decisions about the use of tools supporting model risk management.

Macroeconomic changes risk management

Risk of macroeconomic changes is a risk of deterioration of the financial situation of the Bank as a result of the adverse impact of changes in macroeconomic conditions.

The purpose of risk of macroeconomic changes management is to identify macroeconomic factors having a significant impact on the Bank's activities and taking actions to reduce the adverse impact of potential changes in the macroeconomic situation on the financial situation of the Bank.

The identification of risk of macroeconomic changes is aimed at determining scenarios of the potential macroeconomic changes and to determine risk factors having the greatest impact on the financial situation of the Bank. Risk of macroeconomic changes results from interaction of factors dependent and independent of the Bank's activities. The Bank identifies the factors affecting the level of risk of macroeconomic changes during the conduct of comprehensive stress-tests.

The risk of macroeconomic changes materialises indirectly through other risks affecting the Bank's operations by:

- credit losses;
- losses arising from adverse changes in market situation (changes in exchange rates, changes in interest rates);
- a decrease in the liquidity of the Bank;
- losses arising from the operational risk realisation; and
- other losses.

For the purpose of measuring the risk of macroeconomic changes the Bank uses risk measures based on the results of comprehensive stress-tests, in particular:

- financial result and its components;
- capital adequacy measures and their components; and
- selected liquidity measures.

A process of risk of macroeconomic changes monitoring includes monitoring of:

- changes in the macroeconomic situation;
- macroeconomic factors to which the Bank is sensitive;
- results of stress-tests; and
- level of risk of macroeconomic changes.

Risk of macroeconomic changes reporting is realised in the form of reports summarising the results of each stress-tests. Reports are addressed to ALCO, RC and the Management Board. Reports include information such as:

- a summary of the results of stress-tests; and

- in case of increased or high level of risk of macroeconomic changes an analysis of reasons which led to an increase in the risk level, assessment of the potential consequences of this situation for the Bank, prediction of possible outcomes, proposals of actions aimed at reducing the level of risk, an initial assessment of their effectiveness.

Management actions in particular consist of:

- issuing internal regulations of the Bank;
- determining acceptable levels of risk; and
- proposals of actions aimed at reducing the level of risk in the event of increased or high risk of macroeconomic changes occurrence.

Capital risk management

Capital risk is defined as the risk of failing to ensure an appropriate level and structure of own funds, with respect to the scale of PKO Bank Polski and the Group's operations and risk exposure and, consequently, insufficient for the absorption of unexpected losses, taking into account development plans and extreme situations.

Therefore, the objective of managing capital risk is to ensure an appropriate level and structure of own funds, with respect to the scale of the operations and risk exposure of the Bank and the Group, taking into account the assumptions of the Bank's dividend policy as well as supervisory instructions and recommendations concerning capital adequacy.

The capital risk level for the Bank and the Group is determined based on the minimum, threshold and maximum values of capital adequacy measures, among others, the total capital ratio and basic capital (Tier 1) ratio. In addition, the threshold and maximum values are determined for capital adequacy measures, as the excess over the minimum values constituting strategic tolerance limits for the capital adequacy measures.

The Bank regularly monitors the level of capital adequacy measures in order to determine the degree of compliance with supervisory standards and internal strategic limits, and to identify instances which require taking capital contingency actions.

Should a high level of capital risk be identified, the Bank takes measures to bring capital adequacy measures to a lower level, taking into account the assumptions of the dividend policy as well as the supervisory instructions and recommendations concerning capital adequacy.

The level of capital adequacy measures as well as the level and structure of the Bank's own funds are presented in the annual report "Capital Adequacy and Other Information Subject to Disclosure" of the PKO Bank Polski Capital Group.

Complex stress-tests

Comprehensive stress-tests are an integral part of the Group's risk management and are complementary for stress-tests specific to particular types of risks.

Complex stress-tests collectively include the following risks considered by the Bank to be material, including:

- credit risk;
- market risk;
- liquidity risk;
- operational risk; and
- business risk.

Complex stress-tests include an analysis of the impact of changes in the environment and the functioning of the Bank on the financial position of the Bank, in particular on:

- the income statement;
- the statement of financial position;
- own funds;
- capital adequacy, including capital requirements, internal capital, capital adequacy ratios; and

- selected measures of liquidity.

Complex stress-tests for the own use of the Bank are carried out at least once a year with three-year horizon, taking into account changes in the value and structure of the statement of financial position and income statement items (dynamic tests). Supervisory tests are carried out at the request of the supervisory authorities in accordance with the assumptions provided by supervisory authorities.

INDUSTRY OVERVIEW

The information contained in this section has been extracted from publicly available documents and information. The source of any external information is always given if such information is used in this section. Such information has been accurately reproduced, and as far as the Bank are aware and are able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as PFSA or government publications, no independent verification of such was carried out by the Bank, the Arranger or the Dealers or any of their affiliates or the Bank's advisors in connection with the Programme. The Bank does not intend to and does not warrant to update the data concerning the market or the industry as presented in this section, subject to the duties resulting from generally binding regulations.

The Polish Economy

The Polish economy is one of the fastest developing economies in the EU. Poland, with its 38.0 million residents, remains the largest accession member of the EU and the sixth largest EU country by population. With a GDP of EUR 424 billion in 2016 (according to Eurostat), it is the eighth largest EU economy and the 24th largest economy globally (according to data from the IMF). The Polish economy has expanded consistently, with real GDP growing at a CAGR of 3.0% over the six years to 31 December 2016. In 2009, Poland was the only European country to record positive GDP growth, 2.8%, which increased to 3.6% in 2010 and to 5.0% in 2011. In 2012, the GDP growth rate in Poland slipped to 1.6%, but remained substantially higher than the average for the EU, which recorded 0.5% decrease in GDP. Having passed through the bottom of the cycle, the economy has been in recovery mode since Q3 2013. In 2015, the GDP growth rate in Poland remained fairly stable at a sound 3.8%. After a temporary slowdown in economic activity in Poland in 2016 (with GDP growth declining to 2.7%), in Q1 2017 the growth rate recovered to 4.0% year on year not seasonally adjusted, mainly driven by internal demand. The European Commission forecast for Poland is also optimistic for 2017 and 2018: GDP growth in Poland is expected to accelerate to 3.5% in 2017 and to reach 3.2% in 2018. These figures are above the growth forecasts for the EU as a whole, which is expected to grow only by 1.9% both in 2017 and in 2018.

The following table shows GDP, population and GDP growth rate for 2016 for the 20 largest countries in the EU by GDP (data as at 31 December 2016).

Rank	Country	GDP	Population	2016 real GDP Growth Rate
		(EUR billion)	*(in million)*	*(%)*
1	Germany	3,134.1	82.1	1.9
2	United Kingdom	2,366.9	65.4	1.8
3	France	2,228.9	66.8	1.2
4	Italy	1,672.4	60.7	0.9
5	Spain	1,113.8	46.4	3.2
6	Netherlands	697.2	17.0	2.2
7	Sweden	462.1	9.8	3.2
8	Poland	424.3	38.0	2.7
9	Belgium	421.6	11.3	1.2
10	Austria	349.3	8.7	1.5
11	Denmark	276.8	5.7	1.3
12	Ireland	265.8	4.7	5.2
13	Finland	214.1	5.5	1.4
14	Portugal	184.9	10.3	1.4
15	Greece	175.9	10.7	0.0
16	Czech Republic	174.4	10.5	2.4
17	Romania	169.6	19.8	4.8
18	Hungary	112.4	9.8	2.0
19	Slovakia	81.0	5.4	3.3
20	Luxembourg	54.2	0.6	4.2

Source: Eurostat

No single sector of the Polish economy accounted for more than 30% of Poland's total GDP in 2016. Industry, trade and repair, manufacturing, professional, scientific and technical activities and support service activities are the greatest contributors to Poland's GDP. Small and medium-sized enterprises (defined as an enterprise with

less than 250 employees, yearly sales of less than EUR 50 million and/or total assets less than EUR 43 million) are also significant contributors to the Polish economy. According to data from the Central Statistical Office, small and medium-sized enterprises represented 99.8% of the total number of enterprises in Poland in 2015, employed 69.1% of the total number of employees in Poland and contributed 50.1% of GDP in 2013 (according to the Polish Agency for Enterprise Development).

The most recent decisions on Poland's rating include upgrade in outlook to stable from negative by the S&P Global Ratings in December 2016 and the same decision by Moody's in May 2017.

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

	For the year ended 31 December		
	2016	**2015**	**2014**
Real GDP growth (%)	**2.7**	3.8	3.3
Individual consumption growth (%)	**3.8**	3.0	2.6
Public sector spending growth (%)	**2.8**	2.4	4.1
Investment expenditures growth (%)	**(7.9)**	6.1	10.0
Inflation rate on a year-on-year basis (%)	**(0.6)**	(0.9)	0.0
Average wage growth (%)	**3.6**	3.5	3.2
Harmonised unemployment rate (%)	**6.2**	7.5	9.0
Exports growth (%)	**2.7**	8.5	6.4
Imports growth (%)	**2.9**	5.0	8.3
Budget deficit / GDP (domestic definition, %)	**2.5**	2.4	1.7
Government debt / GDP (domestic definition, %)	**52.1**	48.8	48.1
PLN / EUR (average)	**4.36**	4.18	4.18

Source: GUS, NBP, Eurostat, the Ministry of Finance, the European Commission

The Polish banking sector, characterised by strong capitalisation and a solid deposit base, remained resilient throughout the crisis and continued to provide funding to Polish companies and consumers.

Forecasts of Macroeconomic Indicators

The European Commission expects that the GDP growth in Poland will strengthen to 3.5% in 2017 and then moderate to 3.2% in 2018. Growth should be mainly driven by internal demand, although external demand is expected to remain strong and to further support exports.

In the opinion of European Commission the strength of private consumption will result from robust wage growth and from the introduction of higher social transfers in the previous year. Investment activity is expected to recover quickly due to strong demand, high capacity utilization, robust corporate profits and low interest rates. In 2017 the recovery should be mainly driven by public investment, which will mirror rising inflows of the European Union funds. Private investments are expected to recover more gradually, with stronger growth in 2018.

Poland's labour market conditions, according to the European Commission, are expected to further tighten due to shrinking labour force. Rising discrepancy between labour supply and demand should reduce the total employment growth, but unemployment rate is expected to fall to new record low levels of 5.2% and 4.4% in 2017 and 2018 respectively. The tightening of labour market is expected to lead to stronger growth of nominal wages.

According to the European Commission, strong rebound in public investment, costs of the child benefit and lowering of the retirement age will widen the fiscal deficit to 2.9% of GDP in 2017. However, the EC acknowledges that the final result of public finances might be stronger due to improving tax collection, which final size is difficult to estimate. Additionally, public finances are supported by two years extension of higher VAT rates and by increased revenues from social contributions, which result from the booming labour market. The EC estimates, that under the no-policy-change scenario, the general government deficit will stay at 2.9% in 2018. The general government debt-to-GDP ratio is set to increase from 54.4% in 2016 to 54.6% in 2017 and 55.4% in 2018.

The Polish Banking Sector

Structure of the Polish Banking Sector

The Polish banking market operates as a two-tiered system (*i.e.* commercial and co-operative banks). In the period from December 2014 to December 2016, there were no significant changes in the number of banks and

branches of foreign credit institutions operating on the Polish market. According to data from the PFSA, as of the end of 2014 a total of 631 banks and branches of foreign credit institutions were operating in Poland. As of the end of 2015, the total number of banks and branches of foreign credit institutions operating in Poland was 626. As of 31 December 2016, the total number of banks and branches of foreign credit institutions operating in Poland was 621: there were 36 domestic commercial banks, 27 branches of foreign credit institutions and 558 co-operative banks operating in Poland.

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

	2016	2015	2014
Total, including:	**621**	626	**631**
Domestic commercial banks	36	38	38
Branches of foreign credit institutions	27	27	28
Cooperative banks	558	561	565

Source: PFSA's monthly data on the banking sector – December 2015.

According to data from the PFSA, as of the end of December 2016, banks with a majority of private capital dominated constituting 91.0% (565 entities) of all banking institutions operating in Poland. The sector is characterised by a significant presence of international banks, and currently seven out of the ten largest commercial banks (by assets) are controlled by foreign parents.

Consolidation on the Polish banking market and the increasing use of IT solutions in banking services have caused the number of bank branches to dwindle. In the period from December 2014 to December 2016, the number of bank branches in Poland decreased by 304 locations and amounted to 7,048 as of the end of 2016.

Competitive Landscape of the Polish Banking Sector

The level of competition in the Polish banking sector is relatively high due to its low level of concentration. Among the other factors having an impact on competition is a recent trend for consolidation. e.g. in 2013, the merger of BZ WBK 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 Bank Polski SA, 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.

The table below shows the Herfindahl index (used for measuring concentration ranging from 0 to 10,000, where a higher value of the index shows higher concentration) and the share of the total assets of credit institutions in the countries of the European Union (based on 2013 data).

Country	**Herfindahl index** *(index points)*	**Share of the five largest credit institutions in total assets** *(%)*
Finland	3,310	79.8
Estonia	2,445	89.9
Greece	2,195	94.1
Netherlands	2,131	85.0
Lithuania	1,818	85.7
Cyprus	1,303	63.4
Malta	1,648	81.5
Slovakia	1,221	70.7
Portugal	1,164	69.2
Denmark	1,190	68.1
Slovenia	1,026	55.6
Latvia	1,001	63.6
Czech Republic	949	61.3
Belgium	982	65.8
Sweden	880	58.5
Hungary	905	52.5
Romania	797	54.2

Country	Herfindahl index *(index points)*	Share of the five largest credit institutions in total assets *(%)*
Spain	839	58.3
Bulgaria	836	55.0
Ireland	677	47.6
Poland	**656**	**48.3**
France	584	47.6
United Kingdom	462	38.9
Italy	424	40.7
Austria	412	36.8
Luxembourg	329	32.0
Germany	301	32.4

Source: ECB

The concentration ratio of the Polish banking sector, measured by the share of the total assets of the five largest banks in the total assets of the sector, as at the end of 2016 decreased to 48.3%, and the share of the five largest banks in deposits and loans in the non-financial sector decreased to 47.5% and 44.1%, respectively, according to PFSA data. The concentration ratio in 2016 increased slightly by 0.5 p.p. compared with 2015 in terms of total assets. In terms of deposits, the concentration decreased by 7.5 p.p. as compared with 2015. In terms of loans to the non-financial sector, the concentration decreased by 5.0 p.p. as compared with 2015.

The table below presents the market concentration of the five largest banks.

	As at 31 December		
	2016	**2015**	**2014**
		(%)	
Assets	48.3	48.8	48.5
Deposits	47.5	55.0	54.9
Loans to non-financial sector	44.1	49.1	48.9

Source: PFSA

In 2014, the economic upturn brought about a 9% increase in the rate of asset growth in the banking sector. Despite stable GDP growth in Poland in 2015, the rate of asset growth has dampened to 4.4% y/y alongside the changing regulatory environment (e.g., increased capital requirements for all Polish banks, additional capital buffers for banks with material exposure to FX mortgages) and higher contributions (to the Bank Guarantee Fund; also as a result of cooperative bankruptcy and a one-off contribution to the Borrowers Support Fund). In 2016, moderate and temporary slowdown in the rate of economic growth in Poland and new regulatory burdens (tax on certain financial institutions) determined moderate growth in banking sector assets which amounted to 7.0% y/y.

Banks in Poland finance their operations from stable sources, mainly deposits. A reduction in the base interest rates translated into lower interest rates of bank deposits, which in turn had an adverse effect on households' propensity to save. Nonetheless, in 2014 the share of commitments to clients remained stable. According to the PFSA's data, in 2015 the deposit to the non-financial sector growth rate was approximately 10% y/y and was higher than the growth rate of assets. The situation on the deposit market was positively influenced by lower competition on the part of alternative forms of saving (e.g. investment funds, stocks) as a result of increased aversion to risk. In 2016 the growth rate of deposits to non-financial sector was still high and supported by positive trends in labour market, 'Rodzina 500+' programme and good financial situation of enterprises.

According to the PFSA's data, in the years 2014-2015, the credit to the non-financial sector growth rate was approximately 7% on a year-on-year basis. The essential factor in determining the situation on the credit market in 2015 was the depreciation of PLN against CHF, which was a consequence of the decision of the Swiss National Bank in January 2015 regarding the abolition of a minimal exchange rate limit of CHF against EUR. In 2016, the growth rate of loans was moderate, i.e. due to limitation of investment activities in Poland (the end of the EU Financial Perspective 2007-2013). Nonetheless, in 2016 the growth rate of consumer loans and housing loans in PLN was relatively high.

Financial Situation of the Polish Banking Sector

The table below presents the basic financial data for the banking sector.

	As at 31 December		
	2016	2015	2014
	(in PLN billion)		
Polish banks' aggregate assets	1,711.6	1,600.0	1,532.0
Deposits from the non-financial sector	1,028.1	938.8	854.1
Loans to the non-financial sector	1,012.1	961.8	895.4

Source: PFSA

Total assets

The main structural driver for significant growth, both in the value of deposits and customer loans, is the low level of banking intermediation in Poland compared with other EU Member States. The aggregate assets of banks in the Polish banking sector as at 31 December 2016 amounted to 92.4% of Poland's GDP compared with the average in the Eurozone of approximately 288.5%. As of the end 2015, the aggregate assets of banks in the Polish banking sector amounted to 89% compared with the average in the Eurozone of approximately 294.5% (based on calculations prepared by the Bank).

As of 31 December 2015 and 31 December 2014, the total assets of the banking sector amounted to, respectively, PLN 1,600.0 billion and PLN 1,532.0 billion and in 2015 were 4.4% higher than as of 31 December 2014. At the end of 2016, total assets of the banking sector were 7.0% higher than at the end of 2015 and amounted PLN 1,711.6 billion.

Loans

The "*Senior loan officer opinion survey on bank lending practices and credit conditions*" is a survey of 27 banks conducted by the NBP with regard to the expectations for the second quarter of 2017. It identifies certain trends which are discussed below.

According to the survey, in the first quarter of 2017, banks kept their lending policies toward housing loans unchanged. Simultaneously, they experienced growth in demand for these loans although the higher 20% owned contribution requirement was introduced. Lending policy toward consumer loans were tightened considerably which was accompanied by a slight growth of demand. Additionally, the banks did not experience any change in demand for enterprise loans while they slightly tightened the lending policy in this area.

In the second quarter of 2017, in respect of housing, consumer and enterprise loans banks do not expect any changes in lending policy. Simultaneously they anticipate decline in demand for housing loans and further increase in demand for consumer loans and slight increase in demand for enterprise loans (particularly long term ones). The anticipated growth in demand for consumer and enterprise loans should support banking profitability.

In 2016, the credit growth rate for both businesses and households decreased. Nevertheless, the double digit growth of housing loans in PLN was relatively high and the growth rate of consumer loans slightly accelerated.

	As at 31 December *(in PLN billion)*			Change (%)	
	2016	2015	2014	2016/2015	2015/2014
Loans to the non-financial sector, of which	1,012.1	961.8	895.4	5.2	7.4
to businesses and non-commercial institutions	351.4	333.3	306.6	5.4	8.7
to households:	660.7	628.5	588.9	5.1	6.7

Source: PFSA

Amounts due from households constitute the majority of the amounts due from non-financial entities. As of the end of 2016, amounts due from households comprised 65.3% of the gross amounts due from the non-financial sector and 38.6% of the banks' total assets. In 2015 and 2014, amounts due from households also constituted the majority of the amounts due from non-financial entities.

The table below shows the breakdown of loans granted to households.

	As at 31 December *(in PLN billion)*			Change (%)	
Breakdown of loans granted to households	**2016**	**2015**	**2014**	**2016/2015**	**2015/2014**
Total	660.7	628.5	588.9	5.1	6.7
Breakdown by product					
Housing	400.3	381.3	355.9	5.0	7.1
in PLN	234.4	212.0	190.4	10.6	11.3

Breakdown of loans granted to households	As at 31 December (in PLN billion) 2016	2015	2014	Change (%) 2016/2015	2015/2014
in foreign currencies	165.9	169.3	165.5	(2.0)	2.3
Consumer (individuals)	150.2	140.2	131.6	7.1	6.6
credit cards	13.8	13.10	12.72	5.1	3.0
car instalment loans	4.2	3.96	4.16	6.2	(4.8)
other instalment loans	63.2	57.34	52.34	10.2	9.6
other consumer loans	69.0	65.8	62.36	4.9	5.5
Other	110.2	107.0	101.4	3.0	5.5
operating	42.5	42.3	38.86	0,5	8.9
investment	34.7	32.95	31.69	5.3	4.0
other real property	11.2	11.16	10.664	0.4	4.7
other amounts due	21.7	20.58	20.20	5.5	1.9

Source: PFSA

In 2016, the housing loan growth rate in the household segment was lower than in 2015 (5.0% year-on-year, as opposed to 7.1% year-on-year in 2015) mainly as a result of the strengthening of Polish currency.

The consumer loan growth rate improved in 2016 in all categories of consumer loans except for other consumer loans. The growth rate of other household loans decreased and was almost two times lower than in 2015.

The table below presents the breakdown of loans granted to enterprises.

Breakdown of loans granted to enterprises	As at 31 December (in PLN billion) 2016	2015	2014	Change (%) 2016/2015	2015/2014
Total	344.9	327.30	300.92	5.4	8.8
Breakdown by entity and product					
1) SMEs	193.6	185.8	175.6	4.2	5.8
operating	65.7	65.5	62.58	0.3	4.7
investment	62.1	57.7	53.33	7.6	8.2
real property	42.4	44.0	42.75	(3.8)	3.0
other	23.4	18.5	17.0	26.8	8.8
2) Large corporations	151.3	141.5	125.3	6.9	12.9
operating	56.6	56.6	50.112	0.0	12.9
investment	51.5	44.8	42.74	14.9	4.9
real property	16.5	13.4	8.408	23.2	59.8
other	26.6	26.6	24.02	0.0	10.48

Source: PFSA

The moderate and temporary slowdown in the rate of economic growth in 2016 influenced the pace of growth in lending to businesses. In 2016 the growth rate for these loans decreased to 5.4% in comparison to 8.8% in 2015.

In the period from 2014 to 2016, the business loan portfolio increased by 14.6%, from PLN 300.9 billion as of the end of 2014 to PLN 344.9 billion as of the end of 2016. Changes occurred in the Small and Medium Enterprise (SME) segment, which increased its debt by PLN 18.0 billion (10.3%), as well as in large enterprises, which increased by PLN 26.0 billion (20.8%).

Deposits

The table below presents the deposit base of the non-financial sector.

Deposits of the non-financial sector	As at 31 December (in PLN billion) 2016	2015	2014	Change (%) 2016/2015	2015/ 2014
Deposits of the non-financial sector, of which:	1,028.1	938.8	854.1	9.5	9.9
to businesses	274.9	253.3	229.4	8.5	10.4
to households	730.8	665.7	606.4	9.8	9.8
to non-commercial institutions	22.4	19.7	18.3	13.3	7.9

Source: PFSA

The systematic increase in the deposit base in the analysed period is the result of favourable macroeconomic conditions and relatively good market trends in the banking sector. In 2014, the dynamics of deposit growth accelerated despite the persisting record of low interest rates. An increase in the deposit base was aided by an improvement of economic conditions and the associated increase in salaries, which had a positive influence on the financial situation of households and businesses. In 2015, the growth rate of deposits remained stable and strong. An increase in the deposit base was supported by strong economic growth, the improving situation on the labour market and the good financial situation of entrepreneurs despite a further reduction of the NBP's interest rates in March 2015. In 2015, the growth in non-financial sector deposits (9.9% y/y) was primarily caused by a growth in the volume of household deposits. The situation with regards to the deposit market was also positively influenced by lower competition from the side of alternative forms of saving (e.g. investment funds, stocks) as a result of an increased aversion to risk. In 2016, the pace of growth of deposits to non-financial sector slightly decreased to 9.5% but still was supported by an improvement in the situation on the labour market, 'Rodzina 500+' programme and good financial situation of entrepreneurs.

Financial results

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

	For the year ended 31 December (in PLN billion)			Change (%)	
	2016	**2015**	**2014**	**2016/2015**	**2015/2014**
Profit on banking activities	59.3	56.0	57.7	6.0	-3.0
Net profit/(loss)	14.2	11.2	15.9	26.5	-29.5
ROE (%)	7.8%	6.6%	10.0%	n/a	n/a

Source: the PFSA

The year 2015 brought a strong reduction in the financial results of the Polish banking sector. Legal and regulatory solutions (e.g. interchange fee, Borrowers' Support Fund), higher BGF contributions (bankruptcy of cooperative banks, higher charges) and a persisting record of low interest rates were the main drivers of lower profits on banking activities. In 2015, the net profit of the Polish banking sector fell to PLN 11.5 billion which is 29.5% lower than in 2014.

In 2016, although the financial results of the Polish banking sector were under pressure of the changing regulatory environment (e.g. tax on certain financial institutions, rising BGF contributions), the one-off revenue from the settlement of the Visa Europe Ltd. transaction by Visa Inc. influenced considerably the net profit of the banking sector.

Key Trends in the Polish Banking Sector

Convergence in the Polish Banking Sector

There is strong potential for further growth of the banking industry in Poland. As at 31 December 2016, the aggregate assets of the Polish banking sector amounted to 92.4% of Poland's GDP, compared to the average in the Eurozone, which was 288.5% (internal calculations of the Bank prepared based on data from Eurostat, the ECB, GUS and the PFSA). In comparison (based on NBP figures), the aggregate assets of the Polish banking sector as at 31 December 2015 amounted to 89% of Poland's GDP for the year as compared to the average in the Eurozone, which was 294.5%.

Consolidation Trends

For a description of the consolidation trends, see "*Competitive Landscape of the Polish Banking Sector*".

Growing Importance of Alternative Distribution Channels and Products

In recent years, alternative distribution channels, in particular internet banking and mobile banking, are becoming of increasing importance. Moreover, new products, such as markets for financial advisory services, wealth management, insurance products and various investment funds in Poland still have significant growth potential and are likely to be a significant driver for profitability in the future.

The impact of the ageing population of Poland on banking products and services

The banking sector in Poland has to deal with a growing proportion of the population being above the age of fifty. According to the forecasts of the Polish Central Statistical Office (GUS), in 2020, the median age of the Polish population will be over 40, and in 2035 it will be near 50. After 2025, there will be a drastic increase in the proportion of octogenarians in the population, and at the end of the forecast horizon (i.e. in 2050), every third Pole will be a senior citizen (based on the resident population forecast published by GUS in January 2016). Banks will be forced to adjust their product ranges to take account of the changing demographic structure.

Shift away from FX Mortgage Lending

The activities of the PFSA involving the issuance of Recommendation S, coupled with a higher awareness of exchange rate risks on the part of clients and banks, caused a decline in the volume of housing loans granted in foreign currencies in the years 2014–2016. New sales are dominated by PLN lending, while FX mortgages are becoming an increasingly rare product offered to selected customers only as banks seek to avoid potential difficulties in gathering FX funding.

Given the above situation, banks in Poland and in other countries have been faced with the challenge posed by the decision of the Swiss National Bank (SNB) on 15 January 2015 on discontinuing the minimum exchange EUR/CHF rate and lowering the main interest rate to –0.75%. That decision caused an increase in the risk associated with the CHF loan portfolios held by banks in Poland.

In relation to the risks associated with the FX loan portfolio, the PFSA published in October 2015 individual capital requirements for banks most exposed to FX mortgage portfolios. The capital buffers were intended to cover the additional risks related to the FX exposures and were specified in terms of the Total Capital Ratio and the Tier 1 capital ratio.

There has been a significant change in the FX structure of housing loans, but loans in foreign currencies continue to account for 41.4% of such portfolio (as at the end of 2016), with the largest share being accounted for by CHF loans.

Capital Adequacy

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

	31 December 2016	30 June 2016	31 December 2015	30 June 2015	31 December 2014	30 June 2014
Total capital ratio	17.7%	17.4%	16.3%	15.3%	14.7%	14.8%
Own funds for capital adequacy *(in PLN billion)*	175.5	170.1	159.1	147.6	136.8	135.4

Source: PFSA

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

In 2014 banks faced the introduction of new capital adequacy rules set by the CRR; those rules did not, however, bring about major changes in capital adequacy levels. Polish banks have an advantageous capital structure which means that capital ratios exceeded the requirements set by the new regulations.

In relation to the Act on Macro Prudential Supervision, at the end of 2015 the PFSA informed banks about the higher minimum capital requirements that are applicable from January 2016. The Tier 1 capital ratio was raised to 10.25% from 9% and the Total Capital Ratio to 13.25% from 12%. Additionally in 2016 minimum capital requirements increased due to introduction of the following buffers: capital conservation buffer and other systematically important institutions buffer (chosen banks).

Asset Quality

The quality of the loan portfolio has been systematically improving. The total NPL ratio sank to 7.1% in 2016 from 8.1% in December 2014. That beneficial situation was largely brought about by sale transactions of the NPL portfolios, the reduction of the NBP's interest rates (that lowered the costs of servicing loans), improvement in the labour market, 'Rodzina 500+' programme and good financial situation of entrepreneurs.

The NPL ratio in the corporate loan portfolio has improved strongly (-2.2 p.p. in the period 2014-2016) as compared to the NPL ratio in the households loan portfolio (-0.5 p.p. in that period). Notably, the credit quality of large corporate clients is currently materially better than that of SMEs. The table below sets out the NPL ratios of various types of client segments in Poland, as of the dates indicated.

	December 2016	June 2016	December 2015	June 2015	December 2014	June 2014	December 2013	June 2013	December 2012
NPL ratio of corporate clients	9.1	9.6	10.3	10.9	11.3	10.9	11.6	11.8	11.8
NPL ratio of households	6.0	6.2	6.2	6.5	6.5	7.0	7.1	7.2	7.4
Total NPL ratio	7.1	7.3	7.6	8.0	8.1	8.3	8.5	8.7	8.9

Source: PFSA

Inflation Rate and Interest Rates

Inflation in Poland (as measured by the CPI - consumer price index) ended 2016 at 0.8% on a year-on-year basis, with an annual average at -0.6%. The rebound of CPI inflation at the turn of 2016 and 2017 was mainly driven by low base effects on the side of energy prices. The underlying inflationary pressure measured by core inflation remained subdued, at 0.0% at the end of 2016. The Bank expects the CPI inflation to stay close to 2.0% level throughout 2017, with a temporary decline (due to high base effect) at the end of 2017. While the year-to-year growth rate of energy prices is expected to decline, the underlying inflation pressures should slowly build up reflecting strong demand (output gap will be probably closed in 2017) and accelerating wage pressure.

The Polish Monetary Policy Committee ("**MPC**") was staying in a wait-and-see mode throughout the 2016 and kept interest rates unchanged (reference rate at 1.50%, lombard rate at 2.50%, deposit rate at 0.50% and rediscount rate at 1.75%). Despite some rise, the CPI inflation stays below the CPI target and, according to the MPC, the probability of reaching the target remains low. Thus, although the economic growth is expected by the Council to reach at least 4.0% in 2017, the monetary policy should stay accommodative. Along with gradual strengthening of underlying price pressures, we expect the MPC to consider monetary a start of interest rates normalization in 2018. The timing and size of potential monetary tightening will mostly depend on the pace of wage growth and the strength of the PLN.

Margins

The fall in market interest rates following the decisions of the Monetary Policy Council taken in the years 2014-2016 had a significant effect on the interest rates for deposits and loans extended to clients. Additionally interest rates on new deposits in 2016 was considerably influenced by the change in banks' pricing policy connected with the introduction of tax on certain financial institutions.

In 2016, deposit interest rates declined below the level of interbank rates.

	December 2016	June 2016	December 2015	June 2015	December 2014	June 2014
Average interest on new corporate deposits in PLN	1.2	1.3	1.5	1.5	1.9	2.5
Average interest on new household deposits in PLN	1.5	1.5	1.8	1.7	2.3	2.6
3M WIBID (end of period)	1.53	1.51	1.53	1.52	1.86	2.49

Source: NBP, Reuters

Deposit margins were supported by the rapidly growing volumes on current accounts, that was determined by the low attractiveness of term deposit rates.

At the end of 2016, credit margins for households were at historically low level. Corporate credit margins remained stable on a y/y basis and stand at a level lower than that prevailing before the financial crisis.

	December 2016	June 2016	December 2015	June 2015	December 2014	June 2014
Average interest on new corporate loans in PLN	3.6	3.6	3.6	3.6	3.5	4.2
Average interest on new household loans in PLN	6.2	6.4	6.2	6.5	7.4	9.4
3M WIBOR (end of period)	1.73	1.71	1.73	1.72	2.06	2.68

Source: NBP, Reuters

BANKING REGULATIONS IN POLAND

The information included in this section is of a general nature and describes the legal environment and the changes proposed thereto as of the date of this Base Prospectus.

Regulatory Environment

Banking operations are highly regulated. EU and Polish laws, regulations, policies and interpretations of laws relating to the banking sector and financial institutions are continually evolving and changing. Among the most important regulations are capital adequacy requirements and consumer protection-related regulations.

The conducting of banking activity in Poland requires a permit and is subject to a range of regulatory requirements. Banks are also required to protect banking secrets; the regulations concerning personal data protection are especially important in the retail operations of banks in Poland.

Agreements between banks and their customers are subject to detailed regulations. The relevant provisions protecting consumer rights impose on the banks numerous obligations connected with the signing of agreements with customers (i.e. with natural persons who do not engage in business or professional activity on their own behalf).

Banks must also comply with the regulations concerning assets which come to the financial market from illegal or undisclosed sources and the counteracting of the financing of terrorism (widely referred to as "money laundering" regulations).

Certain restrictions also apply to intermediary dealings of third parties in performing banking activities for and on behalf of a bank and to engaging in any activities related to banking operations (i.e. outsourcing).

Banks also enjoy several privileges relating to their business.

Banking Supervision

Banking supervision in Poland is exercised by the PFSA, which has extensive competencies and legal instruments at its disposal to exercise its supervision over banks.

The competencies of the PFSA include, in particular:

- granting permits for:
  - the establishment of a bank and the commencement of its operational activity;
  - amendments to a bank's statute; and
  - the appointment of two members to a bank's management board, including the president;
- issuing objections to the purchase of or subscription for shares or rights to shares or becoming a domestic bank's parent company in the case of exceeding or reaching certain percentage thresholds of total voting rights;
- supervision of banks as far as compliance with applicable law (including, in particular, with banking regulations) and the regulations stated in a given bank's statute and with the permit issued for the establishment of a given bank;
- monitoring the financial condition of banks and the establishment of liquidity ratios and other standards of permitted risk in a given bank's operations which are binding on that bank;
- issuance of recommendations concerning the best practices in terms of the prudent and stable management of banks;
- issuance of guidelines to banks concerning taking or refraining from taking any specific actions;
- imposing penalties and designating recovery measures in case of a breach of any banking regulations, including cash penalties, suspension of management board members from their duties, restriction of the bank's business or revocation of banking permits; and
- appointment of trustee management (*zarząd komisaryczny*) for banks.

Other Polish Authorities which Exercise Material Supervision over the Activities of Banks

Specific areas of banking operations are also subject to the supervision of other administrative authorities, including, in particular:

- the President of the Antimonopoly Office, within the scope of the law of competition and consumer rights;
- the General Inspector for the Protection of Personal Data, within the scope of collecting, processing, administration and protection of personal data; and
- the Minister competent to oversee issues related to financial institutions and the General Inspector of Financial Information, within the scope of preventing money laundering and the financing of terrorism.

Independently, pursuant to the Act on the National Bank of Poland, the NBP was given the task of developing the conditions necessary for the growth of the banking system and supporting the stability of the national financial system, including through the participation of the President of the NBP in the Financial Stability Committee. To facilitate the achievement of such tasks, an obligation was imposed on banks to provide the NBP with certain data necessary for the assessment of their financial standing and stability and the risk to the banking system.

European Supervision Authorities

As a part of the reform of the European financial supervision system, in January 2011 the EU's Committee of European Banking Supervisors was replaced by the European Banking Authority, which constitutes a part of a European System of Financial Supervisors. The European Banking Authority and the European System of Financial Supervision were created to improve the co-operation between banking supervisors within the EU. The main objective of the European System of Financial Supervisors is to ensure that the rules applicable to the financial sector are adequately implemented so as to preserve financial stability and to ensure confidence in the financial system as a whole and sufficient protection for customers of financial services. To achieve its tasks, the European Banking Authority is entitled to, *inter alia*: develop draft regulatory and technical standards in relation to the specific cases referred to in Regulation 1093/2010; develop drafts implementing such technical standards; issue guidelines and recommendations in certain cases; and take individual decisions addressed to the competent authorities of the Member States in relation to the specific cases referred to in Regulation 1093/2010.

Furthermore, as part of the reform of the European financial supervision system of the European Union, the following were introduced in the European Union: (i) the Single Supervisory Mechanism ("**SSM**") for banks led by the European Central Bank ("**ECB**"), the assumptions of which are set out in two regulations, Council Regulation (EU) No. 1024/2013 of 15 October 2013 and Regulation (EU) No. 2022/2013 of the European Parliament and of the Council of 22 October 2013; and (ii) the Single Resolution Mechanism ("**SRM**"), the assumptions of which are set out in Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014. It should be noted that the regulations regarding the single supervisory mechanism and the single resolution mechanism are addressed to the Member States in the Eurozone, though the states outside the Eurozone may notify the ECB of their intention to join the above-described legal regime by setting up the close co-operation of their relevant regulatory authorities with the ECB. As at the Prospectus Date, Poland has not decided to establish such close co-operation with the ECB within the single supervisory mechanism or the single resolution mechanism.

Capital Adequacy and Risk Management Requirements

Banks must comply with a number of regulatory requirements related to their operations. The crucial ones include the requirement for banks to manage their finances in a strictly regulated fashion and all the requirements concerning equity, capital adequacy ratios, concentration of exposures, liquidity and risk management systems.

Polish Law Requirements

The basic regulations regarding the obligations imposed on banks in connection with their operations are set out in the Banking Law. In particular, the Banking Law lays down the principles concerning the formation of banks and the launching of operations thereby, detailed regulations regarding selected agreements executed by banks, the principles applicable to the financial management of banks, as well as the provisions of law concerning the rules regarding and the instruments for the supervision of banks.

In addition, a number of requirements to be satisfied by banks in connection with macroprudential supervision are set out in the Act on Macroprudential Supervision, which prescribes, among other things, the capital buffers that banks are required to maintain on the terms specified in the Act. The Act on Macroprudential Supervision entered into force on 1 November 2015 and implemented into the Polish legal regime the provisions of CRD IV, thereby serving to apply the CRR. Pursuant to the Act on Macroprudential Supervision, certain restrictions were imposed on banks resulting, among other things, from the need to maintain the so-called conservation buffer (which, following the transition period, is targeted at 2.5% of the total risk exposure amount) and the countercyclical buffer (the countercyclical buffer rate is 0 or 0.25 percentage points or multiples of 0.25 percentage points and may be between 0 and 2.5% of the total risk exposure amount of institutions that have

credit exposures in the territory of the Republic of Poland; where justified, the countercyclical buffer rate may exceed 2.5%).

The Bank is also required to observe secondary legislation promulgated under the Banking Law, the Act on Macroprudential Supervision and other laws. Such secondary legislation specifically includes the regulation of the Minister of Finance and Development of 6 March 2017 regarding risk management and internal control systems, remuneration policy and the detailed method of assessing internal capital in banks. Such regulation, which is in force as at 1 May 2017, replaced Resolution 258/2011.

All the resolutions and recommendations issued by the PFSA are also of material importance for banks. Selected PFSA regulations are described below.

In June 2011, the PFSA amended PFSA Resolution 76/2010 (Resolution 153/2011 amending resolution No. 76/2010 regarding the manner of and the detailed rules for defining equity requirements in light of specific types of risk) to increase the risk weighting of retail and mortgage loans denominated in foreign currencies from 75% to 100%; such resolution has been in force since 30 June 2012. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of that type. In addition, in 2012 the PFSA expressed its expectation that banks will maintain their non-consolidated capital adequacy ratios at a minimum of 12% and non-consolidated Tier 1 ratios at a minimum of 9%. On 22 October 2015, the PFSA recommended that banks increase the non-consolidated capital adequacy ratio to at least 13.25% and the non-consolidated Tier 1 ratio to at least 10.25% starting from 1 January 2016.

In February 2010, the PFSA issued Recommendation T, which is intended to improve risk management at banks, including preventing retail borrowers from incurring excessive debt. The PFSA stated that the maximum ratio of debt servicing expense to the average income generated by a given debtor should not be greater than 50% for retail customers with an income lower than or equal to the average remuneration in the economy, and for other customers not greater than 65% of their remuneration.

In February 2013, the PFSA issued a new Recommendation T. The objective of the new recommendation is to introduce certain legal solutions that will allow for an increase in the activity of the banking sector in the area of extending loans compared with the activity of non-banking entities which extend loans, while ensuring the standards required for the purposes of the management of the risk of retail credit exposures. One of the changes involves the exclusion of mortgage-secured credit exposures from the scope of Recommendation T, meaning that the recommendations regarding retail credit exposures (Recommendation T) are separated from mortgage-secured credit exposures (Recommendation S). Additionally, pursuant to the new recommendation, the PFSA simplified the terms for the assessment of credit compliance with respect to low-value retail credit exposures (defined as an assessment of the amount and stability of the sources for the repayment of the exposures and the assessment of some features of the customer material from the perspective of repayment). Such simplified terms may be applied to assessments of credit compliance of the following exposures by banks, provided that such banks satisfy the criteria indicated in the new recommendation: (i) instalment exposures of a maximum exposure equal to four times the average monthly remuneration in the business sector (Polish: *średnie miesięczne wynagrodzenie w sektorze przedsiębiorstw*); (ii) other exposures where the given debtor has been the bank's customer (satisfying the criteria specified in the new Recommendation T) for at least six months (then the maximum value of the exposure is six times the average monthly remuneration in the business sector) or when the given debtor has been the bank's customer (satisfying the criteria specified in the new Recommendation T) for at least 12 months (then the maximum value of the exposure is 12 times the average monthly remuneration in the business sector) or any other exposures where a given debtor has been the bank's customer (satisfying the criteria specified in the new Recommendation T) (then the maximum value of the exposure is not higher than the average monthly remuneration in the business sector).

Recommendation P applies to the activities of banks in liquidity risk management. It determines the minimum standard in the opinion of the PFSA concerning best practices in liquidity risk management. Recommendation P has implemented the rules set out in the relevant international guidelines and includes recommendations concerning the determination of liquidity risk tolerance for a bank, the recognition of all types of liquidity risk (including the risk of an unexpected demand for liquidity), the maintenance of a permanent presence in selected significant financing markets, the diversification of liquid assets, the performance of stress tests and their functional connection with the contingency liquidity plan, the management of collateral, the maintenance of surplus top quality liquid assets which are free from any encumbrances, the application of a mechanism for the allocation of costs and benefits from various types of liquidity risk in the internal transfer pricing system and the management of intraday liquidity and disclosures relating to the liquidity of a bank.

In July 2011, the PFSA adopted an amended version of Recommendation H on internal control systems at banks. Pursuant to Recommendation H, banks are required to: (i) adopt an effective internal control system which includes internal risk management and auditing the bank's activity in light of the statutory requirements; and (ii) appoint an independent internal auditing body. The auditing body is authorised to supervise the bank's activity

on every level. The supervision and auditing must be executed in accordance with the internal rules adopted by the banks and the auditors should be granted access to any information and documents necessary to properly conduct the audit. Banks are required to implement the Recommendation H regulations in proportion to the extent and complexity of the bank's activity. In April 2017, the PFSA adopted the revised Recommendation H aimed at ensuring that the PFSA's expectations in terms of good practices in banks were consistent with the existing legal environment and the generally applied market standards. The revised Recommendation H underlines that the internal control system of a bank should be distinguished from its risk management system and that its purpose is to ensure the credibility of financial reporting, compliance with risk management rules and the compliance of a bank's operations with the law, internal regulations and market standards. Under the revised Recommendation H, the roles of the compliance department and internal auditing body which comprise components of the internal control system have been strengthened, and the internal control system has been positioned within the three lines of defence model.

The PFSA expects banks to implement the revised Recommendation H by 31 December 2017.

In January 2013, the PFSA amended Recommendation D concerning information technology management and security. The amendments included provisions on co-operation between business and technical areas, information management systems and cloud computing. Regulatory expectations were updated and clarified with respect to, among others, strategic planning for IT security implementation of new IT solutions and the modification of existing IT solutions and co-operation with external service providers. The guidelines included in the amended Recommendation D were required to be implemented by 31 December 2014.

In January 2013, the PFSA adopted amendments to Recommendation M concerning the operational risk management of banks. The important changes include: (i) the unifying of terminology used in operational risk management; (ii) clarification of the roles of the management and supervisory boards of banks in the area of operational risk management; (iii) the provision of more specific guidelines with respect to responsibilities of bank bodies in determining operational risk management policies and procedures that enable efficient operational risk management; (iv) emphasis of the need for defined risk prevention measures to be triggered by defined levels of operational risk according to a bank's risk tolerance; (v) emphasis on the fact that new products should not be developed with an aim to circumvent generally applicable laws and regulations; (vi) emphasis of the importance of monitoring compliance risk; (vii) clarification of guidelines intended to limit information asymmetry by requiring annual disclosures with respect to capital adequacy, operational losses by category and any corrective measures taken; and (viii) recommendations for monitoring the quality of data for reporting on risk management. The implementation of the amended Recommendation M was required by 30 June 2013.

In January 2011, the PFSA amended Recommendation S, which imposed limitations on Polish banks in respect of granting foreign currency mortgage loans. According to detailed recommendations concerning the financing of mortgage-secured loan exposures: (i) the bank should aim to limit the borrower's exposure to currency risks, specifically by ensuring that the exposure is in the same currency as the borrower's income; (ii) when assessing the creditworthiness of a borrower, the bank should assume a maximum repayment term of 25 years; (iii) in the assessment of creditworthiness, the bank should take into account the likely change in the borrower's income after retirement, if the repayment term is past the age of retirement; and (iv) in the case of foreign currency retail real-estate-financing loan exposures and foreign currency retail mortgage-secured loan exposures, the maximum ratio of the loan service expenditure to the average net income earned by individuals required to repay the debt should not exceed 42%.

On 18 June 2013, the PFSA announced the issuance of the new Recommendation S (III) containing guidelines for banks on the management of their mortgage exposure and lowering the loan-to-value ratio on mortgages to 80%-90% for apartments and to 75%-80% for commercial properties, most of the provisions of which were to be implemented by banks by 1 January 2014.

The new Recommendation S (III) introduced the following changes: (i) the exclusion of exposures financing real property which are not mortgage-secured credit exposures from the scope of Recommendation S, meaning that the new Recommendation S (III) would regard only mortgage-secured credit exposures; (ii) foreign currency mortgage loans should be a niche product offered exclusively to borrowers who generate consistent income in the currency of the loan; (iii) a bank should not finance the entire value of the real property which constitutes the collateral and should determine internal thresholds of the minimum down payments required and such thresholds should be approved by the supervisory board; (iv) the extension of the maximum period assumed for the purposes of the analysis of creditworthiness from a 25-year period to a 30-year period, the designation of a 25-year period as the period recommended by the PFSA for the maximum duration of a facility period and the designation of a 35-year period as the maximum permitted duration of a facility period; and (v) a departure from the strict rules regarding the establishment by the PFSA of the maximum level of the maximum ratio of debt servicing expense to the average income generated by a given debtor.

On 22 July 2014, the PFSA adopted resolution No. 218/2014 regarding the corporate governance rules for supervised institutions. The resolution sets out the corporate governance rules for certain types entities, such as banks, supervised by the PFSA. The corporate governance rules set out in the resolution cover:

- relations with shareholders and clients of the institution; and
- internal supervision, key systems and functions, including the functioning of statutory bodies and their co-operation.

According to the resolution, the corporate governance rules described in it should be implemented by 1 January 2015.

On 24 June 2014, the PFSA adopted Recommendation U on good practices in the area of bancassurance. Pursuant to Recommendation U, banks: (i) are required to develop and implement principles and procedures covering, among other things, bancassurance policies; (ii) may not, in principle, refuse to allow customers to procure insurance coverage provided by a third-party insurance company that does not have a co-operation arrangement with the bank, provided that such alternative insurance coverage provider meets the objective minimum criteria specified by the bank; (iii) may receive remuneration (e.g. a commission) from insurance companies only where the bank is acting as an insurance agent; (iv) should ensure that all pertinent policy information is made available to customers; and (v) may refuse to accept an insurance product offered by an alternative insurance provider chosen by the customer, however, such refusal must be based on objective factors. Recommendation U is addressed to all banks operating on the basis of Polish law that are involved in co-operation with insurance companies by offering insurance, understood as intermediation in the execution of insurance agreements, offering to accede to insurance agreements on behalf of a third party or any circumstances where a customer finances the cost of insurance coverage of a risk incurred by a bank. The recommendation came into force on 31 March 2015.

On 22 July 2015, the PFSA adopted Recommendation W on risk model management. This recommendation is aimed at, among others: (i) setting out the PFSA's expectations regarding the management of risk stemming from the banks' use of internal models; (ii) establishing best practices for managing this risk; (iii) adjusting the proportionality of actions adopted by the banks to the level of the risk; and (iv) decreasing the banking sector's vulnerability to this risk and preparing banks to efficiently manage situations where this risk materialises. The PFSA set a 30 June 2016 deadline for implementing the recommendation.

In December 2015, the PFSA published a draft of Recommendation Z concerning the rules of internal governance in banks. Recommendation Z will be a set of best practices for internal governance. Specifically, the draft Recommendation Z will address issues such as organisational structure, tasks, obligations, the composition and functioning of the supervisory board, the management board and senior officers, risk management rules and internal governance, information systems and communication, operational continuity and the transparency of the bank's management system.

In December 2015, a draft of the revised Recommendation C regarding the management of the risk of concentrations was tabled for public consultation. The amendments resulting from the update of the contents of Recommendation C comprise, first and foremost, the introduction of provisions regarding: (i) having in place policies, strategies and relevant procedures for managing the risk of concentrations; (ii) determining the level of tolerance for the risk of concentrations; (iii) having in place a process for identifying and measuring the risk of concentrations; (iv) having in place mechanisms for the active control, monitoring and mitigation of the risk of concentrations; (v) considering the risk of concentrations in the internal capital adequacy assessment process (i.e. the ICAAP); (vi) considering the risk of concentrations with respect to exposures involving non-regulated sector entities (so-called shadow banking) and with respect to intragroup exposures; and (vii) understanding the exposure netting rules and the legal effectiveness of netting.

In addition, each year since 2012 the PFSA has adopted a stance on the rules regarding the dividend policy of financial institutions, including banks. On 6 December 2016, the PFSA adopted its most recent stance on the rules regarding the 2017 dividend policy of banks for the year 2016. According to the PFSA's position, dividends for the year 2016 in the amount of up to 100% of the net profit for 2016 may only be paid by banks classified as significant that meet all of the following criteria: (i) are not subject to pending rehabilitation proceedings; (ii) have a Tier 1 (CET1) core equity capital ratio of over 13.25% increased by 75% of the additional individual buffer imposed by the PFSA to cover the risk of FX loans; (iii) have a leverage ratio of over 5%; (iv) have a total capital ratio (TCR) of over 16.25% increased by 100% of the additional individual buffer imposed by the PFSA to cover the risk of FX loans and by the OSII buffer; and (v) have a BION assessment of capital level risk not worse than 2.5.

Banks that are classified as significant that have a total capital ratio (TCR) of 13.25 to 16.25% increased by 100% of the additional individual buffer imposed by the PFSA to cover the risk of FX loans and by the OSII buffer may dispose of up to 50% of their profit earned in 2016, provided that they meet all other criteria.

In addition, in 2017, for the first time banks that are significantly exposed in the area of housing loans for individual households need to adjust the amount of dividend available for distribution by two additional criteria: (i) the share of foreign currency housing loans for individual households in the entire portfolio of non-financial sector exposures; and (ii) the share of foreign currency housing loans extended in the years 2007 and 2008 in the portfolio of FX housing loans.

European Law Requirements

In December 2010, at the G-20 summit in Seoul, the Basel Committee on Banking Supervision approved the Basel III Accord (which was subsequently revised in June 2011), which provides for new capital and liquidity requirements for banks with a view to strengthening the resilience of banking sector entities.

To implement Basel III, in July 2011, the European Commission initiated a European legislative procedure in connection with the adoption of two European acts, the "CRD IV/CRR package", i.e.: (i) CRD IV (i.e. Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC); and (ii) the CRR (i.e. Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012).

The following may be considered as the most important changes under the CRD IV/CRR package: (i) increased cohesion and transparency of own funds; (ii) subjecting additional types of risk to capital requirements (e.g. risks related to derivative instruments); (iii) restricted leverage (i.e. leverage ratio); (iv) the introduction of dedicated countercyclical solutions in the form of a countercyclical capital buffer; (v) the introduction of binding short and long-term liquidity standards; and (vi) presenting in more detail corporate governance and risk management issues.

Specifically, the CRR determines the required thresholds in terms of own funds. To that end, the CRR defines own funds as the sum of Tier 1 and Tier 2 capital and specifies the items that comprise Tier 1 capital (including common equity Tier 1 and additional Tier 1) and which items comprise Tier 2 capital, while simultaneously naming the relevant deductions from such items and adjustments thereto. Under the CRR, credit institutions should satisfy the following own funds requirements: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; and (iii) a total capital ratio of 8%. The regulation goes on to describe the principles of calculating the above ratios by stating that they are expressed as a relevant percentage of the total risk exposure amount calculated in accordance with the rules set out in the CRR. The regulation provides that when assessing credit risk banks should apply, in principle, the standard approach as described in the CRR or the internal ratings approach (if permitted by the competent authorities). In the standard approach, specific exposures classified under the CRR are assigned certain risk weights. Retail exposures (i.e. exposures to natural persons or small or medium sized enterprises that satisfy certain additional criteria as set out in the regulation) are assigned a risk weight of 75%. Exposures that are fully and completely secured by mortgages on a residential property are assigned, under the CRR, in principle, a risk weight of 35%, while the risk weight for exposures that are fully and completely secured by a mortgage on a commercial property is, in principle, 50%. However, the CRR granted the Member States the power to establish higher risk weights for the two last types of exposures if certain conditions stated in the regulations are satisfied (provided that such weights cannot be greater than 150%). Consequently, in a letter addressed to the presidents of the management boards of banks of 10 April 2014, the PFSA stated that it is of the opinion that in terms of the above exemption from risk weights adopted in the CRR, Resolution 76/2010 (see above) remains in force.

In terms of the liquidity coverage requirement, the CRR provides that banks need to hold liquid assets the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that banks maintain levels of liquidity buffers that are adequate to face any possible imbalance between liquidity inflows and outflows under severely stressed conditions over a period of 30 days. The regulation (and the relevant regulation delegated to the European Commission) provides that such liquidity coverage requirement will be introduced in phases starting with 60% of the liquidity coverage requirement applicable as of 1 October 2015 up to 100% starting from 1 January 2018.

Additionally, CRD IV introduces certain additional requirements with regard to maintaining capital buffers, including, *inter alia*, a countercyclical buffer that is imposed on banks to restrict systemic risk based on the credit cycle. Under CRD IV, each Member State designates a regulatory authority that is responsible for the determination of the countercyclical buffer ratio for that state. The countercyclical buffer ratio expressed as the interest of the total value of risk exposure must, in principle, be in the range of 0 – 2.5%.

The CRD IV/CRR package also provides that banks should implement a policy and procedures for the identification of the risk of excessive leverage, and the management and monitoring of such risk. To that end, an excessive leverage risk ratio was introduced, such ratio being calculated as an institution's capital (i.e. Tier 1 capital) measure divided by a bank's total exposure measure and expressed as a percentage.

The CRR has been legally binding in its entirety and has applied directly in all EU Member States since 1 January 2014 (except for certain specific regulations). Consequently, as at the Prospectus Date, banks are required to comply with the directly applicable CRR provisions. Conversely, EU Member States were required to transpose CRD IV into their national legal systems by 31 December 2013. The Act on Macroprudential Supervision entered into force on 1 November 2015 and implemented into the Polish legal regime the provisions of CRD IV, thereby serving to apply the CRR.

Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms and amending other directives was adopted on 15 May 2014. The BRRD created, *inter alia*, a bail-in instrument (which needs to be understood as the redemption or conversion of an institution's debt owed to creditors and shareholders to equity for the purposes of the additional capitalisation of such institution) the purpose of which is to ensure that taxpayers will be the last to cover the costs related to the problems of banks. In principle, the BRRD does not exclude state intervention to maintain the liquidity of a failing bank, but such intervention is to be possible in exceptional circumstances only – if it is necessary in terms of the public interest, understood as the need to ensure the stability of the financial system and if, although it was not possible to inject additional capital to a bank from private sources, there is a chance of bailing it out.

Pursuant to the BRRD, a failing investment firm should be maintained through the use of resolution tools as a going concern, including through the use, to the extent possible, of private funds. This may be achieved by writing down liabilities or converting debt to equity in order to effect the recapitalisation of an insolvent investment firm (the *bail-in* tool) and the sale of the investment firm to a private institution or a merger thereof with such purchaser. The first persons to incur losses should be the creditors and the shareholders of investment firms (by applying, *inter alia*, the instrument of debt write down or debt conversion). The owners of smaller deposits subject to protection in the EU (of less than EUR 100,000) will be exempt from losses.

The BRRD further provides that Member States must establish resolution funds and premiums and that the relevant funds will be paid by banks.

The relevant regulations of the BRRD were implemented in Poland under the Act dated 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Mandatory Restructuring, which came into force on 9 July 2016 and 9 October 2016 (certain provisions came into force on 11 February 2017).

Bank Guarantee Fund

The cash deposited in individual Polish bank accounts, and any cash due under receivables confirmed by documents issued by banks in favour of specific persons, is covered by a statutory guarantee system, the BGF. Banks pay mandatory annual fees to the BGF. The fee in 2017 is determined on an individual basis by the Bank Guarantee Fund on the basis of a relevant bank's total amount of guaranteed cash and its risk profile and is communicated on quarterly basis. The compulsory guarantee system ensures that in the event of the insolvency of a bank, the cash accumulated in bank accounts will be reimbursed up to a specified amount. As at the date of this Prospectus, the guarantee system fully covers amounts up to the PLN equivalent of EUR 100,000. For example, on 26 November 2015 the Bank Guarantee Fund published a resolution concerning the payment of the guaranteed deposits held by the depositors of the Co-operative Crafts and Agriculture Bank in Wołomin (*Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie*).

On 4 October 2013, the act amending the Act on the Bank Guarantee Fund came into force, creating a stabilisation fund to which all banks contribute a fee. Assistance from the stabilisation fund is extended to banks implementing recovery proceedings pursuant to the Banking Law. The BGF may grant financial assistance to a bank implementing recovery proceedings by extending a guarantee to increase the bank's own funds. The new Act on the Bank Guarantee Fund adopted in 2016 replaced the stabilisation fund with a mandatory restructuring fund. The amount of the annual fee to the restructuring fund has been determined by the BGF by 1 May 2017 and communicated individually to a given bank on the basis of the amount of liabilities (decreased by its own funds and guaranteed deposits) and its risk profile.

Payment services

The Polish Payment Service Act defines the rules for providing payment services, including the conditions for providing payment services, in particular concerning the transparency of contractual provisions and the requirements pertaining to providing information on payment services. It also defines the rights and obligations of parties resulting from agreements for the provision of payment services, the scope of liability of providers for the performance of payment services, the rules under which payment institutions and payment service bureaus must conduct their activities, including through the intermediation of agents of those entities, and the rules for exercising supervision over those entities.

MiFID II and MiFIR

The Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments and amending directive 2002/92/EC and Directive 2011/61/EU ("**MiFID II**") and the Regulation (EU) No. 600/2014 of the European Parliament and of the Council on markets in financial instruments and amending Regulation (EU) No. 648/2012 ("**MiFIR**") were adopted on 15 May 2014. The MiFID II and MiFIR are intended to: (i) make financial markets more efficient and resilient; (ii) strengthen investor protection; (iii) increase the transparency of both equity and non-equity markets; and (iv) reinforce supervisory powers and introduce a stricter framework for commodity derivatives markets. In order to do so, MiFID II and MiFIR introduce new requirements concerning client relationships. MiFID II requires transposition into Polish law by 3 January 2018 and MiFIR shall be directly applicable in all Member States as at 3 January 2018.

Consumer Protection

The Consumer Credit Act (the purpose of which is to implement Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers of 23 April 2008), the regulations of the Civil Code and other consumer protection laws impose on banks several obligations relating to agreements with natural persons who perform actions which are not directly related to their business or professional activities (i.e. consumers). The most important of those are the requirements to inform consumers about the cost of extended credit and loans and the prohibition against including specific clauses which are unfavourable to consumers in agreements. In particular, the Consumer Credit Act introduces the Standard European Consumer Credit Information Form, which requires the creditor to quote the total cost of a loan, comprising all the costs (including interest, commissions, taxes, fees for credit intermediaries and any other fees) which the consumer has to pay in connection with a credit agreement, except for notarial costs.

The Consumer Credit Act applies, as a rule, to all consumer loans, defined as loans of no more than PLN 255,550, and also applies, to a limited extent, to mortgage loans. The Consumer Credit Act applies to all institutions granting consumer loans: not just to banks, but also to all intermediaries.

On 26 August 2011, amendments to the Consumer Credit Act were introduced granting the borrower, in the case of a loan denominated or indexed to any currency other than PLN, the right to make the principal and the interest repayments directly in that currency. The exercise of such right must not involve any additional cost to the borrower and the lender cannot make the borrower's exercise of such right conditional on the introduction of any additional restrictions. Specifically, it must not require the borrower to buy the currency to be used for the repayment of the loan instalments, whether in whole or in part, from an entity designated thereto.

In January 2013 and January 2014, additional amendments to the Consumer Credit Act entered into force, concerning the definition and the manner of calculating loan interest rates.

In 2015, the Polish Parliament adopted amendments to the act on financial market supervision and certain other acts. Under the new regulation, institutions granting loans to consumers (other than banks or SKOKs) (referred to as lending institutions) must be equity companies with a share capital of at least PLN 200,000, while members of such companies should prove that they have not been convicted of any crimes involving document forgery or crimes against property, business trading, money or securities trading as set out in such act, or for any tax crimes. The act provides for a six-month interim period during which lending institutions operating on the market could need to adjust their business to the new requirements. Regardless of the above changes, the new law also provides for certain new regulations applicable to all lenders within the meaning of the Consumer Credit Act and stipulates, *inter alia*, that the maximum value of the non-interest costs of a loan extended to a consumer cannot be greater than 25% of the total value of the loan and 30% of the total value of the loan expressed on an annual basis, and introduces the rule that the sum of any interest for a delay in the repayment of a loan and other default related fees cannot exceed the value of the maximum interest for the delay as provided for in the Civil Code.

Under the Act of 10 September 2015 on the procedures for handling complaints by the providers of financial services and on the Financial Ombudsman, the legislature introduced new principles regarding the procedures for handling individual customer complaints by the providers of financial services. Pursuant to the new act, if a customer lodges a complaint, the provider of financial services is required to handle it immediately, but in any case within 30 days from the receipt thereof at the latest, and where justified – within 60 days. At the same time, the act introduces a solution whereunder a failure to handle a complaint within 30 or 60 days means that the complaint has been dealt with in accordance with the wish of the customer. This regulation implies that a failure to abide by the time limits prescribed by the act results in the provider of financial services having consented to handling a complaint in a manner complying with the customer's wish. In addition, the guidelines regarding the organisation of the process of handling complaints, the analysis of complaint-related signals and the identification of potential legal and reputation risk factors for the providers of financial services subject to the PFSA's supervision are set out in the Principles regarding the process of handling complaints by financial institutions adopted under PFSA resolution No. 192/2015 of 26 May 2015, which entered into force on 19 December 2015 (the "**Principles**"). The Principles also incorporate the guidelines regarding the procedure for

handling complaints and the disclosure obligations which financial institutions owe to their customers; however, the definition of a customer included in these principles encompasses a broader catalogue of entities than the individuals referred to in the act. According to the expectation of the PFSA expressed in its letter dated 8 October 2015, the regulatory authority anticipates that these Principles will be applied to the extent not regulated under the act.

Apart from the Consumer Credit Act, the Group has to comply with a number of consumer protection regulations. The operations of the Group may be subject to review by the President of the Office of Competition and Consumer Protection to assess the compliance thereof with the provisions regarding prohibited practices that violate the collective interests of consumers (including the provision of inaccurate information to clients, unfair market practices and the use of contractual provisions registered in the Register of Prohibited Clauses maintained by the President of the Office of Competition and Consumer Protection).

Pursuant to the Competition and Consumer Protection Act dated 16 February 2007 (Journal of Laws of 2007, No. 50, item 331, as amended), the President of the OCCP has the authority to declare that the provisions of agreements or practices applied by the Group companies violate the collective interests of consumers and, as a consequence, may prohibit certain contractual provisions or practices and impose fines on the Group companies (in general, up to 10% of the revenues generated in the year preceding the year in which such penalty is imposed).

Additionally, on 17 April 2016 certain amendments to the Act on Competition and Consumer Protection and the Civil Procedure Code entered into force. Their purpose is to strengthen the role of the Competition and Consumer Protection Office by introducing new tools, including performing audits using the "mystery shopper" technique. Additionally, the amendments aim to accelerate the procedure regarding abusive clauses used by entrepreneurs. The amended Act on Competition and Consumer Protection stipulates further that: (i) the following will be treated as a practice violating the collective interests of consumers: offering to customers the acquisition of financial services that do not correspond to the needs of such customers determined on the basis of information about the characteristic features of such customers accessible to the business entity or making an offer to purchase such services in a manner inadequate for the nature of such services; and (ii) the OCCP may issue a decision requiring a business entity to abandon certain practices with a view to preventing threats to the collective interests of consumers. Pursuant to the act, the decision referred to above may be issued even before the conclusion of the proceedings if in the course of such proceedings it is confirmed that the continuation of the practice to be abandoned may pose a threat to the collective interests of consumers.

Personal Data Protection

The Personal Data Protection Act of 29 August 1997 (consolidated text, Journal of Laws of 2002, No. 101, item 926 as amended) (the "**Personal Data Protection Act**") imposed numerous obligations on entities taking part in data processing. In view of the fact that banks possess comprehensive databases on clients, they were required to exercise particular care in order to ensure the safety of the information systems they use to collect and exchange information on account holders and borrowers. The provisions of the Banking Law require bank employees to maintain the secrecy of all information concerning banking activities, including personal data obtained during negotiations or during the conclusion and performance of an agreement on the basis of which the bank carries out activities. The banking secrecy measures established by the Banking Law and the provisions on personal data protection provide a fundamental guarantee of personal data protection for bank clients against the threats associated with the improper use of such data when conducting banking activities. Nevertheless, the provisions of the Banking Law, which are specific regulations in relation to the provisions of the Personal Data Protection Act, impose significant restrictions on banks in respect of the processing of personal data covered by banking secrecy.

One of the basic principles of personal data protection is that compliance with the law, in accordance with which personal data may only be processed after one of the conditions set out in the Personal Data Protection Act has been met. Personal data processing is permissible when, for example, it is necessary for the exercise of an entitlement or to discharge an obligation resulting from provisions of law. This should be understood as not only compliance with the Personal Data Protection Act, but also with all other legal standards binding in the domestic and EU legal systems. Furthermore, the processing of personal data is permissible when it is necessary for the performance of an agreement with the person the data concerns, or necessary in order to take actions before the conclusion of an agreement at the request of the person the data concerns. Processing data is also permissible when it is necessary for legally justified purposes to be performed by the data administrator or data recipients and it does not infringe the law or the freedom of the person the data concerns. A legally justified purpose should be understood primarily as the direct marketing of one's own products and administrator services. The time limit for processing the personal data of a bank client for marketing purposes is the moment the person concerned objects to or demands the cessation of the data processing due to the particular situation of the person.

In addition to banks having to ensure that their personal data processing legally compliant, as data administrators, banks are required to ensure the substantive correctness of the data they process, and to continually update such data. To this end, a bank must have a procedure in place for verifying the correctness of data and, where such data is to be updated or corrected, the bank must promptly inform other administrators to whom the data has been sent about such fact. Additionally, the persons to whom the data pertains should be able to access and correct such data.

Changes in the "Rodzina na swoim" Program – Introduction of a new "Mieszkanie dla Młodych" Program

In January 2014, the "*Rodzina na Swoim*" ("*A Family's Own Home")* government subsidy programme was replaced by a new programme of subsidising the purchase of residential premises, i.e. "*Mieszkanie dla Młodych*" ("*A Home for the Young"*). The programme was introduced pursuant to the Polish act dated 27 September 2013 on assistance by the state in the acquisition of the first home by the young (Journal of Laws 2013, item 1304, as amended). The above-referenced act sets forth the rules of using a subsidy fund to support the acquisition of one's first residential unit or a single-family home. The programme provides that in order to benefit from such subsidy, one must satisfy, *inter alia*, the following conditions: (i) the purchaser must not have any other flat or home (including in the past); (ii) the purchaser must file an application for the subsidy no later than by the end of the calendar year in which he had his 35th birthday; (iii) the flat or home must be purchased on the primary market; (iv) the usable floor area of a residential unit cannot be greater than 75 m^2, and no more than 100 m^2 in case of a home or a maximum of 85 m^2 and 110 m^2, respectively, if the purchaser has at least three children (who satisfy the criteria set out in the act); (v) the purchaser should take a loan for at least 50% of the price of the flat or home for no less than 15 years; and (vi) the price of the flat or home cannot exceed the price calculated using the ratio determined for the relevant location. The value of the financial subsidy equals 10% of the sum being the product of the average reference ratio (*wskaźnik przeliczeniowy*) of the cost of the reinstatement of 1 m^2 of a flat or a home in a given municipality (*gmina*) and the usable floor area of a flat or home for persons who do not have children and 15% of such amount for persons who do have children, and also provides for an option to obtain additional support after the birth or adoption of a third or any subsequent child. The subsidy may cover a maximum of 50 m² of a flat or house.

In July 2015, the lower house of the Polish Parliament and the upper house of the Polish Parliament adopted a draft amendment to the above-mentioned act. The amended wording of the act provides for, *inter alia*: (i) the option of subsidising a construction down payment made on the basis of an agreement for the construction of residential premises executed with a housing cooperative; (ii) a waiver, with respect to purchasers who, at the time of filing the application for the subsidy, have at least three children, as regards the condition of not having owned any flat or house in the past and the age condition (below 35); (iii) the possibility of obtaining a subsidy also in connection with the purchase of a flat or a house on the secondary market; (iii) the increase of the area parameter for the calculation of the subsidy from 50 m^2 to 65 m^2 for purchasers who, on the date of filing the application for a subsidy, had at least three children; and (iv) increasing the percentage support for purchasers who have at least two children from 15% to 20% and for those who have at least three children from 15% to 30%. The above-discussed amendment of the act on assistance by the state in the acquisition of the first home by the young came into force on 1 September 2015.

Other proposed regulations that could impact the banking industry

Pursuant to the act of 20 March 2015 on the amendment of the law – the Civil Code and certain other acts (Journal of Laws of 17 April 2015), the Civil Code was amended by way of revoking the rule that in the case an heir failed to make a representation within six months from the date on which such heir became aware of the title to his inheritance, such failure meant the express acceptance of the inheritance in favour of the rule that if an inheritance-related representation is not made in such circumstances, which means that the inheritance was accepted up to the value of the net assets (*z dobrodziejstwem inwentarza*). Consequently, in such case, the heir bears, in principle, limited liability, i.e. the liability of any inheritance debt only up to the value of the active estate determined in the list of inventory or an inventory schedule. The above-mentioned amendment came into force on 18 October 2015.

The act of 9 October 2015 on the amendment to the Banking Law and certain other laws regulated the issue of non-active accounts, i.e. accounts of the deceased and 'sleeping accounts', that is any accounts with respect to which a customer (consumer) has not shown any activity for a prolonged period of time. The act provides, *inter alia*: (i) that the bank account agreement with a consumer is terminated upon such consumer's death and after ten years from the last instructions given by such consumer; and (ii) for new information requirements applicable to the bank in connection with the expiry of such agreements and certain duties related to the transfer, in specific circumstances, of the means deposited by such client to the BGF. The new law shall enter into force on 1 July 2016.

In September 2015, the President of Poland signed the act on support for borrowers in distress concerning the grant of financial support for natural persons required to repay a housing loan who found themselves in a

difficult financial condition and the determination of the terms of using such support. In accordance with the draft act, a borrower who satisfies the criteria specified in the law will receive aid of PLN 1,500 per month for a period of no more than 18 months. A fund established by Bank Gospodarstwa Krajowego created from payments from lenders made in proportion to their portfolio of housing loans shall serve as the source of funds for such support. The new law entered into force on 19 February 2016.

On 26 September 2015, the President signed the act on amendments to the act on competition and consumer protection, which stipulates, among other things, that: (i) the following shall be treated as a practice violating the collective interests of consumers: offering to customers the acquisition of financial services that do not correspond to the needs of such customers determined on the basis of information about the characteristic features of such customers accessible to the business entity or making an offer to purchase such services in a manner inadequate for the nature of such services (under the bill of the act, for such practices, a fine may be imposed in the amount of up to 10% of the turnover generated by the business entity in the financial year preceding the year in which the fine was imposed); and (ii) the President of the PFSA may issue a decision requiring a business entity to abandon certain practices with a view to preventing threats to the collective interests of consumers. Pursuant to the act, the decision referred to above may be issued even before the conclusion of the proceedings if in the course of such proceedings it is confirmed that the continuation of the practice to be abandoned may pose threats to the collective interests of consumers. The act entered into force on 17 April 2016.

Class Action Lawsuits

The ability to bring class action lawsuits was introduced into Polish law in July 2010. Class action law suits may be brought by at least ten persons whose claims are of the same type and which are based on identical or similar factual circumstances. Class action lawsuits are used specifically in matters regarding claims for the protection of consumers, liability for damages caused by any harmful product and on account of any acts in tort, excluding the infringement of personal rights. Furthermore, the initiation of a class action lawsuit does not exclude the possibility of persons who do not join such lawsuit, or who withdraw from it, from pursuing their own claims. Since claims raised by customers against banks are, in principle, often of the same type and based on the same factual basis, the introduction of class action lawsuits creates the possibility of customers demanding their claims jointly (which greatly decreases the unit cost of legal services).

Class action lawsuits regarding the protection of consumers (relating to, for example, the interest rate and FX provisions in banking contracts) have already been brought against some Polish banks (among others, Bank BPH S.A., mBank S.A. and Bank Millennium S.A.).

Tax on Certain Financial Institutions

On 1 February 2016, the Act on Tax on Certain Financial Institutions entered into force.

Pursuant to the Act on Tax on Certain Financial Institutions, taxpayers shall be, among other things, domestic banks as defined in the Banking Law. The tax base is the excess of the total balance of the assets of a taxpayer resulting from the trial balance, determined as at the last day of the month on the basis of entries made in the general ledger accounts, in accordance with the provisions of the Accounting Act or in compliance with the accounting standards applied by the taxpayer pursuant to Art. 2 sec. 3 of the Accounting Act – over the amount of PLN 4 billion. The tax base shall be reduced on the terms set out in the Act on Tax on Certain Financial Institutions by the value of own funds and by the amounts by which the taxpayer – in performance of the decision issued by the PFSA referred to in the Act on Tax on Certain Financial Institutions – increased, during the month for which the tax base is being determined, its own funds, the value of assets acquired by the taxpayer from the National Bank of Poland which serve as collateral for refinanced credit granted by the National Bank of Poland and the value of assets in the form of treasury securities. The tax amounts to 0.0366% of the tax base per month.

Without any further notice to be given by the relevant tax authority, taxpayers are required to file with the relevant head of the tax office tax returns on the prescribed forms, and assess and pay tax to the bank account of the relevant tax office for monthly settlement periods by the 25th day of the month following the month for which the tax is due. The Act on Tax on Certain Financial Institutions specifies taxpayers to which this requirement does not apply.

Pursuant to the Act referred to above, the imposition of tax cannot serve as a basis for amending the terms and conditions of the provision of financial and insurance services performed under agreements concluded before the date of entry into force of the Act.

Bank Privileges

Polish banks benefit from certain privileges related to their business. In particular, Polish law provides for simplified procedures for taking security interests and enforcing the payment of a bank's claims. Banks do not

need to comply with the requirements of a specific form of establishing collateral. Additionally, banks have the right to transfer their receivables to another entity which may issue securities collateralised by the transferred receivables (securitisation of bank receivables). Banks are authorised to apply simplified procedures for prosecuting claims through the issuance of bank enforcement titles (Polish: *bankowy tytuł egzekucyjny*). Moreover, documents issued by banks have, in general, the same status as official documents. However, a judgment of the Constitutional Court (Judgment of March 15, 2011, Ref. act P 7/09) declared Article 95 section 1 of the Banking Law, pursuant to which the accounting books of and extracts from the accounting books of banks have the same status as official documents in civil proceedings against a consumer, to be contrary to the constitutional principles of a democratic state of law such as the principle of equality and the principle of consumer protection, because it guarantees the statutory superiority of a professional entity (the bank) over the consumer.

As a consequence of the Constitutional Court's judgment on the matter, the Banking Law has been amended, with effect from 20 July 2013, to provide that in civil proceedings documents issued by banks do not have the same status as official documents (Art. 95 section 1a of the Banking Law).

On 15 April 2015, the Constitutional Court questioned two clauses of the Banking Law (article 96, paragraph 1 and article 97, paragraph 1) which regulate bank enforcement titles. The Constitutional Court found that the subject privilege "*goes too far*", "*makes the bank a judge in its own case, whereas the bank and the client should be equal sides in a legal relation*", and so as result ruled that such clauses are discordant with the Constitution as they violate the constitutional principle of equality. Poland's legislative body has until 1 August 2016 to amend the regulation regarding bank enforcement titles. The revision of the Banking Law dated 25 September 2015 brought into compliance the currently prevailing provisions of law with the judgment handed down by the Constitutional Tribunal on 14 April 2015 by eliminating the right of banks to benefit from a bank enforcement title (*bankowy tytuł egzekucyjny*).

Exchange of tax information under the agreement between Poland and the USA

On 7 October 2014, the United States and Poland executed the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA (the "**FATCA Agreement**"), i.e. the U.S. regulation regarding the disclosure of information about foreign accounts for tax purposes and accompanying Final Arrangements. The FATCA Agreement was concluded in order to improve international tax compliance through mutual assistance in tax matters based on an effective infrastructure for the automatic exchange of information. The Act on the Performance of the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA entered into force as at 1 December 2015 (the "**Implementing Act**"). This regulation imposes on financial institutions keeping accounts for U.S. persons certain obligations with respect to their registration, the collection of information regarding such clients and the disclosure thereof to tax authorities. However, in the case of Polish entities, in order to comply with Polish laws, the aforementioned obligations will not be performed directly by the U.S. Internal Revenue Service, but through Polish tax authorities.

Pursuant to the Implementing Act, the reporting Polish financial institutions are required to identify U.S. reportable accounts and accounts held by non-participating financial institutions. With respect to the identified reportable accounts, the financial institutions are required to obtain and report to the relevant authority information on U.S. reportable accounts, allowing for the identification of an account and the entity for which a given account is kept or on the non-existence of a reporting obligation with respect to a given account.

The reportable information includes information on the account, including the account balance or value at the end of the relevant calendar year.

Additionally, in case of different types of accounts, a financial institution is required to provide the following information:

(i) in case of any custodial account – the total gross amount of interest, the total gross amount of dividends and the total gross amount of other income generated with respect to the assets held in the account, in each case paid or credited to the account (or with respect to the account), generally during the calendar year, and the total gross proceeds from the sale or redemption of property paid or credited to the account, generally during the calendar year, with respect to which the reporting Polish financial institution acted as a custodian, broker, nominee or otherwise as an agent for the account holder;

(ii) in the case of any depository account – the total gross amount of interest paid and credited to the account, generally during the calendar year; and

(iii) in the case of any other, unclassified account – the total gross amount paid or credited to the account, generally during the calendar year, with respect to which the reporting Polish financial institution is the obligor or debtor, including the aggregate amount of any redemption payments made to the account holder during the calendar year or other appropriate reporting period.

In order to correctly fulfil the aforementioned reporting obligations, the reporting Polish financial institutions are required to apply certain review procedures defined in Annex I to the FATCA Agreement introducing due diligence obligations for identifying and reporting on U.S. reportable accounts and on payment to certain non-participating financial institutions (the "**Annex**").

The aforementioned procedures include electronic record searches under the standard procedure and, in the case of enhanced review procedures, paper record searches as well (for pre-existing individual accounts with a balance the value of which exceeds USD 1 million). The Annex introduces a detailed classification of different types of accounts and the corresponding required procedures, and specifies the rules for account balance aggregation, currency translation and documentary evidence, as well as alternative procedures for financial accounts held by individual beneficiaries of a cash value insurance contract.

Under the review procedures, financial institutions are required to obtain from account holders a statement allowing for the determination of whether a given account holder is a U.S. resident for tax purposes. A financial institution is required to block an account if the account holder fails to provide the required statement with respect to the account within 12 months from the entry into force of the Implementing Act. If the account is blocked, neither the account holder nor the financial institution blocking the account will be able to dispose of and use any assets deposited on the account. If the financial institution fails to block an account, it may be subject to a fine of up to 180 daily rates, i.e. up to PLN 360,000.00.

Obligations of financial institutions related to the exchange of tax information

On 27 March 2017, the new act on exchange of tax information with other states, which implemented Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards the mandatory automatic exchange of information in the field of taxation and other legislation allowing for the automatic exchange of information in the field of taxation with non-Member States based on the common information exchange standard (Common Reporting Standard), was published.

The act defines, among other things, the obligations of financial institutions as regards the exchange of tax information at the request of a competent authority, the obligations of financial institutions in respect of the automatic exchange of tax information about reportable accounts and undocumented accounts, and the rules for monitoring the performance of such obligations. A financial institution may use the services of other entities to perform its obligations, excluding the transmission of information about reported accounts and information on undocumented accounts. Responsibility for performance of obligations is with the reporting institution.

A reportable account means a financial account maintained by a financial institution that is held by one or more reportable persons or passive government entities, international organisations, central banks or entities wholly owned by one or more of the above entities, provided that it has been identified as such.

Any financial institution that has identified a reportable account is required to disclose information about such reportable account to the Head of the National Fiscal Administration (*Krajowa Administracja Skarbowa*), including information about individual accounts maintained for persons with undetermined residence. Among other things, the information should contain the name and surname of the account holder, the date and place of birth, and the taxpayer identification number used by the state of the taxpayer's residence for identifying natural persons or entities for tax purposes, including the tax identification number (TIN; *NIP*) or the number in the Universal Electronic System for Registration of the Population (*Powszechny Elektroniczny System Ewidencji Ludności*, or *PESEL* for short), if the reporting institution is aware of such number; and the account number or its functional equivalent in cases where there is no such number.

Additionally, in the case of different types of accounts, a financial institution is required to provide the following information:

(i) in the case of any custodial account – (i) the total gross amount of interest, the total gross amount of the dividends and the total gross amount of other income generated by the assets held in the account that have been paid into the account or recognised in the account in the calendar year, (ii) the gross amount of income from the sale or redemption of financial assets paid or credited to the account in the calendar year for which the reporting financial institution acted as a custodian, broker, agent or other agent acting on behalf of the account holder;

(ii) in the case of any depository account – the total gross amount of interest paid or credited to the account during the calendar year; and

(iii) in the case of any other, unclassified account with respect to which the reporting Polish financial institution is the obligor or debtor – the total gross amount paid or credited to the account holder during the calendar year, including the aggregate amount of any redemption payments made to the account holder.

The information on the reported accounts should indicate the currency in which the balance or value of the reported account is determined. If the balance or value of a reported account is expressed in more than one currency, the reporting financial institution should determine the currency in which such balance or value will be expressed in the reporting information. In order to determine the balance or value of the account reported in the determined currency, the reporting financial institution converts the balance or the value of the account using the average exchange rates table published by the NBP on the last business day of the calendar year for which the reported accounts are reported.

The information regarding undocumented accounts which should be provided should include: the name and date and place of birth of the account holder, as well as the TIN, if the reporting financial institution has this number; the account number or its functional equivalent in the absence of such number; the name and address of the reporting financial institution and the TIN, if any.

The act defines the due diligence procedures and the reporting procedures to be followed by the financial institution, as well as the specific activities to be performed as part of the due diligence procedures. Furthermore, financial institutions are obligated to collect the documentation required in connection with the application of the due diligence procedures, in particular tax residence declarations of the account holders and the controlling persons and the relevant documentary evidence, as well as to maintain the information collected in connection with reportable accounts and unidentified accounts. The performance by a financial institution of the obligations imposed by the above act is supervised by the Head of the National Fiscal Administration, who can conduct an audit of the performance by the reporting financial institution of the obligations related to the application of the due diligence procedures and the reporting procedures detailed in the act. If the financial institution fails to perform its obligations regarding, *inter alia*, the application of the reporting procedures, the application of the due diligence rules and procedures, the recording of activities performed or the collection of the required documentation, the Head of the National Fiscal Administration will impose on such financial institution a fine of up to PLN 1,000,000 by issuing a relevant decision.

GENERAL INFORMATION ON THE BANK

Basic Information

Name and legal form:	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
Registered office:	ul. Puławska 15, 02-515 Warsaw, Poland
Telephone number:	(+48 22) 521 91 82
Fax number:	(+48 22) 521 91 83
Website:	www.pkobp.pl
Email address:	ir@pkobp.pl
KRS (company registration number):	0000026438
REGON:	016298263
NIP:	525-000-77-38

The Bank in the form of a joint stock company was formed by virtue of the Regulation of the Council of Ministers dated 18 January 2000 on the transformation of Powszechna Kasa Oszczędności – Bank Państwowy into a wholly state-owned joint stock company operating under the business name of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna issued under Article 44 of the Polish Banking Law. On 28 March 2000, under the aforementioned Regulation, the act on transformation of the state-owned bank into a wholly state-owned joint stock company was executed.

The Bank was entered in the commercial register under a court decision dated 12 April 2000. On 12 July 2001, the Bank was entered in the National Court Register kept by the District Court for the Capital City of Warsaw, XVI Registry Division. At present the competent registry court is the District Court for the Capital City of Warsaw, XIII Business Division of the National Court Register.

The Bank has been established for an unspecified period of time. The Bank operates in accordance with the Polish Commercial Companies Code, the Polish Banking Law and other rules and regulations governing banks and commercial companies as well as the provisions of the Bank's Statute and other internal regulations.

Object of Activities

The Bank's object of activities is set forth in § 4 of the Statute.

PKO Bank Polski is a universal deposit and lending bank providing services to individuals, legal entities, small, medium and large enterprises as well as to state and local government institutions and other domestic and foreign entities. The Bank is also active in the areas of treasury and investment. The Bank may hold foreign exchange values and trade in them, carry out currency and foreign exchange operations as well as open and hold accounts in foreign banks and deposit funds in accounts.

Share Capital

As of the date of the Base Prospectus, the Bank's share capital is PLN 1,250,000,000 and is divided into 1,250,000,000 shares with a nominal value of PLN 1 each, including 510,000,000 series A shares, including 312,500,000 registered series A shares and 197,500,000 bearer series A shares, 105,000,000 series B bearer shares, 385,000,000 series C bearer shares and 250,000,000 series D bearer shares. The conversion of series A shares into bearer shares and the transfer of these shares shall require consent expressed in a resolution of the Council of Ministers. Pursuant to § 6 section 2 of the Bank's Statute, the conversion into bearer shares or transfer of series A shares upon obtaining such consent shall result in the expiration of the restrictions provided for in the preceding sentence in respect of the shares that are subject to such conversion into bearer shares or transfer, to the extent such consent was granted.

The registered series A shares (510,000,000) issued by the Bank and owned by the State Treasury were admitted to public trading, dematerialised and registered in the depository and settlement system maintained by the Polish National Depositary for Securities (*Krajowy Depozyt Papierów Wartościowych*, the "**NDS**") in 2004, but they were not included in a motion for the admission and introduction to trading on the regulated market maintained by the WSE. Under a resolution of 7 April 2011, the Council of Ministers granted consent to the conversion of 197,500,000 registered series A shares owned by the State Treasury into bearer shares which, pursuant to §6.2 of the Bank's Statute, is necessary to convert such shares into bearer shares. On 22 November 2011 the management board of the Polish National Depositary for Securities decided to assign ISIN code PLPKO0000073

to 197,500,000 ordinary bearer shares in the Bank, following the conversion of such shares from registered shares (assigned ISIN code PLPKO0000024) to bearer shares which was effected on 24 November 2011 at the request of the State Treasury as the Bank's shareholder. On 19 July 2012, such shares were admitted to trading on the WSE and assimilated by the NDS with the remaining 740,000,000 shares in the Bank traded on the WSE and assigned the code PLPKO0000016. The remaining 312,500,000 registered series A shares in the Bank continue to have ISIN code PLPKO0000024.

Furthermore, registered series A shares may be converted into bearer shares only in the case where they have been dematerialised within the meaning of the Polish Act of 29 July 2005 on Trading in Financial Instruments. Series A share, series B shares, series C shares and series D shares were registered in the depositary system maintained by the NDS.

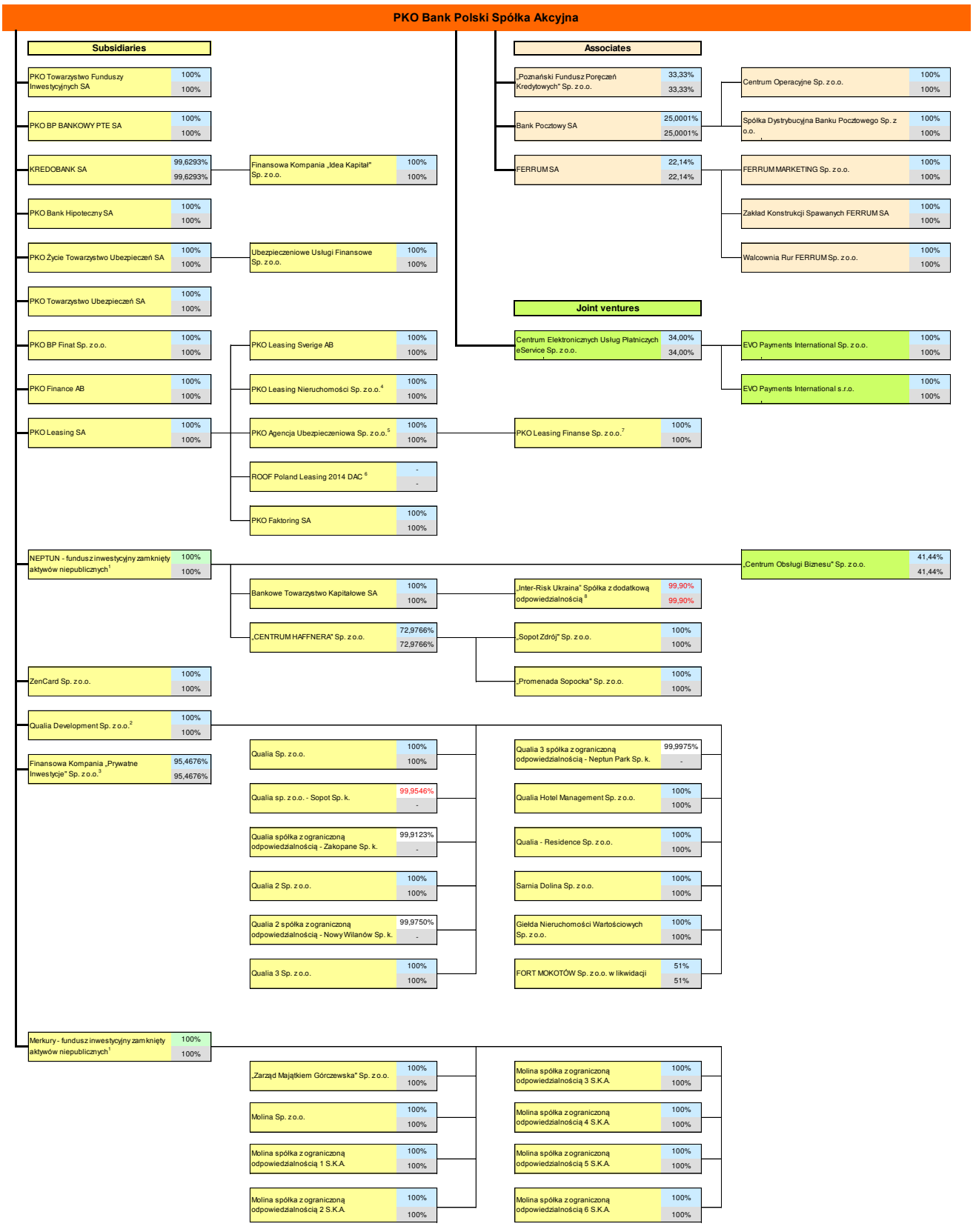
The same rights and obligations are attached to all shares. None of the shares entitle the holders to any preference, specifically as to voting rights or dividends. However, while the Bank's Statute limits the voting rights of shareholders holding over 10% of the votes at the General Meeting, such limitation does not apply to: (i) shareholders that on the date of the adoption of the resolution of the General Meeting imposing such restrictions already had rights attached to shares representing more than 10% of the total number of votes in the Bank (the State Treasury and BGK); (ii) the holders of series A registered shares (the State Treasury); and (iii) shareholders acting jointly with the shareholders mentioned in (ii) on the basis of agreements with regard to the joint exercise of the voting rights attached to their shares.

Moreover, the moment the share held by the State Treasury in the share capital of the Bank falls below five percent, the voting right limitations will expire.

PKO Bank Polski Group

As of the date of the Base Prospectus, the Group consists of the Bank and 47 entities directly or indirectly controlled by the Bank. These Group companies support the Bank by performing sales functions and supplementing the product range that the Bank offers. They allow the Group to provide wider scope of services and to sell a larger number of products as well as to solicit new clients through cross-selling. Furthermore, some Group entities provide services to the Bank.

The chart below presents the structure of the Group and the Bank's subordinated companies as of the date of the Base Prospectus:



1. PKO Bank Polski SA holds investment certificates of the Fund which allow it to control the Fund.
2. In limited partnerships owned by Grupa Qualia Development sp. z o.o. the limited partner is Qualia Development sp. z o.o., whereas the general partner is, respectively: Qualia sp. z o.o., Qualia 2 sp. z o.o. or Qualia 3 sp. z o.o.; pursuant to the articles of association of the aforementioned partnerships, the limited partner shares the profits, losses and the assets of the partnership remaining after its liquidation in 99.9%, and the general partner - in 0.1%.
3. The other shareholder of the Company is "Inter-Risk Ukraina" Additional Liability Company.
4. Previously Raiffeisen-Leasing Real Estate Sp. z o.o.- the change of name was registered in the National Court Register on 28 April 2017.
5. Previously "Raiffeisen Insurance Agency" Sp. z o.o. - the change of name was registered in the National Court Register on 28 April 2017.
6. PKO Leasing SA, pursuant to IFRS 10, controls the Company, even though it does not have an equity interest in the Company.
7. Previously Raiffeisen-Leasing Service Sp. z o.o. - the change of name was registered in the National Court Register on 28 April 2017.
8. The other shareholder of the company is Finansowa Kompania „Prywatne Inwestycje" Sp. z o.o.; Until 27 April 2017 the company was a direct subsidiary of PKO Bank Polski SA.

The Bank's Principal Subsidiaries

General information on the Bank's principal subsidiaries is presented below.

Kredobank S.A.

The Bank holds 99.6293% of the shares in the share capital of Kredobank, which entitles it to exercise 99.6293% of the votes at the general meeting of shareholders.

Name and legal form:..... Public Joint Stock Company "Kredobank"

Registered office:..... Sacharowa 78A, 79026 Lviv, Ukraine

Share capital:..... UAH 2,248,969,469.16

Principal object of the company: ..... Banking activity.

PKO Bank Hipoteczny S.A.

The Bank holds 100% of the shares in the share capital of PKO BH S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Bank Hipoteczny S.A.

Registered office:..... Jerzego Waszyngtona 17, 81-342 Gdynia, Poland

Share capital:..... PLN 950,000,000

Principal object of the company: ..... Banking activity.

PKO Towarzystwo Funduszy Inwestycyjnych S.A.

The Bank holds 100% of the shares in the share capital of PKO TFI, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Towarzystwo Funduszy Inwestycyjnych S.A.

Registered office:..... Chłodna 52, 00-872 Warsaw, Poland

Share capital:..... PLN 18,000,000

Principal object of the company: ..... Creation and management of investment funds.

PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.

The Bank holds 100% of the shares in the share capital of PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.

Registered office:..... Chłodna 52, 00-872 Warsaw, Poland

Share capital:..... PLN 190,580,000

Principal object of the company: ..... Management of an open-end pension fund.

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

The Bank holds 100% of the shares in the share capital of PKO Leasing S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Leasing S.A. (formerly: Bankowy Fundusz Leasingowy S.A.)

Registered office:..... Aleja Marszałka Edwarda Śmigłego-Rydza 20, 93-281 Łódź, Poland

Share capital:..... PLN 174,056,900

Principal object of the company: ..... Operational and financial leasing of tangible and real estate assets; the special services provided by PKO Leasing S.A. and PKO Bankowy Leasing sp. z o.o. and PKO Leasing Sverige AB (the subsidiaries of

PKO Leasing S.A.) are: leasing of cars, trucks, machinery and equipment, real estate, IT hardware and software, ships, aircraft and railway equipment and car fleet management service. In June 2015, a factoring company, PKO Faktoring S.A., joined the Group as a 100% subsidiary of PKO Leasing S.A. and offers factoring services.

Qualia Development sp. z o.o.

The Bank holds 100% of the shares in the share capital of Qualia Development sp. z o.o., which entitles it to exercise 100% of the votes at the meeting of shareholders.

Name and legal form:	Qualia Development sp. z o.o.
Registered office:	Chłodna 52, 00-872 Warsaw, Poland
Share capital:	PLN 347,107,500
Principal object of the company:	Construction and real estate development activity through its subsidiaries.

PKO Finance AB (publ)

The Bank holds 100% of the shares in the share capital of PKO Finance AB (publ), which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:	PKO Finance AB (publ)
Registered office:	c/o AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden
Share capital:	EUR 55,473.58 (until 31 December 2010: SEK 500,000)
Principal object of the company:	Special purpose vehicle established in order to raise funds for Bank deriving from the issue of notes.

PKO BP Finat sp. z o.o.

The Bank holds 100% of the shares in the share capital of PKO BP Finat sp. z o.o., which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:	PKO BP Finat sp. z o.o.
Registered office:	Grójecka 5, 02-019 Warsaw, Poland
Share capital:	PLN 32,302,500
Principal object of the company:	Services activity, including transfer agent services and outsourcing of IT specialists.

Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.

The Bank holds 95.4676% of the shares in the share capital of by Finansowa Kompania "Prywatne Inwestycje" sp. z o.o, which entitles it to exercise 95.4676% of the votes at the meeting of the shareholders.

Name and legal form:	Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.
Registered office:	Zhambyla Zhabayeva, 7, 04112 Kiev, Ukraine
Share capital:	UAH 950,101,000
Principal object of the company:	The provision of various financial services, including factoring services involving, pursuant to Ukrainian law, the acquisition of the assignment of rights to monetary claims resulting from credit facility agreements. Together with "Inter-Risk Ukraina" sp. z d.o., the company conducts debt collection activity in relation to loan receivables purchased from Kredobank.

PKO Życie Towarzystwo Ubezpieczeń S.A.

The Bank holds 100% of the shares in the share capital of PKO Życie Towarzystwo Ubezpieczeń S.A., which entitles it to exercise 100% of the votes at the meeting of the shareholders thereof.

Name and legal form:.....	PKO Życie Towarzystwo Ubezpieczeń S.A.
Registered office:.....	Chłodna 52, 00-872 Warsaw, Poland
Share capital:.....	PLN 89,308,936.29
Principal object of the company:	Life insurance.

PKO Towarzystwo Ubezpieczeń S.A.

The Bank holds 100% of the shares in the share capital of PKO Towarzystwo Ubezpieczeń S.A., which entitles it to exercise 100% of the votes at the meeting of the shareholders thereof.

Name and legal form:.....	PKO Towarzystwo Ubezpieczeń S.A.
Registered office:.....	Chłodna 52, 00-872 Warsaw, Poland
Share capital:.....	PLN 25,000,000
Principal object of the company:	Other personal and property insurance.

Significant joint ventures of the Bank

General information on the Bank's significant joint venture – CEUP eService is presented below.

Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.

The Bank holds 34% of the shares in the share capital of CEUP eService, which entitles it to exercise 34% of the votes at the general meeting of the shareholders thereof.

Name and legal form:.....	Centrum Elektronicznych Usług Płatniczych eService sp. z o.o.
Registered office:.....	Jana Olbrachta 94, 01-102 Warsaw, Poland
Share capital:.....	PLN 56,000,000
Principal object of the company:	Processing of information regarding payment transactions at retail and service outlets and management of the debit and credit card acceptance network, development and implementation of additional services offered on the basis of POS terminals.

Significant associates of the Bank

General information on the Bank's significant associate – Bank Pocztowy is presented below.

Bank Pocztowy S.A.

The Bank holds 25% plus ten shares in the share capital of Bank Pocztowy S.A., which entitles it to exercise 25% plus ten votes at the general meeting.

Name and legal form:.....	Bank Pocztowy S.A.
Registered office:.....	Jagiellońska 17, 85-959 Bydgoszcz, Poland
Share capital:.....	PLN 110,132,880
Principal object of the company:	Banking activity.

Other entities controlled by the Bank

Merkury private assets closed-end investment fund

The Bank holds 100% of the investment certificates in Merkury – private assets closed-end investment fund, which entitles it to exercise 100 % of the votes at the meeting of the investors

Name and legal form:..... Merkury – private assets closed-end investment fund

Registered office:..... Chłodna 52, 00-872 Warsaw, Poland

Capital:..... PLN 120,000,000

Principal object of the company: ..... Placement of funds collected from fund members.

NEPTUN private equity closed-end investment fund

The Bank holds 100% of the investment certificates in NEPTUN – private equity closed-end investment fund, which entitles it to exercise 100% of the votes at the meeting of the investors

Name and legal form:..... NEPTUN – private equity closed-end investment fund

Registered office:..... Chłodna 52, 00-872 Warsaw, Poland

Capital:..... PLN 94,662,873.68

Principal object of the company: ..... Placement of funds collected from fund members.

MANAGEMENT AND CORPORATE GOVERNANCE

In accordance with the Polish Commercial Companies Code and the Polish Banking Law, the Bank is managed and supervised by the Management Board and the Supervisory Board. The description of the Management Board and the Supervisory Board herein has been prepared based on the Polish Commercial Companies Code, the Polish Banking Law, the Bank's Statute and the By-Laws of the Management Board and Supervisory Board as of the date of the Base Prospectus.

Management Board

The governing body of the Bank is the Management Board.

Composition

Pursuant to the Bank's Statute, the Management Board consists of three to nine members, including the president of the Management Board, the vice-president of the Management Board and other members.

Members of the Management Board are appointed for a joint three-year term. The Supervisory Board appoints and dismisses, by secret vote, the president of the Management Board, the vice-presidents of the Management Board and other members of the Management Board. The appointment of two members of the Management Board, including the president of the Management Board, requires the consent of the PFSA. The Supervisory Board applies to the PFSA for consent for the appointment of the two members, including the president of the Management Board. Furthermore, the Supervisory Board notifies the PFSA about the composition of the Management Board and any changes thereto immediately after an appointment or change to its composition. The Supervisory Board also informs the PFSA which members of the Management Board are specifically responsible for the management of credit risk and the internal audit unit. Currently, the consent of the PFSA for the performance of the functions of the Management Board has been granted to the president of the Management Board, Zbigniew Jagiełło, and the Vice-President of the Management Board in charge of Risk Management, Piotr Mazur.

The Supervisory Board has the right to suspend, for important reasons, either all or selected members of the Management Board from the performance of their duties, and may delegate authority, for up to three months, to the members of the Supervisory Board to temporarily perform the duties of the members of the Management Board who were dismissed, have resigned or are unable for other reasons to perform their duties.

A member of the Management Board may also be dismissed or suspended from his duties by virtue of a resolution of the General Meeting.

Powers of the Management Board

The Management Board manages the Bank's affairs and represents the Bank. The authority of the Management Board include all matters not reserved by the provisions of law or the Bank's Statute for the authority of other governing bodies of the Bank.

Resolutions of the Management Board shall be required for all matters that exceed the scope of the ordinary activities of the Bank. The Management Board shall adopt resolutions, in particular to: (i) define the strategy of the Bank, taking into consideration the risk involved in the activities of the Bank as well as the principles of prudential and stable management of the Bank; (ii) define the annual financial plans, including the conditions of their implementation; (iii) adopt organisational regulations and the principles of the division of authority; (iv) create and close permanent committees of the Bank and define their authority; (v) adopt the by-laws of the Management Board; (vi) adopt regulations concerning the management of special funds created from net profits; (vii) set the dates of dividend payments within the deadlines set by the General Meeting; (viii) appoint commercial proxies; (ix) define banking products and other banking and financial services; (x) define the principles of participation of the Bank in companies and other organisations, taking into account § 15 section 1.12.c of the Bank's Statute; (xi) define systems for effective risk management, internal control and estimating the Bank's internal capital; (xii) define the principles and functions of the internal audit system and the annual internal audit plans; and (xiii) create, transform and dissolve organisational units of the Bank in Poland and abroad.

The Polish Commercial Companies Code prohibits the General Meeting and the Supervisory Board from issuing binding instructions to the Management Board as to the conduct of the Bank's affairs. Furthermore, Management and Supervisory Board members are liable to the Bank for damage caused through negligence or an action which is against the law or in breach of the Bank's Statute.

Powers of the President of the Management Board

The powers of the president of the Management Board include, specifically: (i) managing the work of the Management Board; (ii) convening and presiding over meetings of the Management Board; (iii) presenting the

position of the Management Board to the governing bodies of the Bank and in external relations; (iv) ensuring implementation of the resolutions of the Management Board; (v) issuing instructions; and (vi) making decisions concerning the staffing of the positions reserved for his competence.

In particular the president of the Management Board is responsible for the matters related to supervision over the functions supporting the operation of the Bank's governing bodies and the matters related to supervision over the functions supporting the operation of the standing committees of the Bank and the matters related to internal audits, communication and promotion and human resources matters.

During the absence of the president of the Management Board, his duties will be fulfilled by a member of the Management Board responsible for the risk area. In the event of the absence of the president of the Management Board and the Management Board member responsible for the risk area, the duties of the president of the Management Board will be fulfilled by a member of the Management Board appointed by the president of the Management Board. In the event of a lack of such appointment, the duties of the president of the Management Board shall be fulfilled by a member of the Management Board selected on the basis of the alphabetical order of the surnames of the members of the Management Board.

Functioning

The Management Board operates under its by-laws adopted by its resolution and approved by the Supervisory Board.

The Management Board makes decisions by way of resolutions. Resolutions of the Management Board are passed by an absolute majority of votes cast by those present at the meeting of the Management Board, except for resolutions which according to generally applicable regulations require all members of the Management Board to vote in favour of the resolution. In case of a tie, the president of the Management Board casts the deciding vote.

Representations on behalf of the Bank are made by: (i) the president of the Management Board acting individually; (ii) two members of the Management Board acting jointly, or one member of the Management Board acting jointly with a commercial proxy; (iii) two commercial proxies acting jointly, or (iv) attorneys acting individually or jointly, to the extent of the power of attorney granted. The Bank grants joint proxies which authorise each of the holders thereof to act jointly with another proxy or a Management Board member.

Members of the Management Board

As of the date of the Base Prospectus, the Management Board consists of nine members.

The current term of office of the members of the Management Board commenced on 2 July 2017 and will expire on the date of the General Meeting approving the financial statements for the financial year ended 31 December 2019.

The table below presents a list of the members of the Management Board, their age, position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date of commencement of position	Expiration of term of office
Zbigniew Jagiełło	53	President of the Management Board	2 July 2017	On the date of the general meeting of the shareholders in 2020
Rafał Antczak	47	Vice-President of the Management Board in charge of Commercial Banking, Strategy and Analyses	2 July 2017	On the date of the general meeting of the shareholders in 2020
Janusz Derda	47	Vice-President of the Management Board in charge of IT and Services	2 July 2017	On the date of the general meeting of the shareholders in 2020
Bartosz Drabikowski	47	Vice-President of the Management Board in charge of Finance and Accounting	2 July 2017	On the date of the general meeting of the shareholders in 2020
Maks Kraczkowski	38	Vice-President of the Management Board Supervising the area of International and Transaction Banking and Cooperation with local Governments and Government Agencies	2 July 2017	On the date of the general meeting of the shareholders in 2020

Name	Age	Position	Date of commencement of position	Expiration of term of office
Mieczysław Król	58	Vice-President of the Management Board, Acting Head of Bancassurance Area	2 July 2017	On the date of the general meeting of the shareholders in 2020
Piotr Mazur	51	Vice-President of the Management Board in charge of Risk Management	2 July 2017	On the date of the general meeting of the shareholders in 2020
Jakub Papierski	45	Vice-President of the Management Board in charge of Corporate and Investment Banking	2 July 2017	On the date of the general meeting of the shareholders in 2020
Jan Emeryk Rościszewski	52	Vice-President of the Management Board, Acting Head of Retail Banking Area	2 July 2017	On the date of the general meeting of the shareholders in 2020

Zbigniew Jagiełło

Zbigniew Jagiełło, the President of PKO Bank Polski Management Board since October 2009, appointed for new terms in 2011, 2014 and 2017. Earlier, for nearly nine years he had been the President of Pioneer Pekao TFI S.A. Management Board. Also, within the global structure of Pioneer Investments he was responsible for the CEE region distribution. In the late 1990s he was, among others, active in establishing PKO/Credit Suisse TFI S.A. mutual funds company, in the function of its first Vice-President.

In his twenty-year long career in the financial markets he can be credited, among other things, with:

- Successfully steering PKO Bank Polski through the critical period of turmoil in the international financial markets, while strengthening the Bank's position of leadership in terms of assets, equity funds and earnings in Poland and the CEE region;
- Development and implementation of the PKO Bank Polski's strategies for the years 2010-2012 and 2013-2015, which resulted in strong assets growth and efficiency gains as well as in increased interest in the company among domestic and international investors;
- Adjustment of PKO Bank Polski to the requirements of the ever more competitive financial market through increased attractiveness of its product offer and quality of its customer service;
- Refocusing of the PKO Bank Polski Group's operational model toward its core activity of providing financial services.

Actively involved in development and promotion of the most demanding financial market standards in Poland. He is a member of the Council of the Polish Bank Association and of the prestigious Institut International D'Etudes Bancaires, which brings together the international banking community. His previous functions included, among others, that of the Chairman of the Chamber of Fund and Asset Management.

A graduate of the School of Computer Science and Management Wrocław Technical University, he also completed Postgraduate Management Studies at the Gdańsk Foundation for Management Development and the University of Gdańsk, with Executive MBA certified by the Rotterdam School of Management, Erasmus University.

The President of the Republic of Poland decorated him with the Officer's Cross of the Order of Rebirth of Poland, he was also awarded the Social Solidarity Medal for promoting the idea of corporate social responsibility. Chairman of the Programme Council of the PKO Bank Polski Foundation, an entity formed at his initiative in the year 2010.

Winner of numerous awards and honours. Chosen the CEO of the Year 2011 by Gazeta Giełdy Parkiet; the recipient of the Wektor 2011 award granted by the Polish Employers' Chapter and of the Golden Banker award in the Personality of the Year 2011 category. Lauded the Manager of the Year 2011 and 2014 in a competition ran by Gazeta Bankowa. In 2012 Bloomberg Businessweek Polska singled him out as one of the "Top 20 Managers in Crisis" and named him to the "TOP 20 Best Managers in Polish Economy 2014".

In 2013 honoured by Miesięcznik Finansowy Bank with the title of "The Innovator of Banking Sector 2012". Received the title of "Man of the Year 2013" from Brief magazine and "visionary of 2013" from Dziennik Gazeta Prawna. In 2014, chosen as one of the "25 Most Valuable Managers in Polish Finance Industry" by Gazeta Finansowa. In 2015 he was also recognized as the most pro- marketing CEO by the Mediarun website.

Rafał Antczak

Rafał Antczak is an economist and manager with more than 20 years of experience in international and domestic projects for companies in financial and real economy sectors, governments and research institutions. He has graduated from the Department of Economic Sciences of the University of Warsaw and the Comprehensive Course in Market Economics at the Joint Vienna Institute (1997). From October 2008 till January 2017, with Deloitte Consulting S.A. as Management Board Member responsible for research, micro and macroeconomic projections, strategic and business consulting. In 2006-2008, Managing Director and Chief Economist of the PZU Group and Member of the Supervisory Boards of PZU Asset Management, PZU-Ukraina, PZU-Ukraina Ubezpieczenia na Życie and UFG. In 2006-2008, active lecturer at the Department of Management and the MBA Programme of the University of Warsaw. In 1994-2006, Economist with the Centre for Social and Economic Research CASE Science Foundation. He has published extensively on economics and market research.

Janusz Derda

Janusz Derda graduated from Mathematics, Physics and Chemistry Department of Wroclaw University with the major in computer technology: numerical methods.

He has gained extensive experience in managing the IT projects in banking sector as well as development of the architecture of IT systems, creating IT solutions for scoring tools and automating the loan application processing.

In 1994/95 he worked in ZETO Opole as a developer and software designer. In 1997 he joined INEKOM Opole. In 1998-2000 he was an employee of Wielkopolski Bank Kredytowy in Opole and since 2000 in Bank Zachodni WBK, initially in the Loan Division and subsequently in the CRS Division. Then he moved on to the Central System Department, initially as an expert and later as a Manager for the Development and Process Centralisation Team and a Deputy Director for the Development Department. In 2008-2010 he worked as a Deputy Director of the IT Division for Operations. In 2010-2016 he was the CIO for Bank Zachodni WBK, being responsible for creating the strategy of development of IT systems architecture, supporting the business operations and creating the IT solutions for business. Moreover he supervised the investment and operational budget spending of IT Division, business continuity processes for IT and the operational security of IT systems. From June till November 2016 he worked as a Programme Director at Fiserv, being responsible for the implementation of the centralized IT system.

Bartosz Drabikowski

Bartosz Drabikowski has been Deputy CEO, CFO of PKO Bank Polski since 20th May 2008.

He is also Chairman of the Supervisory Board Association of Stock Exchange Issuers and Vice Chair of the Finance Task Force of the Business and Industry Advisory Committee to the OECD.

Between 2015 and 2016, Drabikowski served as member of Visa Europe Board of Directors and Member of the Risk, Audit and Finance Committee. Between 2005 and 2008, he was member of the Management Board of the National Clearing House (Krajowa Izba Rozliczeniowa S.A.) responsible for finances and new products in the area of electronic payments, safety and risk management.

He has a wealth of experience in managing financial institutions. He served as Chairman of Supervisory Board of PKO Bank Polski Capital Group: Inteligo Financial Services S.A, eService S.A., PKO BP Faktoring S.A; as member of the Supervisory Board of the National Depository for Securities, member of the Council of the Bank Guarantee Fund and member of the Supervisory Board of the Polish Security Printing Works.

His professional career began at the Ministry of Finance, where he was responsible, among others, for regulation of and supervision over financial market institutions, the banking sector and the capital market in the particular. He also prepared development strategies for the financial services sector both for Poland and the common European Union market. His duties at the Ministry of Finance included respectively those of Advisor to the Minister, Deputy Director and Director of Financial Institutions Department.

For several years he served as member of the Commission for Banking Supervision, member of the Securities and Exchange Commission and deputy member of the Payment System Board at the National Bank of Poland. He also served as member of many institutions of the European Union, including the Financial Services Committee (European Council), the European Banking Committee and the European Securities Committee (European Commission).

Bartosz Drabikowski graduated from The Harvard Business School having completed the Advanced Management Programme, as well as the Executive MBA Programme at the University of Illinois at Urbana –

Champaign, Warsaw School of Economics, Technical University of Łódź, Polish National School of Public Administration, Academy of Diplomacy (at the Polish Institute of International Affairs).

He benefited from multiple internships: at Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank and Rheinische Hypothekenbank. He received scholarship from the German Marshall Fund of the United States and participated in many training courses; organised, among others, by the European Commission and the International Monetary Fund.

Mieczysław Król

Mieczysław Król is a banker, expert in finance, manager, holding master degree in Economics, graduate of Warsaw School of Economics (Faculty of Finance and Statistics) and International School of Management. Graduate from doctoral studies at the Warsaw School of Economics (Collegium of Management and Finance).

He has been working in banking and finance for over thirty years. Among others, he worked at the National Bank of Poland. For years, he was director of PKO Bank Polski SA. In 2006-2010, he was Director of the Audit Department at PKO Bank Polski SA, then, between 2011 and 2015, he was Director of the Audit Department of Bank Ochrony Srodowiska SA in Warsaw. In 2006-2007, he was the Supervisory Board Member of Centrum Finansowo - Bankowe in Warsaw. In 2007, he was the Chairman of the Supervisory Board of Zakłady Chemiczne Organika Sarzyna in Nowa Sarzyna and Zaklad Konserwacji Zabytkow. He taught at Wyższa Szkoła Działalności Gospodarczej in Warsaw. He is author of many articles on banking and economic issues.

Between 1998 and 2002, he was member of the Warsaw District Council, where he also held positions of vice chairman of the Budget Committee and member of the Audit Committee. In 2002 – 2014, he was member of the Warsaw City Council, holding also positions of vice-chairman of the Budget and Finance Committee and member of the Health Committee. In his social activities he lead the Social Council of Father Jerzy Popieluszko (Bielański) Hospital.

Maks Kraczkowski

Maks Kraczkowski is a graduate of the Faculty of Law and Administration at the University of Warsaw.

Member of Parliament of the Republic of Poland (Sejm) during V, VI, VII, VIII term: Vice-Chairman of the Committee of Economy and Development – since 2015, Chairman of the Economic Committee – in 2005-2007, Member of the Legislative Committee, Chairman of the Standing Subcommittee of the Constitutional Tribunal.

He has many years of experience in legislation, as well as knowledge of domestic and international economic issues. As a member of the Sejm of the Republic of Poland during four terms Mr. Kraczkowski's activities were focused on the economy and financial markets.

Piotr Mazur

Piotr Mazur was appointed Vice President of the Management Board of PKO Bank Polski, responsible for Risk Management Area, upon approval of the Polish Financial Supervision Authority in January 2013. He is a graduate of the Organisation and Management Faculty at the Academy of Economics in Wrocław (currently Wroclaw University of Economics). He has over 20 years of experience in banking, holding management positions since the year 2000, being mainly responsible for risk management, restructuring and loans. He worked with international financial groups operating in Europe, the USA and South America. He is member of supervisory boards, committees of creditors, member and a chairman of key risk management committees. He was took part in developing BZ WBK SA's strategy; he was directly responsible for credit risk management, optimization of debt collection and restructuring processes; he cooperated with market regulators in Poland and abroad.

Upon graduating in 1991, his professional career began in Bank BPH's loan area. In 1992, he joined Bank Zachodni SA and after the merger with Wielkopolski Bank Kredytowy SA, he worked with BZ WBK SA; Between 1992 and 2000, he worked in the Capital Investments Department and subsequently between 2000 and 2005 he held the position of Director of the Credit Quality Controlling Department. In 2005–2008, he was Director of the Business Intelligence and Risk Management Area, and Deputy Chief Risk Officer from 2008 to 2010. From January 2011 he held the position of Chief Credit Officer and from March 2012 also the position of Deputy Chief Risk Officer. Moreover, he was the Chairman of the Credit Committee at BZ WBK SA, Deputy Chairman of the Credit Risk Forum and Deputy Chairman of the Risk Model Forum.

Jakub Papierski

Jakub Papierski graduated from the Warsaw School of Economics. He is also a Chartered Financial Analyst (CFA). He commenced his professional career at a 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 financial and fiscal policy of the bank, managerial information systems, as well as the treasury and management of investment portfolios. Moreover, he was a member of the Asset and Liability Management Committee 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 was acting President of the Management Board of Allianz Bank Polska S.A. and in October 2009 he was appointed President of the Management Board.

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.

Jan Emeryk Rościszewski

Jan Emeryk Rościszewski is a Polish entrepreneur, manager in the insurance industry. He obtained his master's degree in history from the Faculty of Humanities of the Catholic University of Lublin in 1988. In 1990 he earned his DEA diploma from Institut d'Etudes Politiques de Paris. He completed numerous training courses in the fields of finance, insurance and management in France, Great Britain and Poland. He earned his insurance broker licence in 1996. From the first half of the 90's he has been working for international banking and insurance institutions, among others for AXA and Azur. In 1990 – 1991 he worked for AXA Banque and AXA International in France, and in 1991 – 1993 for Groupe Azur. In 1993 – 1996 he was Management Board Member of TU Azur Ostoja SA and TUnŻ Azur Życie SA. He has been engaged with Paribas since 1996. In the years 1998 to 2016 he headed - as President of the Management Board - TUnŻ Cardif Polska SA, now belonging to the BNP Paribas Group. Simultaneously, in the years 2001 to 2016, he held the position of Director General of Cardif Assurance Risques Divers in Poland.

He has held multiple additional positions in the industry, such as Chairman of the Supervisory Board of Pocztylion-Arka Pension Fund Company (since 1999), Vice Chairman of the Supervisory Board of Postal Financial Services Agency SA (2000-2014), member of the Audit Committee of the Polish Insurance Association (2012-2016), member of the Supervisory Board of BBI Development NFI SA (since 2011).

In the years 1981 to 1983 he was active in the charity organization Primate's Committee for Help to People Deprived of Liberty. Since 2009, he is a Knight of Honour and Devotion of the Sovereign Military Order of Malta, and since December 2012, he has held the function of Hospitaller of the Polish Association of the Sovereign Military Order of Malta. He is Management Board Member of the Page of History Foundation (since 2007) and member of the Alpine Club of Warsaw, Polish Heraldic Society, Domus Polonorum. In 2010 he was decorated with the Officer's Cross of the Order of Polonia Restituta for outstanding achievements in the development of the insurance market in Poland. He is author and co-author of historical books and articles on finance and management.

Supervisory Board

The Supervisory Board exercises regular supervision over the Bank's operations.

Composition

In accordance with the Bank's Statute, the Supervisory Board consists of five to thirteen members appointed for a joint three-year term. Pursuant to § 11, section 1 of the Bank's Statute, the number of members of the Supervisory Board should be set by the Eligible Shareholder, including when a motion for the election of the Supervisory Board by voting in separate groups is presented, in which case five members of the Supervisory Board should be elected.

On 22 June 2017, the State Treasury, as the Eligible Shareholder, on the basis of § 11 clause 1 of the Bank's Statute, determined the number of the Supervisory Board members to be eleven.

Members of the Supervisory Board are appointed and dismissed by the General Meeting. The detailed rules for appointing candidates to the Supervisory Board and the election of the members of the Supervisory Board are set

forth in § 11 of the Bank's Statute. The Chairman and the Deputy Chairman of the Supervisory Board shall be appointed by the Eligible Shareholder from among the elected members of the Supervisory Board, including in the case where the Supervisory Board is elected by voting through separate groups. The State Treasury, acting as the Eligible Shareholder, pursuant to § 12 clause 1 of the Bank's Statute, appointed: Piotr Sadownik as the Chairman of the Bank's Supervisory Board and Grażyna Ciurzyńska as the Deputy-Chairman of the Bank's Supervisory Board.

The Supervisory Board may elect a Secretary from among its members.

Powers

The Supervisory Board exercises regular supervision over the Bank's operations in all areas of its activity. The responsibilities of the Supervisory Board include an assessment of the Management Board report on the operations of the Bank and an assessment of the financial statements of the Bank for the previous financial year with regard to their compliance with the books of account and other documents, as well as their actual status. The Supervisory Board is also responsible for an assessment of the Management Board motions on the distribution of profit or coverage of loss and the submission to the General Meeting of an annual written report on the results of such assessment. The Supervisory Board represents the Bank in agreements and disputes with members of the Management Board, unless these powers are entrusted to an attorney-in-fact appointed by a resolution of the General Meeting.

Pursuant to the Bank's Statute, the powers of the Supervisory Board also include, in addition to the powers and duties provided for in the applicable laws and the provisions of the Bank's Statute, the adoption of resolutions related, in particular, to the following matters: (i) approving the strategy of the Bank adopted by the Management Board; (ii) approving the Bank's risk management strategy adopted by the Management Board and the general risk appetite; (iii) approving the annual financial plan adopted by the Management Board; (iv) appointing an entity to audit or review the consolidated and stand-alone financial statements of the Bank, granting permission to the signing of an engagement letter with such entity or any of its subsidiaries, affiliates, parent entities or the subsidiaries or affiliates of its parent entities, and to the performance of any other activities that might adversely affect the independence of any such entity in the performance of the audit or review of the Bank's financial statements; (v) adopting the Rules and Regulations of the Supervisory Board; (vi) adopting the regulations that set out the principles of granting credit facilities, loans, bank guarantees and sureties to members of the Management Board or the Supervisory Board and persons holding managerial positions in the Bank, as well as to entities linked by participation or control with members of the Management Board or the Supervisory Board and persons holding managerial positions in the Bank, in accordance with Article 79a of the Polish Banking Law; (vii) appointing and dismissing the president, the vice-presidents and other members of the Management Board by secret vote; (viii) suspending, for important reasons, all of or selected members of the Management Board in the performance of their duties, and delegating members of the Supervisory Board, for up to three months, to temporarily perform the duties of the members of the Management Board who were dismissed, resigned or are unable, for other reasons, to perform their duties; (ix) granting consent to opening or closing branches abroad; (x) approving the rules and regulations adopted by the Management Board and concerning the Management Board, the management of special funds created from net profits, and the organisation of the Bank, as well as resolutions concerning the principles of information policy regarding capital adequacy, the guiding principles of the compliance risk management policy, the rules of the management of capital adequacy and equity, in particular regarding the processes of internal capital assessment, capital management and planning as well as the dividend policy, the rules of operation of the internal control framework and the principles of functioning of the internal audit system; (xi) approving the periodical reports of the Management Board on risk management, capital adequacy and the internal audit system; (xii) applying to the PFSA for its consent to appoint two members of the Management Board, including the president of the Management Board and a member of the Management Board responsible for the management of a material risk in the operations of the Bank; (xiii) evaluation of the functioning of the remuneration policy in place at the Bank and presentation of a report thereon to the General Meeting; and (xiv) opinions on the "Principles of Corporate Governance for Supervised Institutions" applied by the Bank.

In addition, the Supervisory Board grants its consent to: (i) the acquisition and disposal of fixed assets with a value exceeding one-tenth of the equity of the Bank, excluding real property and rights of perpetual usufruct; (ii) except for the acts referred to in § 9 section 1.5 of the Bank's Statute, the acquisition and disposal of real property, an interest in real property or the right of perpetual usufruct, or the encumbrance thereof with a limited property right or making it available for use by a third party, if the value of the real property or the right that is the subject of such act exceeds one-fiftieth (1/50) of the share capital of the Bank – such consent is not required if the acquisition of real property, an interest in real property or a right of perpetual usufruct takes place as a part of enforcement, bankruptcy or arrangement proceedings or any other agreement with a debtor of the Bank, as well as in the event of legal transactions concerning the real property or rights acquired by the Bank in the manner described above, in such cases the Management Board shall only be required to notify the Supervisory

Board of the performed act; (iii) the establishment of a company, the subscription for or the acquisition of shares, bonds convertible into shares or other instruments entitling it to acquire or subscribe for shares if the financial commitment of the Bank resulting from such act exceeds one-tenth of the equity of the Bank; (iv) any transaction to be entered into between the Bank and a shareholder holding at least 5% of the total voting rights in the Bank or with an affiliated entity, except for typical and routine transactions concluded on an arm's-length basis in the ordinary course of the Bank's operating activities, if such transactions are performed with entities of the Group.

Functioning

The Supervisory Board operates under the Rules and Regulations of the Supervisory Board which have been approved by the General Meeting.

Meetings are convened when necessary, however, at least once a quarter. The Supervisory Board shall adopt resolutions in an open vote. A secret vote shall be ordered in personnel matters and at the request of at least one member of the Supervisory Board. The Supervisory Board adopts resolutions by an absolute majority of votes when at least half of the members of the Supervisory Board are present, including the Chairman or the Deputy Chairman of the Supervisory Board, except for resolutions on the matters referred to in § 15 section 1 items 1-4, 6-8 and 12 of the Bank's Statute, for which, except for the above quorum, a qualified majority of votes of two-thirds is required. The members of the Supervisory Board to whom the matter that is subject to the vote pertains shall be excluded from the vote.

Committees of the Supervisory Board

In accordance with the Rules and Regulations of the Supervisory Board, the Supervisory Board establishes the Supervisory Board Audit Committee, the Remuneration Committee and the Risk Committee and may establish other committees, the members of which shall perform their functions as members of the Supervisory Board delegated to perform the specific supervisory functions at the Bank. The detailed scope of activity of the given committee shall be set forth in the rules adopted by the Supervisory Board.

Audit Committee

Meetings of the Committee are convened by the Chairperson of the Committee, and in his or her absence, by the Deputy Chairperson of the Committee. Meetings of the Committee are held in accordance with a framework work schedule for the whole year, which includes the information on the dates of scheduled meetings of the Committee. Meetings are held at least once every two months, including each time prior to the publication of the financial statements by the Bank.

The Supervisory Board Audit Committee was established on 30 November 2006 under resolutions of the Supervisory Board in order to perform regular supervision over the financial audit of the Bank and the Group. The duties of the Audit Committee include, in particular:

- monitoring the process of financial reporting, including reviewing the interim and annual financial statements of the Bank and the Group (stand-alone and consolidated), in particular:
  - analysing:
    - information regarding significant changes in the accounting policy and financial reporting and the manner in which estimates and judgments of the Management Board are made in situations when such estimates and judgments are essential for the Bank's financial reporting,
    - the Bank's financial statements, together with summaries of significant adjustments to reports being the result of the audits and the opinions of the auditor of the financial statements,
    - the compliance of the financial reporting process with applicable laws and regulations on accounting,
    - the problems, concerns and reservations that arise from the audit of the financial statements of the Bank and the Group,
    - recommendations of the entity authorised to audit the financial statements (auditor) of the Bank and the Group addressed to the Management Board and its response in this regard;
  - presenting to the Supervisory Board recommendations with regard to the opinions of the auditor issued in connection with the auditors examination of the financial statements of the Bank and the Group;

- presenting to the Supervisory Board recommendations on the evaluation of the proposal of the Management Board regarding the distribution of profit or the covering of loss (including, in particular, dividend policy) and the issuance of securities;

- monitoring the efficiency of the systems of internal control, internal audit and risk management, in particular:
  - assessment of the Bank's activities related to the implementation of the management system, including risk management and internal control and assessment of its adequacy and efficiency, among others, by means of:
    - opinions on the resolutions of the Management Board regarding the internal control system the approval of which falls within the competence of the Supervisory Board,
    - opinions on periodic reports submitted to the Supervisory Board on the internal control system,
    - a review of the procedures for the anonymous reporting of infringements of the law to members of the Management Board or the Supervisory Board and the applicable procedures and ethical standards of the Bank in this regard,
    - a review of the communication of supervisory authorities addressed to the Management Board and the Supervisory Board together with the response given by the Management and Supervisory Boards;
  - analysing information gathered from the Risk Committee;
  - monitoring the activity of the Internal Audit Department, in particular through:
    - consulting the plan of internal audits in the Bank and internal regulations of the Internal Audit Department,
    - performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating the activities of the Internal Audit Department using available resources,
    - presenting an opinion to the Supervisory Board as regards the appointment and dismissal of the head of the Internal Audit Department,
    - monitoring of the remuneration levels of the director and employees of the Internal Audit Department;
  - monitoring the activities of the Compliance Department, in particular through:
    - analysing information received from the Compliance Department in respect of the review of the effectiveness of the compliance monitoring,
    - opinions on the proposals of the President of the Management Board to the Supervisory Board on the appointment and dismissal of the Director of the Department of Compliance,
    - monitoring the level of remuneration of the director and the employees of the Department of Compliance;

- monitoring the execution of financial audit activities, in particular by means of:
  - recommending to the Supervisory Board a registered audit company entitled to perform a financial audit of the Bank together with its evaluation, fee level and supervision of work performed,
  - examining written information submitted by the registered audit company about relevant issues concerning financial audit, of which in particular information concerning material irregularities in the Bank's internal control system as regards financial reporting,
  - agreeing with the entity authorised to audit the financial statements of the Bank and the Group the rules for the conduct of and activities regarding a proposed plan of action,
  - an examination of the reasons for the termination of the contract with the entity authorised to audit the financial statements of the Bank and the Group; and

- monitoring the independence of a registered auditor and a registered audit company and on the services referred to in Art. 47, clause 2 of the Act dated 11 May 2017 on registered, registered audit companies and on public supervision (the "**Auditors Act**"), in particular through obtaining:

- statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities,
- information on the services referred to in Art. 47, clause 2 of the Auditors Act, provided to the Bank.

As of the date of the Base Prospectus, the Supervisory Board Audit Committee was not formed given that the election of the new members of the Supervisory Board took place on 22 June 2017. The members of the Audit Committee will be selected at the first meeting of the new Supervisory Board, which has been scheduled for August 2017.

Remuneration Committee

The Supervisory Board established the Supervisory Board Remuneration Committee on 2 November 2011.

Meetings of the Remuneration Committee are convened on a regular basis by the Chairman of the Remuneration Committee not less than twice a year.

The duties of the Remuneration Committee include, in particular:

- providing opinions on the general rules approved by the Supervisory Board on the variable salary components policy for persons who have a material influence over the risk profile of the Bank, as defined in § 24 of the Regulation of the Minister of Development and Finance of 6 March 2017 on the detailed principles for the functioning of the risk management system and internal control system and detailed terms of estimating internal capital by banks and reviewing the process of estimating internal capital;
- performing a periodic review of the general principles of the variable salary components policy for persons holding managerial positions in the Bank and presenting the results of the review to the Supervisory Board;
- presentation to the Supervisory Board proposals of principles for remunerating, the variable salary components policy and remuneration of the Management Board members;
- presenting to the Supervisory Board proposals related to the appropriate form of contracts with the Management Board members of the Bank;
- giving opinions on motions for the approval for a member of the Management Board to become involved in competitive business activities or participate in a competitive company as a shareholder of a civil law company, in a partnership or as a member of a body in a corporation, or to participate in another competitive legal person as a member of its body;
- giving opinions on review reports concerning the implementation of the variable salary components policy carried out by the Internal Audit Department; and
- preparing draft reports evaluating the ongoing functionality of the remuneration policy of the Bank which is presented to the General Meeting by the Supervisory Board.

As of the date of the Base Prospectus, the Supervisory Board Remuneration Committee was not formed given that the election of the new members of the Supervisory Board took place on 22 June 2017. The members of the Audit Committee will be selected at the first meeting of the new Supervisory Board, which has been scheduled for August 2017.

Risk Committee

The Supervisory Board established the Supervisory Board Risk Committee on 4 November 2015.

Meetings of the Risk Committee are convened on a regular basis by the Chairman of the Risk Committee no less than once every two months.

The duties of the Remuneration Committee include, in particular:

- evaluating the overall current and future readiness of the Bank to take risks, including the risk profile of the Group, in particular giving opinions about strategic tolerance limits adopted by the Management Board for individual types of risks for the Bank and the Group the approval of which falls within the competence of the Supervisory Board;
- the evaluation of the risk management strategy adopted by the Management Board in the Bank's ongoing business and information submitted by the Board on the implementation of this strategy and other periodic reports on risk management and capital adequacy;

- the evaluation of other resolutions of the Management Board in the scope of risk management and capital adequacy the approval of which is the competence of the Supervisory Board;
- supporting the Supervisory Board in overseeing the implementation of the risk management strategy in the Bank's ongoing business by senior management;
- a review of whether the price of assets and liabilities offered to customers fully reflects the Bank's business model and its strategy in terms of risk, and if these prices do not adequately reflect the risks in accordance with this model and this strategy, suggesting corrective measures to restore the adequacy of the price of assets and liabilities to the business model and risk strategy of the Bank; the Committee monitors the implementation of these actions by the Management Board;
- evaluating solutions for the reduction of business risk with the use of the Bank's non-life insurance and civil liability insurance of members of the Board and proxies;
- evaluating proposals of the President of the Management Board made for the Supervisory Board regarding the appointment or dismissal of a member of the Management Board to supervise the management of risks material to the Bank's operations;
- issuing opinions on the information provided by the Bank to the public in relation to risk management strategies and the risk management system; and
- performing other tasks assigned by the Supervisory Board regarding risk management at the Bank.

As of the date of the Base Prospectus, the Supervisory Board Risk Committee was not formed given that the election of the new members of the Supervisory Board took place on 22 June 2017. The members of the Audit Committee will be selected at the first meeting of the new Supervisory Board, which has been scheduled for August 2017.

Strategy Committee

The Supervisory Board established the Supervisory Board Strategy Committee on 25 August 2016.

Meetings of the Strategy Committee are convened on a regular basis by the Chairman of the Strategy Committee no less than twice a year.

The duties of the Strategy Committee include, in particular:

1) opining on the Bank's strategy, as adopted by the Management Board, whose approval is within the competence of the Supervisory Board,
2) supporting the Supervisory Board in overseeing the implementation of the Bank's strategy, including in particular by analyzing periodic information on its implementation presented by the Management Board,
3) opining on the strategic operations of the Bank, which require the prior approval of the Supervisory Board, in particular as regards their consistency with the current strategy of the Bank,
4) perform other tasks assigned by the Supervisory Board in the implementation of strategic goals and key projects of the Bank.

As of the date of the Base Prospectus, the Supervisory Board Strategy Committee was not formed given that the election of the new members of the Supervisory Board took place on 22 June 2017. The members of the Audit Committee will be selected at the first meeting of the new Supervisory Board, which has been scheduled for August 2017.

Members of the Supervisory Board

As of the date of the Base Prospectus, the Supervisory Board consists of eleven members.

The current term of office of the Supervisory Board members commenced on 22 June 2017. Their appointments (terms of office) expire at the latest on the date of the General Meeting that approves the financial statements for the financial year ended 31 December 2019.

The table below presents a list of the current members of the Supervisory Board, their age and position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date of commencement of position	Expiration of term of office
Piotr Sadownik	48	Chairman of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020

Name	Age	Position	Date of commencement of position	Expiration of term of office
Grażyna Ciurzyńska	49	Deputy Chairman of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Mariusz Andrzejewski	45	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Mirosław Barszcz	46	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Adam Budnikowski	68	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Zbigniew Hajłasz	60	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Wojciech Jasiński	69	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Andrzej Kisielewicz	64	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Elżbieta Mączyńska-Ziemacka	72	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Janusz Ostaszewski	61	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020
Jerzy Paluchniak	41	Member of the Supervisory Board	22 June 2017	On the date of the general meeting of the shareholders in 2020

Piotr Sadownik

Mr Piotr Sadownik is a graduate of the Faculty of Law at the University of Warsaw and of Université Paris II Pantheon – Assas. In 1996 he obtained his legal attorney title at the District Bar Council in Warsaw. He commenced his professional career in 1993 in the Warsaw office of Gide Loyrette Nouel law firm.

Currently, he is a partner heading the Dispute Resolution, Infrastructure, Public Law and Intellectual Property Departments at the Warsaw office of Gide Loyrette Nouel.

He represents the law firm's clients in court disputes and advises Polish companies and international investors on infrastructure and public procurement projects. He also specializes in intellectual property law.

He is recommended by the Legal 500 EMEA and Chambers Europe in dispute resolution. Moreover, Legal 500 recommends him in the areas of energy and natural resources as well as intellectual property.

Since 15 February 2016, he is member of the Supervisory Board of Bank Ochrony Środowiska S.A.

Independent Member of the Supervisory Board.

Grażyna Ciurzyńska

Ms Grażyna Ciurzyńska she has been working within the banking sector for over 20 years. She held managerial positions in the area of corporate business of the PBK S.A. and Kredyt Bank S.A, supervising among others the cooperation with strategic clients and development of the enterprise financing programmes. Next, as a Director in the retail area of Bank BGŻ S.A., she was responsible for creation of the retail activity strategy, sales and pricing policy, bancassurance development, sales network management, designing and implementing products. She also served as an advisor to the President of the Management Board of the Bank.

Since 2007 she has been working within the banking payments and cards market. As a Director of the Department at Bank BGŻ S.A., and then at BGŻ BNP Paribas S.A., she was responsible for the card activity area, cooperation with international payment organisations and providers of card technologies and services. Moreover, she was the member of *Prezydium Rady Wydawców Kart Bankowych* (Presidium of the Council of Banking Card Issuers), and earlier the Presidium of the Council of Cash Management at the Polish Bank Association.

She was involved in teaching and research activity in the Warsaw School of Economics at the Institute of International Economic Relations for more than 15 years.

Currently, she is the Director of the Department in the Ministry of Development, coordinating implementation of the investment policy and operating processes, supervising the cooperation with Polish and foreign investors and financial institutions.

Non-Independent Member of Supervisory Board.

Mariusz Andrzejewski

Mr Mariusz Andrzejewski is a professor at the Cracow University of Economics, serves as the Dean of the Faculty of Finance and Law and the Head of the Department of Financial Accounting. He holds the degree of Habilitated Doctor of Economics. Since 2013 he has been also working as associate professor at the School of Banking and Management in Cracow.

He graduated from three majors, studying Accounting at the Faculty of Management at the Cracow University of Economics (CUE), as well as Automatics and Robotics with the specialty: Artificial Intelligence and Computer Science at the Faculty of Electrical Engineering, Automatics and Electronics at the AGH University of Science and Technology in Cracow. During his studies he obtained the scholarship of the Ministry of National Education three times. In 2001, implementing the grant of KBN (the State Committee for Scientific Research), he prepared and defended the doctoral thesis entitled "Accountancy and information disclosure by listed companies".

He has obtained business experience while serving as a member of supervisory boards of such companies as: Tauron Sprzedaż Sp. z o.o., Zakłady Chemiczne Alwernia SA, Kombinat Koksochemiczny Zabrze SA, Północ Nieruchomości SA (company listed on NewConnect), PolRest SA (company listed on the Warsaw Stock Exchange), Media Nieruchomości SA, Przedsiębiorstwo Inżynierii Miejskiej Sp. z o.o. in Czechowice – Dziedzice. He was also the President of the Management Board of Altair Sp. z o.o., Member of the Management Board for Finances at TBS Złocień Sp. z o.o. and the Advisor to the Management Board at the Institute of Business Law and Foreign Investments (*Instytut Prawa Spółek i Inwestycji Zagranicznych - IPSiZ Sp. z o.o.*). He was an Arbitrator at the Arbitration Court at the Polish Financial Supervision Authority. Currently he is Chairman of the Supervisory Board of PKP PLK SA and Member of the Supervisory Board of AWSA Holland II BV.

In 2005-2006 he held the position of Undersecretary of State in the Ministry of Finance.

He is a member of the Polish Economic Society (PTE) and the General Board of the Accountants Association in Poland. He is also a member of the European Accounting Association (EAA), the International Association for Accounting Education & Research (IAAER) and the Scientific Council of SKwP.

Mirosław Barszcz

Mr Mirosław Barszcz is a graduate of the Catholic University of Lublin, where he obtained the title of Master at Law. Currently, he is CEO of BGK Nieruchomości SA. Between 2014 and 2016, he was advisor to the strategy department of PGNiG SA. In 2013-2014 he was an independent advisor in the field of strategic and financial advisory, negotiations, project management, change management. Has extensive experience in auditing firms (1996-1997 Ernst & Young, 1998 -2001 Arthur Andersen, 2001 – 2004 PricewaterhouseCoopers), law firms (2005 Baker & McKenzie, 2008-2013 GWW Legal) and the government administration (2005 – 2006 Undersecretary of State in the Ministry of Finance, 2007 – Minister of Construction, 2011 – 2013 advisor of the Minister of Justice). Participated in more than 30 training courses (organised by Ernst & Young, Arthur Andersen, PricewaterhouseCoopers) including in the field of taxes, finances, human resources management, negotiations, project management, change management, cultural differences, communication. Has consulting experience in many industries, including: financial, information technology, telecommunications, energy, construction, real estate development, pharmaceutical, manufacturing, banking, commerce, logistics, tourism industries. Participated in numerous projects of government administration.

Independent Member of Supervisory Board.

Adam Budnikowski

Professor Adam Budnikowski graduated from Wyższa Szkoła Ekonomiczna (WSE) (currently Poznań University of Economics and Business) in Poznań in 1971, where he obtained his master's degree in Foreign Trade Economics. In 1975 he earned his PhD from the Foreign Trade Faculty at the Central School of Planning and Statistics (currently Warsaw School of Economics). In 1983 he obtained his post-doctoral degree from the same faculty. In 1992 the President of the Republic of Poland awarded him the title of Professor of Economics.

Professor Adam Budnikowski has been with the Warsaw School of Economics (SGH) since the beginning of his professional career. He started working at SGH in 1974 as an assistant lecturer at the Institute of International Economics. In subsequent years, upon receipt of scientific degrees, he was promoted to assistant professor, associate professor, and professor. In 1996 he was elected Dean of the World Economy Collegium at the Warsaw School of Economics and held that position for two consecutive terms of office, until 2002. He became Rector of the Warsaw School of Economics in 2005 and on 5 March 2008 he was re-elected for the second term of office for the years 2008-2012. Since 2012 he has been Dean of the World Economy Collegium at the Warsaw School of Economics.

During his professional career, he has cooperated with other scientific and educational institutions, including Polish Academy of Sciences, Polish Economic Society, Foreign Trade Research Institute (he was Deputy Director of the Institute from 1992 to 1993), Catholic University of Lublin, Radom Academy of Economics, European Academy of Diplomacy and the National School of Public Administration. He has been member of the Association of Polish Economists since 2001 and since 2012 he has been member of the Presidium of the Committee on Economic Sciences of the Polish Academy of Sciences.

He lectured and was a visiting researcher at Western universities numerous times during his scientific and research career. He was, among others, a Fulbright scholar, and in 1996 he was a World Bank expert participating in the Bank's missions in Turkey and Romania.

His main areas of academic interest are related to international business. They include, among others, international business relations (with special focus on trade policy and international finance), transformation in Central and Eastern Europe and environment protection policy.

Independent Member of the Supervisory Board.

Zbigniew Hajłasz

Mr Zbigniew Hajłasz is an expert and consultant in management and development. He has over 20 years of experience in managing commercial companies and as an analyst and expert in planning, management and development of financial institutions, industrial restructuring, privatisation and international projects.

Academic degrees: MPhil in Economics (London University, 2002) and M.Sc. in mathematics (Wrocław University of Science and Technology, 1982).

In the years 1993 to 1996 and since 2005 – academic lecturer (Wrocław University of Science and Technology, University of Wrocław, the Eugeniusz Geppert Academy of Art and Design in Wrocław); since August 2011 – President of the Management Board of Zakład Gospodarki Komunalnej sp. z o.o. in Św. Katarzyna (awarded with "Gazela Biznesu" in 2015 and 2016); since January 2016 – Vice Chairman of the Supervisory Board of Polskie Radio SA.

He has held, among others, the following positions: Director of the Economic Development Department of the Lower Silesian Governor's Office in Wrocław (1991-1993); Director of the Regional Privatisation Office of Bank BWP SA (1994-1996); Vice President of the Management Board of Wrocław Regional Development Agency – Managing Director; President of the Management Board of PRW SA in Wrocław; President of the Management Board of TBS sp. z o.o. in Głogów; Director of the OPDRO Project Coordination Office.

He was supervisory board member of state-owned companies and companies with local government shareholdings, inter alia: Dolnośląskie Konsorcjum Handlowo-Finansowe SA in Wrocław, Polskie Radio Wrocław SA in Wrocław, TBS sp. z o.o. in Lubin (the best TBS in Poland in BGK's ranking), Siechnicka Inwestycyjna Spółka Komunalna sp. z o.o., Polskie Radio SA.

Author of expert opinions for the Sejm and Government of the Republic of Poland and for financial institutions.

Independent Member of the Supervisory Board.

Wojciech Jasiński

Mr. Jasiński is a graduate of the Faculty of Law and Administration of the University of Warsaw (1972).

In the years 1972 to 1986 he worked in Płock, inter alia, for the Płock branch of the National Bank of Poland and in the Płock City Hall, also as a legal counsel in the Treasury Office. In the years 1990 to 1991 he worked on developing the local government in Płockie Voivdeship as Delegate of the Government's Plenipotentiary for Local Government Reform. From 1992 to 1997 he worked in the Supreme Audit Office (NIK) subsequently as Director of: NIK's Regional Branch in Warsaw, Department of Budget & Finance, Department of State Budget. In 1997-2000, he was member and next President of the Management Board of Srebrna company in Warsaw. He was member of the Supervisory Board of Bank Ochrony Środowiska in the years 1998 – 2000. From September 2000 to July 2001 he held the position of Undersecretary of State in the Ministry of Justice. In the years 2006 to 2007 he held the office of Minister of State Treasury.

Since 2001 he has been Member of Polish Parliament (4th, 5th, 6th, 7th and 8th parliamentary terms), where he held the following positions: Chairman of the Standing Subcommittee for the Banking System and Monetary Policy, Chairman of the Economy Committee, Chairman of the Public Finance Committee. He was also member of the parliamentary State Treasury Committee.

On 16 December 2015, the Supervisory Board of PKN ORLEN S.A. appointed Mr. Wojciech Jasiński President of the Management Board for a three-year joint term of office that ends on the date when the General Shareholders Meeting approves the company's financial statements for 2016.

Non-Independent Member of the Supervisory Board.

Andrzej Kisielewicz

Mr Andrzej Kisielewicz holds the title of Professor of Mathematical Sciences. He is employed at the University of Wrocław, Faculty of Mathematics and Computer Science. He defended his habilitation at the University of Wrocław, and obtained the title of PhD at Mathematical Sciences at the Polish Academy of Sciences. Graduate of the University of Wrocław. Gained experience in the academic centres such as: Opole University, Vanderbilt University (Nashville, USA), the Polish Academy of Sciences, Technische University (Darmstadt, Germany), The University of Manitoba (Winnipeg, Canada), Wrocław University of Technology. Has the experience of serving as the member of the supervisory boards. Author of more than 60 publications in the foreign journals relating to mathematics, logic and computer science and numerous books (e.g. "Sztuczna inteligencja i logika" (Artificial Intelligence and Logic), „Wprowadzenie do informatyki" itd. (An Introduction to Computer Science) etc.). He is also the author of many opinions, reviews and expert opinions, including for the Central Commission and the European Commission. His research interests are the application of mathematics, logic and computer science in practice, artificial intelligence, business intelligence, informatisation, argumentation theory.

Independent Member of Supervisory Board.

Elżbieta Mączyńska-Ziemacka

Ms Elżbieta Mączyńska-Ziemacka graduated from the University of Warsaw (Political Economy Department, specialisation: econometrics). Prof. PhD in economic sciences, employed at the Institute of Economic Sciences of the Polish Academy of Sciences (since 1990) and the Warsaw School of Economics (since 1998) at the position of the Head of the Department of Research of Enterprise Bankruptcy at the Institute of Corporate Finance and Investments at the Collegium of Business Administration of the Warsaw School of Economics (since 2008) and the Head of the Postgraduate Studies: 'Property Valuation'. Chairman of the Economic Strategic Thinking Committee of the Ministry of Economy (since 14 June 2013), President of the Polish Economic Society (since 2005), and member of the Presidium of the 'Poland 2000 Plus' Forecast Committee and the Committee of Economic Sciences of the Polish Academy of Sciences (since 2011). Member of the National Development Council.

In 1994-2005, scientific secretary and member of the Presidium of the Social and Economic Strategy Council of the Council of Ministers. In 2005-2007, independent member of the Supervisory Board of BGŻ, in 1996-1998 independent member of the Supervisory Board of Polski Bank Rozwoju, in 1990-1991 advisor and consultant to the Polish-Swedish limited liability company SWEA SYSTEM. Has completed scientific and research internships in Germany (University of Mannheim) and Austria (WIIW, Wirtschaftsuniversität Wien). Three-time recipient of a DAAD scholarship. Author, co-author and editor of around 200 publications and expert opinions in the area of economic analysis, finance and enterprise appraisal, as well as in the area of economic systems and strategies of social and economic development. Member of the Editorial Committee of the bi-monthly 'Ekonomista' published by the Polish Economic Society and the Committee of Economic Sciences of the Polish Academy of Sciences, member of the Editorial Board of the quarterly 'Kwartalnik Nauk o Przedsiębiorstwie' published by the Collegium of Business Administration of the Warsaw School of Economics, member of the editorial team of the quarterly International Journal of Sustainable Economy (IJSE), Inderscience Publishers Editorial Office, UK.

Independent Member of Supervisory Board.

Janusz Ostaszewski

Mr Janusz Ostaszewski is the Director of the Institute of Finance, Head of the Finance Department between 2001 and 2013 and member of the Senate of the Warsaw School of Economics, eminent finance expert. In the years 2005 to 2012 he was Dean of the Management and Finance Collegium for two terms of office.

He graduated from the Central School of Planning and Statistics in 1978. He earned his PhD In 1982 at the Faculty of Domestic Trade at the Central School of Planning and Statistics (currently Warsaw School of Economics). He received his post-doctoral degree at the same faculty in 1990. In 2001 he was awarded the title of Professor of Economics by the President of the Republic of Poland.

He completed his post-graduate studies in Finance and Management at Scuola Superiore Enrico Mattei in Milan. His main areas of research are: business operations, financial management and strategy. It is reflected in the courses he has been teaching for many years: corporate finance, finance, management, and in numerous teaching aids and books he published. He is the author of over 140 various scientific papers, including 40 books. Up to date, 22 scholars wrote and defended their doctoral dissertations under the tutelage of Professor Ostaszewski. His interest in finance was further developed during his several-year tenure as Director of the Department of Property Issues at the Ministry of Finance, subsequent service as advisor to the CEO of Kredyt Lease SA, a subsidiary of Kredyt Bank Group, and during the work performed for the Finance Bureau of the Chancellery of the Sejm.

Independent Member of the Supervisory Board.

Jerzy Paluchniak

Mr. Jerzy Paluchniak is a graduate of the Wrocław University of Economics, Faculty of Management and Information Technology, Management and Marketing Department, specializing in corporate management. Since 2003 a Certified Internal Auditor (CIA). In 2005, he obtained a licence of a statutory auditor (no. 10649) and passed all the ACCA exams.

From 1999 to 2000 Jerzy Paluchniak gained professional experience as an assistant brand manager with Zielona Budka Zbigniew Grycan S.A. Still in 2000, he continued his professional career in the Wrocław-based audit division of Arthur Andersen/Ernst&Young, holding positions from an assistant to a manager (promoted to manager in 2005).

From 2007 to January 2016 he worked for the Wrocław-based audit division of KPMG where he was promoted to senior manager in 2008. Apart from working as a key certified auditor in financial audit engagements, he assumed managerial roles in projects related to process reviews and audits, the implementation of an internal audit function and forensic audit engagements. He received the title of Certified Trainer from KPMG. He delivered training courses in auditing, accounting as well as personal and interpersonal skills for the clients and employees of KPMG as well as handling corporate social responsibility issues in KPMG's Wrocław Office.

From 2016 to 2017 he was a member of the Supervisory Board and of the Supervisory Board Audit Committee of PZU SA.

In 2016-2017, Mr Paluchniak also worked for Tauron Polska Energia SA as the Executive Director of Internal Audit in charge of the internal audit area in all the subsidiaries of the Tauron Polska Energia SA Group, where he effected a thorough change of the internal audit function, aligning it with the new business model of the Tauron Group.

Since 2010, member of the Regional Statutory Auditor Council in Wrocław.

Shares in the Bank or Stock Options Owned by Members of the Management Board and the Supervisory Board

As of 31 March 2017, from among the members of the Management Board or the Supervisory Board, shares in the Bank are held by Zbigniew Jagiełło, who held 11,000 shares, Piotr Mazur, who held 4,500 shares, Mieczysław Król, who held 5,000 shares, and Jakub Papierski, who held 3,000 shares.

As of 31 March 2017, except for Zbigniew Jagiełło, Piotr Mazur, Mieczysław Król and Jakub Papierski, no other member of the Management Board or the Supervisory Board owned any shares in the Bank or the Bank's stock options.

As of the date of the Base Prospectus, there are no restrictions on the disposal of the shares in the Bank held by members of the Management Board and the Supervisory Board.

Conflicts of Interest

Supervisory Board member Wojciech Jasiński is the president of the management board of PKN ORLEN S.A. Supervisory Board member Piotr Sadownik is a member of the supervisory board of Bank Ochrony Środowiska S.A. Supervisory Board member Mirosław Barszcz is a member of the supervisory boards of Magna Polonia S.A. and Biuro Studiów i Projektów Gazownictwa Gazoprojekt S.A.

In accordance with the representations made by Piotr Sadownik, Wojciech Jasiński and Mirosław Barszcz, there is a risk of there being a potential conflict of interest if future decisions regarding cooperation between the above-mentioned entities and the Bank are the subject of the Supervisory Board's decisions and deliberations or as such entities are clients of the Bank.

Other than the conflicts of interest described above, with respect to all the members of the Management Board and the Supervisory Board, there are no actual or potential conflicts of interest arising from their personal interests or duties and obligations towards the Bank.

Independence of the members of the Supervisory Board

On 28 December 2015, the Supervisory Board adopted the use of the Best Practices of WSE Listed Companies 2016, provided that recommendation IV.R.2., enabling shareholders to participate in the General Meeting by means of electronic communication, will not be used unless the General Meeting revises the Articles of Association of the Bank and authorises the Management Board to organise General Meetings by means of electronic communication.

According to statements made by the members of the Supervisory Board, Grażyna Ciurzyńska, Mariusz Andrzejewski, Mirosław Barszcz, Adam Budnikowski, Zbigniew Hajłasz, Wojciech Jasiński, Andrzej Kisielewicz, Elżbieta Mączyńska-Ziemacka, Janusz Ostaszewski and Jerzy Paluchniak meet the criteria of independent members of the Supervisory Board set out in the Best Practices of WSE Listed Companies. The other members of the Supervisory Board made statements that they do not meet the criteria of independence from the Bank and entities remaining in a significant relation with the Bank.

FORMS OF THE NOTES

Bearer Notes

Each Tranche of Notes in bearer form ("**Bearer Notes**") will initially be in the form of either a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons, or a permanent global note in bearer form (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") which is not intended to be issued in new global note ("**NGN**") form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear Bank SA/NV with its registered office at 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium ("**Euroclear**") and/or Clearstream Banking, société anonyme, Luxembourg with its registered office at 42 Avenue J.F. Kennedy, L-1855 Luxembourg ("**Clearstream, Luxembourg**") and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the "**ECB**") announced that Notes in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ECB credit operations" of the central banking system for the euro (the "**Eurosystem**"), *provided that* certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

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

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and

(ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

Temporary Global Note exchangeable for Bearer Notes in definitive form ("Definitive Notes")

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Permanent Global Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Event of Default*) in "*Terms and Conditions of the Notes*" occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Registered Notes

Each Tranche of Registered Notes will be in the form of either individual Note Certificates in registered form ("**Individual Note Certificates**") or a global Note certificate in registered form (a "**Global Note Certificate**"), in each case as specified in the relevant Final Terms. Each Global Note Certificate will be deposited on or around the relevant issue date, with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depositary and will be exchangeable for Individual Note Certificates in accordance with its terms.

If the relevant Final Terms specifies the form of Notes as being "Individual Note Certificates", then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being "Global Note Certificate exchangeable for Individual Note Certificates", then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or

(ii) at any time, if so specified in the relevant Final Terms; or

(iii) if the relevant Final Terms specifies "in the limited circumstances described in the Global Registered Note", then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Event of Default*) in "*Terms and Conditions of the Notes*" occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Final Terms which complete those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes, which will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Notes. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Summary of Provisions Relating to the Notes in Global Form" below. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "**Notes**" are to the Notes of one Series only, not to all Notes that may be issued under the Programme.*

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Issuer**", "**PKO Bank Polski**" or the "**Bank**") has established a Programme for the Issuance of Euro Medium Term Notes (the "Programme") for the issuance of up to €3,000,000,000 in aggregate principal amount of notes (the "**Notes**").

The Notes are the subject of an issue and paying agency agreement that will be executed (the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch and Banque Internationale à Luxembourg. Citibank, N.A., London Branch will act as fiscal agent the "**Fiscal Agent**" (which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), principal paying agent (the "**Principal Paying Agent**"), transfer agent (the "**Transfer Agent**"), calculation agent (the "**Calculation Agent**") and, in respect of the registered notes (if any), the registrar (the "**Registrar**"). Banque Internationale à Luxembourg will act as a paying agent (and together with the Principal Paying Agent, the "**Paying Agents**" and each a "**Paying Agent**"). Banque Internationale à Luxembourg will act as Luxembourg paying agent (the "**Luxembourg Paying Agent**", and together with the Principal Paying Agent, the Paying Agents, the Transfer Agent, the Calculation Agent and the Registrar, the "**Agents**").

Hard copies of the Agency Agreement, the Account Bank Agreement and the Final Terms are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the respective specified offices of the Principal Paying Agent and Luxembourg Paying Agent.

Certain provisions of these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Final Terms and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. STATUS AND SECURITY

1.1 *Status*

The Notes may either be senior or subordinated (respectively, the Senior Notes and the Subordinated Notes).

The Senior Notes shall constitute the direct, general and unconditional obligations of the Issuer and will at all times rank *pari passu* and without any preference among them. The payment obligations of the Issuer under the Senior Notes will at all times rank at least equally with all the other present and future unsecured and unsubordinated indebtedness of the Issuer, save only for any obligation that may be preferred under mandatory provisions of applicable law, as more fully described in "*Terms and Conditions of the Notes*".

The Subordinated Notes shall constitute the direct, unconditional, unsecured and subordinated obligations of the Issuer and and will at all times rank *pari passu* and without any preference among them and:

(i) *pari passu* with all other present or future subordinated obligations of the Issuer;

(ii) junior to all present or future (A) subordinated obligations expressed by their terms to rank in priority to the Subordinated Notes, and (B) subordinated obligations preferred under mandatory and/or overriding provisions of law; and

(iii) junior to all present or future (A) senior obligations, and (B) senior obligations preferred under mandatory and/or overriding provisions of law,

as more fully described in "*Terms and Conditions of the Notes*".

1.2 ***Security***

The Notes are unsecured.

1.3 ***Senior MREL Notes***

The Notes may be issued by the Issuer to satisfy the minimum requirements for the own funds and eligible liabilities. In such case the relevant Final Terms shall provide for a maturity term of the Notes of at least one year and will otherwise comply with the requirements set out in Article 45(4) of the BRRD, the Polish Act on Bank Guarantee Fund and the secondary legislation (RTS) adopted by the European Commission.

2. **FORM, DENOMINATION, TITLE AND TRANSFER**

2.1 ***Form and Denomination***

The Notes will be issued in bearer or registered form, and in the Specified Denomination(s) which shall, in the case of each Note to be offered to the public within a Member State of the European Economic Area or to be admitted to trading on a regulated market situated or operating within such a Member State, be not less than EUR 100,000 or its equivalent in other currencies, and which may include a minimum denomination and higher integral multiples of a smaller amount, without interest coupons, **provided that** Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

2.2 ***Bearer Notes***

Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

2.3 ***Title to Bearer Notes***

Title to Bearer Notes and Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

2.4 ***Registered Notes***

Registered Notes are issued in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

2.5 ***Title to Registered Notes***

The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

2.6 ***Ownership***

The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

2.7 ***Transfers of Registered Notes***

Subject to Condition 2.10 (*Closed periods*) and Condition 2.11 (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the

Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

2.8 ***Registration and delivery of Note Certificates***

Within five business days of the surrender of a Note Certificate in accordance with Condition 2.7 (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2.8 (*Registration and delivery of Note Certificates*), "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

2.9 ***No charge***

The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.10 ***Closed periods***

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

2.11 ***Regulations concerning transfers and registration***

All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. **INTEREST**

3.1 ***Interest on Fixed Rate Notes***

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the relevant Final Terms.

If a Fixed Coupon Amount or a Broken Amount is specified in the relevant Final Terms, the amount of interest payable on each Interest Payment Date will be an amount equal to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified, and in the case of the Broken Amount, will be payable on the particular Interest Payment Date(s) specified in the relevant Final Terms or as soon as thereafter as the same is received.

3.2 ***Interest on Floating Rate Notes***

(a) *Interest Payment Dates*: Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified in the relevant Final Terms, such interest being payable in arrears on each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(b) *Business Day Convention*: If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a

day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(c) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the relevant Final Terms.

3.3 ***Accrual of Interest***

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 3 (*Interest*) to the Relevant Date (as defined in Condition 7 (*Taxation*)).

3.4 ***Calculations***

The amount of interest payable in respect of any Note for any period shall be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount and multiplying the product by the Day Count Fraction, as specified in the relevant Final Terms, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent, **provided that** if an Interest Amount (or a formula for its calculation) is specified in respect of such period, the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

3.5 ***Publication of Rates of Interest and Interest Amounts***

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 3.2(b) (*Interest on Floating Rate Notes-Business Day Conversion*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

3.6 ***Step-Up Rate of Interest***

If a Step-Up Rate of Interest is specified in the relevant Final Terms, each Fixed Rate Note or Floating Rate Note, as applicable, will bear interest on its outstanding principal amount at the Initial Rate of Interest during the Initial Interest Term and at the Step-Up Rate of Interest during the Step-Up Interest Term, each as specified in the relevant Final Terms.

4. REDEMPTION AND PURCHASE

4.1 *Scheduled redemption*

The Notes will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified in the relevant Final Terms at their Final Redemption Amount (which, unless otherwise specified in the relevant Final Terms, is 100% of the principal amount thereof).

4.2 *Call Option*

If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

If the Notes are to be redeemed in part only on any date in accordance with Condition 4.2 (*Call Option*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Fiscal Agent approves and in such manner as the Fiscal Agent considers appropriate, subject to compliance with applicable law and the rules of each listing authority, stock exchange, regulated market and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation, and the notice to Noteholders referred to in Condition 4.2 (*Call Option*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

4.3 *Put Option*

If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 4.3 (*Put Option*), the holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put), deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 4.3 (*Put Option*), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 4.3 (*Put Option*), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

4.4 *Purchase of Notes*

The Issuer or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, whilst held by or on behalf of the Issuer or any of its subsidiaries, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding, including, without limitation, for the purpose of calculating quorums at meetings.

4.5 ***Cancellation***

All Notes redeemed and any unmatured Coupons attached to or surrendered with them shall be cancelled and all Notes so cancelled and any Notes cancelled pursuant to Condition 4.4 (*Purchase of Notes*) above (together with all unmatured Coupons cancelled with them) may not be reissued or resold.

5. **PAYMENTS – BEARER NOTES**

5.1 ***Application***

This Condition 5 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

5.2 ***Principal***

Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the specified office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (and in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System. For the purposes of these Conditions "**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; "**TARGET System**" means TARGET2 or any successor thereof.

5.3 ***Payments in New York City***

Payments of principal or interest may be made at the specified office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

5.4 ***Interest***

Payments of interest shall, subject to Condition 5.7 (*Unmatured Coupons void*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the specified office of any Paying Agent in the manner described in Condition 5.2 (*Principal*) above.

5.5 ***Payments subject to applicable laws***

All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

5.6 ***Deductions for unmatured Coupons***

If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; provided, however, that where this sub-Condition would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in sub-Condition (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

5.7 ***Unmatured Coupons void***

If the relevant Final Terms specifies that this Condition 5 (*Payments – Bearer Notes*) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note, all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

5.8 ***Payments on Business Days***

If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 5.8 (*Payments on Business Days*) and in Condition 6.5 (*Payments on Business Days*) below, "**Business Day**" means a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating.

5.9 ***Payments other than in respect of matured Coupons***

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the specified office of any Paying Agent.

5.10 ***Partial payments***

If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

5.11 ***Exchange of Talons***

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 10 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

6. **PAYMENTS – REGISTERED NOTES**

6.1 ***Application***

This Condition 6 (*Payments – Registered Notes*) is only applicable to Registered Notes.

6.2 ***Principal***

Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London),

or, in the case of euro, in a city in which banks have access to the TARGET System, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

6.3 ***Interest***

Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

6.4 ***Payments subject to applicable laws***

All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

6.5 ***Payments on Business Days***

Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 6.5 (*Payments on Business Days*) arriving after the due date for payment or being lost in the mail.

6.6 ***Partial Payments***

If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

6.7 ***Record Date***

Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7. **TAXATION**

All payments (whether in respect of principal, interest or otherwise) in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland or any political subdivision therein or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments, or governmental charges is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(i) held by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some

connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(ii) held by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the EU; or

(iii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

8. EVENTS OF DEFAULT

8.1 *Events of Default with respect to Senior Notes*

If any of the following events occurs:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Senior Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Senior Notes within 30 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer fails to perform or observe any of its other obligations under or in respect of the Senior Notes and the failure continues for 45 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Specified Office of the Fiscal Agent; or

(c) *Cross-default of Issuer*: unless otherwise specified in the applicable Final Terms, there will be no events of default in respect of Senior Notes. Noteholders will not be able to accelerate the maturity of their Senior Notes; or

(d) *Winding up etc*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer; or

(e) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Senior Notes;

then the holders of at least 25 per cent. in aggregate principal amount of the Senior Notes may, by written notice addressed to the Issuer (with a copy to the Fiscal Agent), declare the Senior Notes to be immediately due and payable, whereupon the Senior Notes shall become immediately due and payable together with accrued interest (if any) without further action or formality, provided, however, that if the Issuer receives notice in writing (with a copy to the Fiscal Agent) from holders of at least 50 per cent. in aggregate principal amount of the outstanding Senior Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

8.2 *No Event of Default with respect to Subordinated Notes*

There will be no event of default in respect of the Subordinated Notes and the Subordinated Noteholders and/or the holders of any related Coupons will not be able to accelerate the term of their Subordinated Notes and/or any related Coupons.

9. MEETINGS OF NOTEHOLDERS; MODIFICATION OF NOTES, WAIVER; SUBSTITUTION OF THE ISSUER

9.1 *Meetings of Noteholders*

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes.

Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of 90% of all Noteholders for the time being entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by, or on behalf of, one or more Noteholders.

9.2 ***Modification and Waiver***

The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

10. **PRESCRIPTION**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

11. **REPLACEMENT OF NOTES**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

12. **AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out on the Notes. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Fiscal Agent, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents **provided that** (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 13 (*Notices*).

13. **NOTICES**

13.1 ***Notices – Bearer Notes***

Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

13.2 ***Notices – Registered Notes***

Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the third day after the date of mailing.

14. FURTHER ISSUES

The Issuer may from time to time, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount, issue price, issue date and/or the date of the first payment of interest) so as to be consolidated and form a single series with the Notes.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. ACKNOWLEDGEMENT OF BAIL-IN AND WRITE-DOWN OR CONVERSION POWERS

Notwithstanding and to the exclusion of any other term of the Notes or any other agreements, arrangements or understanding between the Issuer and any Noteholder (which, for the purposes of this Condition, includes each holder of a beneficial interest in the Notes), by its acquisition of the Notes, each Noteholder acknowledges, accepts and agrees to be bound by the exercise of, any Bail-in Power by the Polish Bank Guarantee Fund or any successor or replacement thereto and/or such other authority which has the ability to exercise any Bail-in Power in relation to the Issuer (the **Relevant Resolution Authority**) that may result in the write-down or cancellation of all, or a portion, of the principal amount of, or payments of interest or other distributions on, the Notes and/or the conversion of all, or a portion, of the principal amount of, or payments of interest or other distributions on, the Notes into shares or other securities or other obligations of the Issuer or another person, including by means of a variation to the terms of the Notes to give effect to the exercise by the Relevant Resolution Authority of such Bail-in Power. Each Noteholder further acknowledges and agrees that the rights of the Noteholders are subject to, and will be varied, if necessary, so as to give effect to, the exercise of any Bail-in Power by the Relevant Resolution Authority.

For these purposes, a **Bail-in Power** means any statutory write-down, conversion, transfer, modification, suspension or similar or related power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements relating to the resolution of credit institutions, investment firms and/or group entities in effect and applicable in Sweden, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of the BRRD and/or the Polish Act of 10 June 2016 on Bank Guarantee Fund, the deposit guarantee scheme and compulsory restructuring (as amended from time to time, the Act on Bank Guarantee Fund) as amended or replaced from time to time and any instruments, rules and standards created thereunder, pursuant to which liabilities of the Issuer (or any affiliate of the Issuer) can be reduced, cancelled, modified and/or converted into shares or other securities or obligations of the Issuer or any other person. **BRRD** means Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms dated 15 May 2014 and published in the Official Journal of the European Union on 12 June 2014, as amended or replaced from time to time.

Upon the Issuer being informed or notified by the Relevant Resolution Authority of the actual exercise of the Bail-in Power or the date from which the Bail-in Power shall be effective with respect to the Notes, the Issuer shall notify the Noteholders without delay. The Issuer will also deliver a copy of such notice to the Fiscal Agent for informational purposes, although the Fiscal Agent shall not be required to send such notice to Noteholders. Any delay or failure by the Issuer to give such notice shall not affect the validity and enforceability of the Bail-in Power nor the effects on the Notes described in this Condition.

The exercise of the Bail-in Power by the Relevant Resolution Authority with respect to the Notes shall not constitute an Event of Default and these Conditions shall continue to apply in relation to the residual principal amount of, or outstanding amount payable with respect to, the Notes, subject to any modification of the amount of interest or other distributions payable to reflect the reduction of the principal amount, and any further modification of these Conditions that the Relevant Resolution Authority may decide in accordance with applicable laws and regulations relating to the resolution of credit institutions, investment firms and/or group entities in effect and applicable in Sweden.

Each Noteholder also acknowledges and agrees that this provision is exhaustive on the matters described herein to the exclusion of any other agreements, arrangements or understandings relating to the application of any Bail-in Power to the Notes.

Upon the exercise of any Bail-in Power by the Relevant Resolution Authority, the Issuer and each Noteholder (including each holder of a beneficial interest in the Notes) hereby agree that (a) the Fiscal Agent shall not be required to take any directions from Noteholders, and (b) the Agency Agreement shall impose no duties upon the Fiscal Agent whatsoever, in each case with respect to the exercise of any Bail-in Power by the Relevant Resolution Authority.

Notwithstanding the foregoing, if, following the completion of the exercise of the Bail-in Power by the Relevant Resolution Authority, any Notes remain outstanding (for example, if the exercise of the Bail-in Power results in only a partial write-down of the principal of the Notes), then the Fiscal Agent's duties under the Agency Agreement shall remain applicable with respect to the Notes following such completion to the extent that the Issuer and the Fiscal Agent shall agree pursuant to an amendment to the Agency Agreement.

If the Relevant Resolution Authority exercises the Bail-in Power with respect to less than the total prevailing outstanding amount of the Notes, and any accrued and unpaid interest on the Notes that has not been previously cancelled or otherwise is no longer due, unless the Fiscal Agent is otherwise instructed by the Issuer or the Relevant Resolution Authority or the Regulator, any cancellation, write-off or conversion made in respect of the Notes pursuant to the Bail-in Power will be made on a pro-rata basis.

No expenses necessary for the procedures under this Condition 16 (*Acknowledgement of Bail-In and Write-Down or Conversion Powers*), including, but not limited to, those incurred by the Issuer and the Fiscal Agent, shall be borne by any Noteholder.

17. GOVERNING LAW

The Notes, the Agency Agreement and the Account Bank Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Account Bank Agreement are governed by English law.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will complete the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

Issue of [*Aggregate Nominal Amount of Tranche*] [*Title of Notes*],
issued by

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the "**Issuer**")

under the [*Programme Amount*]
Programme for the Issuance of Euro Medium Term Notes

The Final Terms have been prepared in accordance with Article 5(4) of Directive 2003/71/EC and must be read in conjunction with the base prospectus and its supplement(s). The Base Prospectus and its supplement(s) are published in accordance with Article 14 of Directive 2003/71/EC. The Prospectus referred to below (as completed by these Final Terms) has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC, as amended) (each a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of the Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in any other circumstances. In order to get the full information both the Base Prospectus and the Final Terms must be read in conjunction.

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Base Prospectus dated 11 July 2017 [and the Base Prospectus Supplement dated [●]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Notes and must be read in conjunction with such Base Prospectus [as so supplemented].

Full information on the Issuer and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the Base Prospectus Supplement] [is] [are] available for viewing [at [*website*]] [and] during normal business hours at [*address*] [and copies may be obtained from [*address*]].]

[*Include whichever of the following apply or specify as "Not Applicable"* (*N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Final Terms.*]

[*When completing any final terms, consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive*].

1.	[(i)	Series Number:]	[●]/[Not Applicable]
	[(ii)	Tranche Number]:	[●]/[Not Applicable]
2.	Specified Currency or Currencies:		[●]
3.	Aggregate Nominal Amount:		
	[(i)]	[Series]:	[●]

	[(ii) Tranche:	[●]]
4.	Issue Price:	[●] per cent. of the Aggregate Nominal Amount
5.	(i) Specified Denominations:	[●] [If the Specified Denomination is expressed to be EUR 100,000 or its equivalent and multiples of a lower principal amount, insert the additional wording as follows: EUR 100,000 and integral multiples of EUR [1,000] in excess thereof up to and including EUR [199,000]. No Notes in definitive form will be issued with a denomination above EUR [199,000].] [No Notes may be issued which have a minimum denomination of less than EUR 100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency)]
	(ii) Calculation Amount:	[●] [If only one Specified Denomination, insert the Specified Denomination. If more than one, insert the highest common factor. Note: there must be a common factor in the case of two or more Specified Denominations]
6.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[Specify/Issue Date/Not Applicable]
7.	Maturity Date:	[Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
8.	Interest Basis:	[● per cent. Fixed Rate] [[Specify reference rate] +/– ● per cent. Floating Rate] [Zero Coupon]
9.	Redemption/Payment Basis – on the Maturity Date, the Notes may be redeemed at par or at a specified redemption amount specified in the relevant Final Terms:	[Redemption at par] [100 per cent]/[● per cent] [Partly Paid] [100 per cent]/[● per cent] [Instalment] [100 per cent]/[● per cent] *Note that the Redemption Amount shall always be equal to or higher than the par value of the redeemed Notes.*
10.	Change of Interest or Redemption/Payment Basis:	[Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]

11.	Put/Call Options:	[Investor Put] [Issuer Call]
12. [(i)]	Status of the Notes:	[Senior/[Dated/Subordinated]
[(ii)]	[Date [Board] approval for issuance of Notes] obtained:	[●] [(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]
13.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

14.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)] in arrears]
(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [specify Business Day Convention and any applicable Business Centre(s) for the definition of "Business Day"]/not adjusted]
(iii)	Fixed Coupon Amount[(s)]:	[●] per Calculation Amount
(iv)	Broken Amount(s):	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
(v)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)]
(vi)	[Determination Dates:	[●] in each year [insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)]]
15.	**Floating Rate Note Provisions**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
(i)	Interest Period(s):	[●]
(ii)	Specified Period:	[●] [Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"]

(iii)	Specified Interest Payment Dates:	[●] [Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable"]
(iv)	[First Interest Payment Date]:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/ Modified Following Business Day Convention/ Preceding Business Day Convention
(vi)	Additional Business Centre(s):	[Not Applicable/give details]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Principal Paying Agent]):	[[Name] shall be the Calculation Agent (no need to specify if the Principal Paying Agent is to perform this function)]
(ix)	Screen Rate Determination:	
	● Reference Rate:	[For example, LIBOR or EURIBOR]
	● Interest Determination Date(s):	[●]
	● Relevant Screen Page:	[For example, Reuters LIBOR 01/ EURIBOR 01]
	● Relevant Time:	[For example, 11.00 a.m. London time/Brussels time]
	● Relevant Financial Centre:	[For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro]
(x)	ISDA Determination:	
	● Floating Rate Option:	[●]
	● Designated Maturity:	[●]
	● Reset Date:	[●]
(xi)	Margin(s):	[+/-][●]] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/ [●]]

16.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
	(i) [Amortisation/Accrual] Yield:	[●] per cent. per annum
	(ii) Reference Price:	[●]

PROVISIONS RELATING TO REDEMPTION

17.	**Call Option**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
	(i) Call Option Redemption Date:	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount	[●] per Calculation Amount
	(iv) Notice period:	[●]
18.	**Put Option**	[Applicable/Not Applicable] [If not applicable, delete the remaining sub-paragraphs of this paragraph]
	(i) Put Settlement Date:	[●]
	(ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
19.	**Final Redemption Amount of each Note**	[●] per Calculation Amount
20.	**Early Redemption Amount**	[Not Applicable]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[If both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

21.	**Form of Notes:**	**[Bearer Notes:]** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on 7 days' notice] [Temporary Global Note exchangeable for Definitive Notes on 30 days' notice] [Permanent Global Note exchangeable for Definitive Notes on 30 days' notice/at any time/in the limited circumstances specified in the Permanent Global Note] [**Registered Notes:**] [Individual Note Certificates] [Global Note Certificate exchangeable for Individual Note Certificates on 5 days' notice/at any time/in the limited circumstances described in the Global Registered Note]
22.	New Global Note:	[Yes] [No]
23.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/*give details.* *Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraphs 15(ii), 16(vi) and 18(x) relate*]
24.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]
25.	Redenomination, renominalisation and reconventioning provisions:	[Not Applicable/The provisions [in Condition [●] apply]
26.	[Consolidation provisions:	Not Applicable/The provisions in Condition 14 (*Further Issues*) apply]

DISTRIBUTION

27.	(i)	If syndicated, names of Managers:	[Not Applicable/*give names*]
	(ii)	Stabilising Manager(s) (if any):	[Not Applicable/*give name*]
28.		If non-syndicated, name of Dealer:	[Not Applicable/*give name*]
29.		U.S. Selling Restrictions:	[Reg. S Compliance Category]; (*In the case of Bearer Notes)* – [TEFRA C/TEFRA D/ TEFRA not applicable] (*In the case of Registered Notes)* – Not Applicable

Signed on behalf of

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna:

By: .

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

(i)	Listing	[Luxembourg Stock Exchange/other (specify)/None]
(ii)	Admission to trading	[Application is has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [*specify relevant regulated market*] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [*specify relevant regulated market*] with effect from [●].] [Not Applicable.]

2. RATINGS

Ratings:	[[The Programme has been/The Notes to be issued have been] rated:] [S&P: [●]] [Moody's: [●]] [Fitch: [●]] [[Other]: [●]] (*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

Need to include a description of any interest, including conflicting ones, that is material to the issue/ offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:]

["So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer."]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.*)]

4. **ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

(i)	Estimated net proceeds:	[●]
(ii)	Estimated total expenses relating to the admission to trading:	[●] [*Include breakdown of expenses*]

5. [***Fixed Rate Notes only*** **– YIELD**

Indication of yield:	[●]/[Not applicable]

6. [***Floating Rate Notes only*** **– HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7. **OPERATIONAL INFORMATION**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank S.A./NV and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any):	[●]/[Not Applicable]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes][No][Not Applicable] [Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] [*include this text if "yes" selected in which case the Notes must be issued in NGN form*]

8. **ADDITIONAL INFORMATION**

Country(ies) where the offer(s) to the public takes place [●]/[Not Applicable]

Country(ies) where admission to trading on the regulated market(s) is being sought [●]/[Not Applicable]

Country(ies) into which the Base Prospectus has been notified [●]/[Not Applicable]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to "**Noteholder**" are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Registered Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

(a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated and, in the case of an NGN, effectuated, to the bearer of the Temporary Global Note; or

(b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Principal Paying Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or

(b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or

(c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or

(b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder.

Exchange of Global Note Certificates

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

(a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or

(b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on

such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Trust Deed. Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon, will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Business Day for Payments: While Notes are represented by the Global Note or a Global Note Certificate, references in Conditions 5.8 (*Payments on Business Days*) and 6.5 (*Payments on Business Days*) of the Terms and Conditions of the Notes to "**Business Day**" shall mean, if the currency of payment is euro, any day the TARGET System is operating and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre, as specified in the applicable Final Terms; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre, as specified in the applicable Final Terms.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 4.3 (*Put Option*) the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 4.2 (*Call Option*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 13 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 13 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be

published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*).

TAXATION

The following is a general description of certain Polish and Luxembourg tax considerations relating to the Notes and to the Programme. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws and tax treaties could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws and tax treaties of those countries. This summary is based upon the laws of Poland and Luxembourg as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. The information contained within this section is limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

The Republic of Poland

Personal income tax

Individuals subject to unlimited tax liability in Poland

Under Art. 3.1 of the Personal Income Tax (PIT) Act, individuals residing in Poland are required to pay tax on all their income (revenue) regardless of the location of the source of revenue (unlimited tax liability). A person residing in Poland is an individual: (i) whose centre of personal or economic interests (the centre of life affairs) is in Poland; or (ii) who stays in Poland for more than 183 days in a fiscal year. These rules apply without prejudice to the provisions of double tax treaties concluded by Poland (Art. 4a of the PIT Act).

Income (revenue) from interest on bonds

Under Art. 30a.1.2 of the PIT Act, income (revenue) from interest on bonds is not subject to the general, progressive tax scale. Income derived from interest on bonds is subject to a 19% flat rate tax. Under Art. 41.4 of the PIT Act, this tax on interest on bonds is remitted by the entities making the payments, which are responsible for settling the tax. Under Art. 42.1 of the PIT Act, tax remitters must transfer the tax to the bank account of the relevant tax office no later than by the 20th day of the following month. According to Art. 45.3b in conjunction with Art. 45.1 of the PIT Act, if the tax is not withheld by the remitter, the individual is required to settle the tax himself/herself by the end of April of the following year in their annual tax return.

There is a specific situation regarding income from bonds kept in securities accounts and omnibus accounts, as defined in the Act on Trading in Financial Instruments. Under Art. 41.4d of the PIT Act, tax on interest on bonds is withheld by entities keeping securities accounts for taxpayers, if the income (revenue) is earned in the territory of Poland (which should be the case with respect to the bonds issued by the Polish issuer) and is associated with the securities registered in these accounts and, further, if the relevant payments are made to the taxpayers through those entities. The tax on interest on bonds regarding securities kept in omnibus accounts is withheld by the entities keeping the omnibus accounts through which the amounts due are paid. The tax is withheld on the date on which the amounts due are put at the disposal of the omnibus account holder (Art. 41.10 of the PIT Act).

Additionally, under Art. 30a.2a of the PIT Act, as regards income (revenue) from interest on bonds transferred to taxpayers holding rights attached to securities registered in omnibus accounts whose identity has not been disclosed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 19% flat rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the omnibus account holder. The tax is withheld on the date on which the interest payment is released to the omnibus account.

Under Art. 45.3c of the PIT Act, taxpayers are required to disclose the amount of income (revenue) from interest on bonds in their annual tax return if the bonds were registered in an omnibus account and the taxpayer's identity was not disclosed to the tax remitter.

Income from a disposal of bonds for remuneration

Under Art. 30b.5 of the PIT Act, income from a disposal of bonds for remuneration is not subject to the general, progressive tax scale; however, pursuant to Art. 30b.1 of the PIT Act, it is subject to a 19% flat rate tax. Under Art. 30b.2.1, income is calculated as the difference between the sum of revenues earned from the disposal of bonds for remuneration and the tax deductible costs, calculated in accordance with the relevant provisions of the PIT Act (earned in a fiscal year). If a taxpayer disposes of bonds that were acquired at various prices and it is not possible to determine a uniform purchase price for the bonds so transferred, then for the purpose of determining the income on such disposal, the transaction is deemed to concern the bond that had been acquired first (the

oldest of the securities transferred – 'first in, first out'). The presumption referred to in the preceding sentence is applied separately to each securities account (Art. 24.10 of the PIT Act). Pursuant to Art. 17.2 in conjunction with Art. 19.1 of the PIT Act, if the price set out in the agreement significantly differs from the market value of the bonds without a justified reason, the revenues from their disposal against remuneration are determined by the tax authority in the amount reflecting their market value.

The taxpayer himself/herself is required to settle the tax on a disposal of bonds, and no tax or tax advances are withheld by the person making the payments (Art. 30b.6 in conjunction with Art. 45.1a.1 of the PIT Act). The taxpayer must settle this tax by 30 April of the following year (Art. 45.1 of the PIT Act).

The above regulations will not apply if the bonds are disposed of for remuneration within the scope of the conducted business activity, meaning that they are held and disposed of as business assets (Art. 30b.4 of the PIT Act). In such case, revenues from the disposal of bonds for remuneration should be recognised as business revenues and taxed in accordance with the progressive tax scale or a flat rate tax, depending on the taxpayer's choice and whether the taxpayer meets additional requirements.

Individuals subject to limited tax liability in Poland

Income from interest on bonds

Individuals, if they do not reside in the territory of the Republic of Poland, are liable to pay tax only on income (revenue) earned in the territory of the Republic of Poland (limited obligation to pay tax).

Pursuant to Art. 3.2b. of the PIT Act, interest on bonds issued by the Polish issuer paid to individuals that are subject to limited tax liability in Republic of Poland shall be deemed to be derived from the territory of Republic of Poland. Pursuant to Art. 30a.1.2 and in connection with Art. 3.2a of the PIT Act, income (revenue) from interest on bonds earned by individuals subject to limited tax liability concerning income (revenue) derived from the territory of the Republic of Poland should be subject to similar taxation rules as those specified above for individuals that are subject to unlimited tax liability.

Pursuant to Art. 30a.2 of the PIT Act, the application of a tax rate resulting from the relevant double tax treaty or the non-payment of tax under such treaty is possible provided that the taxpayer proves his place of residence for tax purposes with a relevant certificate of tax residence.

The tax remitters will, at the written request of a taxpayer, within 14 (fourteen) days from the date of filing such request, be required to prepare and deliver the written information about a withheld tax to the taxpayer and to the tax office headed by the chief of the tax office competent for the taxation of foreign entities.

However, if the income (revenue) from interest on bonds is transferred to taxpayers who hold rights attached to securities registered in omnibus accounts and whose identity was not disclosed to the tax remitter in accordance with the procedure specified in the Act on Trading in Financial Instruments, the tax remitter is not required to prepare and send any personal information about the value of income to the extent that it relates to such taxpayers.

Income from the disposal of bonds for remuneration

The above-mentioned rules concerning taxation of income derived from disposal of bonds by individuals that are subject to unlimited tax liability in Poland shall respectively apply to individuals that are subject to limited tax liability in Poland, unless relevant treaty on the avoidance of double taxation to which the Republic of Poland is a party provides otherwise. However, the application of a tax rate arising from the appropriate double taxation convention or non-assessment (non-payment) of the tax pursuant to convention is possible if the place of residence of a taxpayer is proved for tax purposes with a tax residence certificate.

Moreover, pursuant to Art. 45.7 of the PIT Act, taxpayers subject to limited tax liability in Poland, if they obtained income that is subject to taxation in Poland, and such income was not settled by remitters or such remitters were not obliged to calculate annual amount due to tax or gained income from sources provided in Art. 30b, i.a. income from disposal of bonds for remuneration, and if those taxpayers are going to leave territory of Poland before 30th of April of the year following the year that such income was gained, shall provide relevant Polish tax authority with tax return for such tax year.

Corporate Income Tax

Corporate income taxpayers subject to unlimited tax liability in Poland

Corporate Income Tax Act ("**CIT Act**") governs income taxation of legal persons and capital companies in the process of incorporation. The provisions of this Act also apply to unincorporated organizational units except for unincorporated partnerships unless they are : (i) limited joint-stock partnerships that have their registered office

or management in the territory of the Republic of Poland; or (ii) unincorporated partnerships without legal personality with their registered office or management in another state, if they are treated as legal persons according to the tax legislation of that state and their entire income is taxable in that state, irrespective of where that income is earned. Under Art. 3.1 of the CIT Act, taxpayers who have their registered office or place of management in Poland are subject to Polish income tax on all of their income regardless of where it is earned (unlimited tax liability).

Income (revenue) from interest on bonds

Under Art. 12.1 in connection with Art. 12.4.2 of the CIT Act, revenue from interest on bonds are subject to taxation based on the general rules stipulated in the CIT Act on the revenue earning date (in the case of interest income taxation is based on cash rule). The income is aggregated with the other income and taxed at a rate of:

- 19% - for taxpayers having their seat or a board within the territory of the Republic of Poland
- 15% - for:

(i) 'small taxpayers' pursuant to Art. 4a.1.10, i.e. taxpayers whose revenue derived from sale of goods and services(including due value added tax) did not exceed in the prior tax year amount equal to 1 200 000 EUR

(ii) taxpayers starting a business - in the tax year during which business is started

Neither Issuer nor entities keeping securities account, as a rule, are obliged to withhold any tax on income derived from interest on bonds even if the relevant payments are made to the taxpayers through those entities. Pursuant to Art. 26.1 of the CIT Act, taxpayers shall: (i) provide relevant tax authority with an annual tax return indicating income (loss) obtained in a tax year and (ii) as a rule, pay due income tax or difference between due income tax and advance tax payments made in the tax year - until the end of the third month of the year following the concerned tax year.

Income from the disposal of bonds for remuneration

Under Art. 12.1 of the CIT Act, revenue from the disposal of bonds is subject to taxation based on the general rules stipulated in the CIT Act. The income is aggregated with the other income of the taxpayers and taxed at a rate of:

- 19% - for taxpayers having their seat or a board within the territory of the Republic of Poland
- 15% - for:

(i) 'small taxpayers' pursuant to Art. 4a.1.10, i.e. taxpayers whose revenue derived from sale of goods and services(including due value added tax) did not exceed in the prior tax year amount equal to 1 200 000 EUR

(ii) taxpayers starting a business - in the tax year during which business is started.

The tax-deductible costs of generating revenue on the disposal of securities for a consideration are the expenses incurred on acquiring or otherwise subscribing for the securities. Costs are recognised on the revenue earning date (Art. 16.1.8 of the CIT Act). If the price set out in the agreement significantly differs from the market value of the bonds without a justified reason, the revenue from their disposal for remuneration is determined by the tax authorities at a level reflecting their market value (Art. 14.1 of the CIT Act).

Pursuant to Art. 26.1 of the CIT Act, taxpayers shall: (i) provide relevant tax authority with an annual tax return indicating income (loss) obtained in a tax year and (ii) pay due income tax or difference between due income tax and advance tax payments made in the tax year - until the end of the third month of the year following the concerned tax year.

Corporate income taxpayers subject to limited tax liability in Poland

Income from the interest on bonds

Corporate income taxpayers that do not have their registered office or place of management in the territory of Poland are subject to a tax obligation only with respect to the income they earned in the territory of Poland (Art. 3.2 of the CIT Act).

Pursuant to Art. 3.3 of the CIT Act, interest on bonds issued by the Polish issuers shall be deemed to be derived from the territory of Republic of Poland. Pursuant to Art. 21.1.1 of the CIT Act, income derived from the interest on bonds held by taxpayers that do not have their registered office or place of management in the territory of Poland is taxed at flat rate of 20%. Pursuant to Art. 26.1 of the CIT Act, the income tax is remitted by the entity

making the payment of the interest on bonds. Thus, the person paying the interest, as a remitter, is responsible for withholding the appropriate tax and depositing it in the bank account of the relevant tax authority, if such tax is due. However, tax on interest on bonds held in securities accounts or omnibus accounts is withheld by the entities keeping the securities accounts or omnibus accounts, as applicable and, further, if the relevant payments are made to the taxpayers through those entities

The remitter is required to deposit withheld amounts of tax by the seventh day of the month following the month in which the tax was withheld in the bank account of the relevant tax authority (Art. 26.3 of the CIT Act). By the same date, remitters are required to send to the taxpayer a notice specifying the amount of tax collected, prepared in the agreed form (Art. 26.3a of the CIT Act). The obligation to send such information to a taxpayer does not arise when it concerns taxpayers holding rights attached to securities registered in omnibus accounts whose identity has not been disclosed to the tax remitter in accordance with the Act on Trading in Financial Instruments

Additionally, under Art. 26.2a of the CIT Act, as regards income (revenue) from interest on bonds transferred to taxpayers holding rights attached to securities registered in omnibus accounts whose identity has not been disclosed to the tax remitter in accordance with the Act on Trading in Financial Instruments, a 20 % flat rate tax is withheld by the tax remitter from the aggregate income (revenue) released for the benefit of all such taxpayers through the omnibus account holder. The tax is withheld on the date on which the interest payment is released to the omnibus account (Art. 26.2b of the CIT Act).

If the income tax is collected by the remitter, the relevant convention on the avoidance of double taxation applies if the taxpayer is able to provide the tax remitter with a valid certificate of tax residence issued by the relevant tax authority in the jurisdiction where the taxpayer is a tax resident. If the taxpayer is required to settle the income tax him/her/itself, he/she/it may be requested to present a valid certificate of tax residence to the tax authorities. If the certificate of tax residence does not include an expiry date, it will be taken into account by the remitter when withholding the income tax for 12 consecutive months from its date of issue (Art. 26.1i of the CIT Act). If the taxpayer's place of residence for tax purposes changed within 12 months from the date on which the above-mentioned tax certificate was issued, the taxpayer is required to immediately document its place of residence with a new residence certificate (Art. 26.1j of the CIT Act).

Pursuant to Art. 21.3 of the CIT Act reflecting the implementation of the EU Interest & Royalties Directive into the CIT Act., the income derived from the interest on bonds paid by issuer to associated companies which are subject to unlimited tax liability in a member state of the EU or EEA other than Republic of Poland is exempted from the income tax in Poland if several requirements are jointly met, which refer to possession of shares in paying company, beneficially ownership of interest etc.

Income derived from disposal of the bonds for remuneration

In accordance with Art. 3.2 of the CIT Act, income (revenues) gained in the Republic of Poland shall include in particular income (revenues) from: (i) securities and derivatives other than securities, admitted to public trading in the Republic of Poland as part of the regulated stock exchange market, including those obtained from the disposal of these securities or derivatives, or the exercise of rights resulting from them; and (ii) the receivables settled, including receivables put at disposal, 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, irrespectively of the place of conclusion of the agreement and place of performance. The rules concerning taxation of income derived from disposal of bonds by entities that are subject to unlimited tax liability in Poland shall respectively apply to legal entities that are subject to limited tax liability in Poland, unless relevant treaty on the avoidance of double taxation to which the Republic of Poland is a party provides otherwise.

Tax on inheritance and donations

Under Art. 1.1, in conjunction with Art. 2 of the Act on Tax on Inheritances and Donations, tax on inheritances and donations applies to natural persons acquiring property rights, including rights attached to securities, through an inheritance, ordinary legacy, further legacy, legacy per vindication, bequest, donation or donor's order if the property rights are exercisable in Poland, or if the property rights were exercisable abroad and the heir or beneficiary was a Polish citizen or a permanent resident of Poland at the moment of succession or on the date of the donation agreement.

In light of Art. 7.1 of the Act on Tax on Inheritances and Donations, the tax base is, in principle, the value of the acquired assets and property rights after deducting debts and encumbrances (net value) established according to the balance of assets and property rights on the acquisition date and the market prices on the date on which the tax obligation arose.

The rates of 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. The tax rates grow progressively from 3% to 20% of the tax base, depending on the tax group in which the transferee qualifies. There is a tax-free amount defined for each of these groups.

If the agreement has the form of a notarial deed, the tax on inheritances and donations is collected and remitted by a notary public. If the tax is not calculated, withheld and remitted by the tax remitter, the taxpayer must file a tax return disclosing the acquisition of property and property rights within one month from the date on which the tax obligation arose (Art. 17a.1 and 17a.2 of the Act on Tax on Inheritances and Donations). The tax is payable within 14 days of delivering a decision assessing the amount of the tax liability to the taxpayer.

Under Art. 4a.1.1 of the Act on Tax on Inheritances and Donations, the acquisition of assets or proprietary rights (including securities) by a spouse, descendants, ascendants, stepchild, siblings or stepparent is exempt from tax on inheritances and donations if they report the acquisition of assets or property rights to the head of the competent tax office within six months from the date on which the tax obligation arises or, in the event of an acquisition by inheritance, within six months of the date on which the court decision acknowledging the acquisition of the inheritance becomes legally binding. Should this condition not be satisfied, the acquisition of assets or property rights by such persons is taxable based on the principles applicable to the acquirers included in the first tax group, unless the circumstances set forth in the Act allowing for the extension of the period specified in the previous sentence arise. The aforementioned exemption applies if at the time of the acquisition the acquirer was a citizen of Poland or any other EU member state, a European Free Trade Association member state being party to the EEA agreement, or a resident of Poland or such a state (Art. 4.4 of the Act on Tax on Inheritances and Donations).

Additionally, pursuant to Art. 3.1 of the Act on Tax on Inheritances and Donations, the acquisition of property rights (including securities) exercisable in Poland is not subject to this tax if, on the date of the acquisition, neither the acquirer nor the testator (or the donor) were Polish citizens, nor permanently resided or had their registered offices in Poland.

Tax on civil law transactions

In light of Art. 1.1.1.a of the Tax on Civil Law Transactions Act, agreements for the sale and exchange of assets and property rights are subject to tax on civil law transactions. These transactions are taxable if their subjects are:

- assets located in Poland or property rights exercisable in Poland, irrespective of the place of the transaction or the place of residence or the registered office of the purchaser; and
- assets located abroad or property rights exercisable abroad if the purchaser's place of residence or registered office is located in Poland and the civil law transaction was executed in Poland.

As a rule, the sale of bonds in Poland is considered to be a sale of property rights exercisable in Poland and is subject to tax on civil law transactions at a rate of 1%, which is payable by the purchaser and must be settled within 14 days from the date on which the tax obligation arose (i.e. effectively from the date on which the sale agreement was concluded). The taxable base is the market value of the property or the property right. If the agreement is executed in the form of a notarial deed, then the tax must be remitted by the notary public.

However, pursuant to Art. 9.9 of the Tax on Civil Law Transactions Act, a sale of property rights being financial instruments: (i) to investment firms or foreign investment firms; (ii) effected with the intermediation of investment firms or foreign investment firms; (iii) effected through organised trading; or (iv) effected outside of organised trading by investment firms or foreign investment firms, provided that the property rights were acquired by those firms through organised trading, as defined in the Act on Trading in Financial Instruments, is exempt from tax.

Remitter's liability

Under Art. 30 of the Tax Code, a tax remitter that fails to fulfil its duty to calculate, withhold or pay tax is liable for the tax that has not been withheld or that has been withheld but not paid up to the total value of its assets. The tax remitter is not liable if separate provisions of law state otherwise or if the tax has not been withheld due to the taxpayer's fault.

EU Savings Directive

Under Directive 2015/2060/EU, Directive 2003/48/EC (the "**EU Savings Directive**") was repealed with effect from 1 January 2016. However, certain obligations under the EU Savings Directive shall continue to apply:

(i) the obligations of Member States and economic operators established therein to report the name, address, and total amount of interest paid to the competent authority continue to apply until 5 October 2016 or until these obligations have been fulfilled;

(ii) the obligations of paying agents to report the minimum amount of information concerning interest payments continue to apply until 5 October 2016 or until these obligations have been fulfilled;

(iii) the obligations of Member States of residence for tax purposes of beneficial owners to issue a certificate indicating the information about the beneficial owner, paying agent, and the identification of the security continue to apply until 31 December 2016; and

(iv) the obligations of Member States of residence for tax purposes of beneficial owners to ensure the elimination of double taxation with regard to withholding tax levied during 2016 and previous years continue to apply until such obligations have been fulfilled.

The EU Savings Directive will continue to apply with regard to Austria until 31 December 2016 (or longer in the cases stipulated in Directive 2015/2060/EU). Under the EU Savings Directive, Austria has opted for a withholding system and until the end of the transitional period, Austria will levy a withholding tax at a rate of 35%, subject to certain exceptions.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be required to pay additional amounts with respect to the Notes as a result of the imposition of such withholding tax.

Investors who are in any doubt as to their position should consult their professional advisers.

Luxembourg

(i) Non-Resident Holders of the Notes

Under the general tax laws of Luxembourg currently in force, there would be no withholding tax on payments of principal, premiums or interest made to non-resident holders of the Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon the redemption or repurchase of the Notes held by non-resident holders of the Notes.

(ii) Resident Holders of the Notes

According to the Luxembourg law of 23 December 2005, as amended by the law of 23 December 2016 (the **Law of 23 December 2005**), on the taxation of interest income received by individuals resident in Luxembourg, a withholding tax of 20% on interest paid to individuals resident in Luxembourg should be levied by an economic operator located in Luxembourg that would qualify as a paying agent within the sense of the Law of 23 December 2005 (the "**20% Withholding Tax**"). The same withholding tax would be applicable, upon the request of the Luxembourg resident holder of the Note, when the paying agent of the interest is established in an European Union Member State other than Luxembourg. The 20% Withholding Tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. The responsibility for the withholding of tax will be assumed by the Luxembourg paying agent.

Interest on the Notes paid by a Luxembourg paying agent to residents of Luxembourg that are not individuals will not be subject to any withholding tax in Luxembourg.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna or such other Dealers as may be appointed from time to time in respect of any Series of Notes (the "**Dealers**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers will be set out in a dealer agreement (the "**Dealer Agreement**") and made between the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement will make provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer will agree that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) ***Approved Prospectus***: if the Final Terms or Drawdown Prospectus in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus which is not a Drawdown Prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) ***Qualified investors***: at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) ***Fewer than 100 offerees***: at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) ***Other exempt offers***: at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed that:

(a) ***No deposit-taking:*** in relation to any Notes having a maturity of less than one year:

(i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

(ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

(A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

(B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

(b) ***Financial promotion:*** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Poland

Unless the Base Prospectus for the Notes has been approved by either the Polish competent authority for the approval of prospectuses for the public offering of securities in Poland or the admission of securities to trading on a regulated market in Poland or the relevant competent authority in an EU member state, and Poland has received a certificate of such approval with a copy of the Base Prospectus and Polish translation of its summary as required under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (Journal of Laws of 2005, No. 184 item 1539, as amended) (the "**Act on Public Offering**"), the Notes may not be publicly offered in Poland or admitted to trading on a regulated market in Poland. Pursuant to Art. 3 of the Act on Public Offering, "**public offering**" means "communication in any form and by any means, made within the Republic of Poland and addressed to at least 100 persons (150 pursuant to an amendment to the Act on Public Offering which enters into force on 23 April 2013), or to an unspecified addressee, which contains sufficient information on the securities to be offered and the terms and conditions of their acquisition, so as to enable an investor to decide to purchase securities".

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed "*General*" above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisations

1. The establishment of the Programme was authorised by a resolution of the Management Board of the Issuer adopted on 29 May 2017.

   The Issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes.

Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer and its subsidiaries.

Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer since 31 December 2016, nor has there been any significant change in the financial or trading position of the Issuer since 31 March 2017.

Independent Certified Auditors

4. KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw (00-189 Warsaw, ul. Inflancka 4A), audited the consolidated financial statements of the Group for the year ended 31 December 2015 and for the year ended 31 December 2016 and issued unmodified auditor's opinions on the aforementioned financial statements. KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. audited the stand-alone financial statements of the Bank for the year ended 31 December 2015 and for the year ended 31 December 2016 and issued unmodified auditor's opinions on the aforementioned financial statements. The stand-alone financial statements of the Bank audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. are not incorporated into this Base Prospectus by reference.

   KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. is registered in the register of auditors maintained by the National Chamber of Statutory Auditors under No. 3546. On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k., the consolidated financial statements of the Group for the year ended 31 December 2015 and for the year ended 31 December 2016 were audited by Marcin Podsiadły (certified auditor, licence No. 12774).

   In accordance with the Bank's Statute, an auditor authorised to audit the financial statements of the Bank and the consolidated financial statements of the Group is appointed by the Supervisory Board.

   Pursuant to the resolution of the Supervisory Board of the Bank on the rules governing the selection of the entity authorised to audit the Bank's financial statements, the maximum period of uninterrupted cooperation with an entity authorised to audit its financial statements is six years, and beginning from the period of cooperation relating to the auditing of the financial statements in respect of the years 2015-2017, the maximum period of such cooperation is five years.

   On 11 March 2015, the Supervisory Board of the Bank selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorised to audit and review the financial statements of the Bank and the consolidated financial statements of the Group in respect of the years 2015-2016. The Supervisory Board of the Bank selected this entity to audit and review its financial statements in compliance with applicable regulations and professional standards. The Bank concluded an agreement for the audit and review of the financial statements of the Bank and the Group in respect of the years 2015-2016 and 2017-2019.

Documents on Display

5. Copies of the following documents (and the English translations where the original documents are not in English) may be inspected during normal business hours at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent for 12 months from the date of this Base Prospectus:

   (a) a copy of this Base Prospectus along with any supplement to this Base Prospectus;

   (b) Certificate of Registration of the Issuer;

(c) the By-laws (*Statut*) of the Issuer;

(d) the English translation of the audited consolidated financial statements of the Group for the years ended 31 December 2016 and 2015;

(e) the English translation of the auditors' reports in respect of the audited consolidated financial statements of the Group for the years ended 31 December 2016 and 2015; and

(f) the English translation of the unaudited consolidated financial statements of the Group for the three months ended 31 March 2017.

Clearing of the Notes

6. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

ABBREVIATIONS AND DEFINITIONS

Act on the Bank Guarantee Fund/the Act on the BGF	the Act dated 10 June 2016 on the Bank Guarantee Fund, the Deposit Guarantee Scheme and Mandatory Restructuring
ALCO	the Assets & Liabilities Management Committee of the Bank
Annual Financial Statements	the 2015 Consolidated Financial Statements together with the 2016 Consolidated Financial Statements
Antimonopoly Act	the Polish Act on the Protection of Competition and Consumers dated 16 February 2007
AQR	asset quality review
Auditors Act	the Act dated 11 May 2017 on registered, registered audit companies and on public supervision
Bank, Issuer, PKO Bank Polski	Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna
BCC	the Bank's Credit Committee
BGF	the Banking Guarantee Fund
BGK	Bank Gospodarstwa Krajowego
Brexit	On 23 June 2016, the majority of British citizens voted in favour of the UK leaving the European Union
BRRD	the Bank Recovery and Resolution Directive adopted by the European Parliament and the Council of the European Union
CEB	the Council of Europe Development Bank
CEE countries	Central and Eastern European countries
CHF	the lawful currency of Switzerland
Classic Global Note, CGN	each Global Note which is not intended to be issued in new global note form
Conditions	Terms and Conditions of the Notes
Consolidated Financial Statements	the Interim Financial Statements together with the Annual Financial Statements
CRA Regulation	Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies
CRD IV	the new Capital Requirements Directive published under reference number 2013/36/EU on 26 June 2013 in the Official Journal of the European Union which covers the areas of regulatory regime and need to be transposed by Member States in a way suitable to their respective environment
CRR	the Capital Requirements Regulation published under reference number 575/2013 on 26 June 2013 in the Official Journal of the EU which sets forth detailed prudential requirements for credit institutions and investment firms, while the new Capital Requirements Directive

CSA	Credit Support Annex
CSSF	the Luxembourg *Commission de Surveillance du Secteur Financier*
EBA	The European Banking Authority
ECB	European Central Bank
ECJ	The European Court of Justice
EEA	the European Economic Area
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
EU	the European Union
EUR, Euro, euro, €	the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended
FATCA Agreement	the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA executed on 7 October 2014
FSMA	the Financial Services and Markets Act 2000
GBP	the lawful currency of the United Kingdom
Group	the Issuer and its Subsidiaries
GUS	the Polish Central Statistical Office (*Główny Urząd Statystyczny*)
IBS	II pillar of the Incentive System, the so-called individual bonus System
IKE	individual pension account
Implementing Act	the Act on the Performance of the Agreement between the Government of the United States of America and the Government of the Republic of Poland to Improve International Tax Compliance and to Implement FATCA entered into force as at 1 December 2015
Incentive System	remuneration and incentive system implemented by the Bank
Interim Financial Statements	the unaudited condensed interim consolidated financial statements of the Group for the three months ended 31 March 2017
IT	information technology
Kredobank	Kredobank S.A.
LGUs	local government units

LTV	loan to value
Luxembourg Law on Prospectuses	the Luxembourg Law on prospectuses for securities dated 10 July 2005, as amended
MbO	I pillar of the Incentive System, the so-called management by objectives system
Member State	a Member State of the European Economic Area
MiFID II	the Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments and amending directive 2002/92/EC and Directive 2011/61/EU
MiFIR	the Regulation (EU) No. 600/2014 of the European Parliament and of the Council on markets in financial instruments and amending Regulation (EU) No. 648/2012
NBP	the National Bank of Poland
NDS	The National Depositary for Securities (*Krajowy Depozyt Papierów Wartościowych*)
New Global Note, NGN	each Global Note which is intended to be issued in new global note form
ORC	the Operational Risk Committee of the Bank
O-SII	Decision of PFSA of 10 October 2016 identyfing the Bank as an 'other systemically important institution'
Personal Data Protection Act	the Personal Data Protection Act of 29 August 1997 (consolidated text, Journal of Laws of 2002, No. 101, item 926 as amended)
PFSA	the Polish Financial Supervision Authority
PKO Leasing	PKO Leasing S.A.
PLN, Polish zloty, zloty	the lawful currency of Poland
Polish Act on Public Offering	the Polish Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies dated 29 July 2005
Polish Banking Law	the Act dated 29 August 1997 – the Banking Law
Polish Commercial Companies Code	the Polish Act dated 15 September 2000 – Code of Commercial Companies and Partnerships
PPE	the Employee Pension System
Principles	the Principles regarding the process of handling complaints by financial institutions adopted under PFSA resolution No. 192/2015 of 26 May 2015, which entered into force on 19 December 2015
Programme	Programme for the Issuance of Euro Medium Term Notes to be issued by Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State)
Prywatne Inwestycje	Finansowa Kompania "Prywatne Inwestycje" sp. z o.o.
PTE Bankowy	PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.
QIS	the Quantitative Impact Study
RBI	Raiffeisen Bank International AG
RC	the Risk Committee of the Bank
Recommendation J	recommendation adopted by the PFSA on 11 September 2012 addressed to banks and regulating the collection and processing by banks of data regarding real estate
Recommendation U	Recommendation of 24 June 2014 published by the PFSA recommending that banks introduce, by 31 March 2015, new rules governing the sale of insurance policies
Regulated Market	regulated market for the purposes of the Directive on Markets and Financial Instruments 2004/39/EC
Relevant Member State	a Member State which has implemented the Prospectus Directive
RLPL	Raiffeisen-Leasing Polska S.A.
SBS	III pillar of the Incentive System, the so-called sales bonus system
Securities Act	the United States Securities Act of 1933 (as amended)
Sejm	the lower house of the Polish parliament
SME	small and medium enterprises
SOKiK	the Court for the Competition and Consumer Protection (*Sąd Ochrony Konkurencji i Konsumentów*)
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
UAH	the lawful currency of Ukraine
UOKiK	the Competition and Consumer Protection Office (*Urząd Ochrony Konkurencji i Konsumentów*)
USD	the lawful currency of the United States
2010 PD Amending Directive	Directive 2010/73/EU
2015 Consolidated Financial Statements	the audited consolidated financial statements of the Group for the year ended 31 December 2015
2016 Consolidated Financial Statements	the audited consolidated financial statements of the Group for the year ended 31 December 2016

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