



Bank Polski

€3,000,000,000

Programme for the Issuance of Loan Participation Notes

to be issued by, but with limited recourse to,

PKO Finance AB (publ)

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

for the sole purpose of financing senior and subordinated loans to

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

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

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

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

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

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

Arranger and Dealer

PKO BANK POLSKI SA

The date of this Base Prospectus is 20 April 2012.

IMPORTANT NOTICES

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

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

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

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

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

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

state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes and the extension of the Loans) not misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing.

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

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

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

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

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

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

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

of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

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

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

General Information

The audited consolidated financial statements of the Group (as defined in the Senior Facility Agreement) for the year ended 31 December 2011 (the “**2011 Consolidated Financial Statements**”) and the audited consolidated financial statements of the Group for the year ended 31 December 2010 (the “**2010 Consolidated Financial Statements**”) and, together with the 2011 Consolidated Financial Statements, the “**Consolidated Financial Statements**”) are incorporated into this Base Prospectus by reference.

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

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

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

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

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

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

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

EXCHANGE RATES

This Base Prospectus contains conversions of certain amounts in relation to the financial results of the Bank and the Group set out elsewhere in this Base Prospectus. These conversions were effected at the relevant foreign

currency to euro exchange in effect as set out below, unless otherwise stated. The conversion of statement of financial position items from PLN and UAH 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”) or the National Bank of Ukraine (the “NBU”), as applicable. Figures provided in relation to income and expense were calculated by reference to the arithmetic mean of the average rates set by the NBP or the NBU, as applicable, on the final day of each month. The following table sets out, for the periods indicated, the exchange rates used in this Base Prospectus:

	As at 31 December 2011	As at 31 December 2010	Average exchange rate 2011	Average exchange rate 2010
PLN/EUR	4.4168	3.9603	4.1401	4.0044
PLN/UAH	0.4255	0.3722	0.3716	0.3830
PLN/CHF	3.6333	3.1639	3.3660	2.9317

Source: www.nbp.pl

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

Currency	FX rates as at 31 December 2011	FX rates as at 31 December 2010
HUF (100 HUF)	1.4196	1.4206
CZK	0.1711	0.1580
LTL	1.2792	1.1469
AUD	3.4670	3.0177
JPY (100 JPY)	4.4082	3.6440
USD	3.4174	2.9641
CAD	3.3440	2.9691
GBP	5.2691	4.5938
DKK	0.5941	0.5313
NOK	0.5676	0.5071

Source: www.nbp.pl

Some numerical and percentage amounts included in this Base Prospectus have been subject to rounding adjustments; accordingly, numerical and percentage amounts shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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*) 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. and references to ratings issued by “**Capital Intelligence**” are to credit ratings issued by Capital Intelligence Ltd., all of which are established in the European Union and which 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 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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GENERAL DESCRIPTION OF THE PROGRAMME

Structural Overview

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

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

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

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

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

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

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

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

Parties

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

Features of the Notes, Loans and the Programme

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

Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
Forms of Notes:	<p>Notes may be issued in bearer form or in registered form.</p> <p>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 depository or a common depository 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.</p> <p>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 depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and registered in the name of a nominee for such depository and will be exchangeable for Individual Note Certificates in accordance with its terms.</p>
Currencies:	Notes may be denominated in euros, U.S. dollars or in any other currency or currencies, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.
Redenomination:	The applicable Final Terms may provide that a Series of Notes may be redenominated in euro.
Status of the Notes and Limited Recourse:	<p>The Notes of each Series constitute secured and limited recourse obligations of the Issuer and shall at all times rank <i>pari passu</i> and without any preference among themselves, as more fully described in “<i>Terms and Conditions of the Notes</i>”.</p> <p>The Notes of each Series will constitute the obligation of the Issuer to apply the proceeds from that issue of the Notes solely for the purpose of financing the relevant Loan to the Borrower pursuant to the terms of the corresponding Loan Agreement. The Issuer will only account to the Noteholders for all amounts equivalent to those (if any) received and retained from the Borrower under such Loan Agreement or held on deposit in the Account less amounts in respect of the Reserved Rights (as defined in the Conditions), all as more fully described in “<i>Terms and Conditions of the Notes</i>”.</p>

Status of each Senior Loan:	The obligations of the Borrower under the Senior Loan Agreement will rank at least <i>pari passu</i> with all its other unsecured and unsubordinated indebtedness except as otherwise provided by mandatory provisions of applicable law, as more fully described in “ <i>Senior Facility Agreement</i> ”.
Status of each Subordinated Loan:	The obligations of the Borrower under each Subordinated Loan Agreement, excluding the Reserved Rights, are intended to be subordinated upon an Early Repayment Event (as will be defined in the Subordinated Facility Agreement) in accordance with the Polish Act dated 29 August 1997 – Banking Law (as amended) (the “ Banking Law ”) and will rank at least <i>pari passu</i> with all its other unsecured and subordinated indebtedness, all as more will be fully described in a series prospectus supplement relating to the Subordinated Facility Agreement.
Security:	Each Series of Notes will be secured by a first fixed charge in favour of the Trustee for the benefit of itself and the Noteholders of (i) certain of the Issuer’s rights and interests as lender under the relevant Loan Agreement, and (ii) the Issuer’s rights, title and interest in and to all sums held on deposit in the Account (as defined in the relevant Loan Agreement) (in each case, other than the Reserved Rights), all as more fully described in “ <i>Terms and Conditions of the Notes</i> ”. In addition, the Issuer with full title guarantee will assign absolutely its administrative rights under the relevant Loan Agreement (save for the rights charged or excluded as described above) to the Trustee for the benefit of itself and the Noteholders, as more fully described in the Senior Facility Agreement or in a series prospectus supplement relating to the Subordinated Facility Agreement, as the case may be.
Issue Price:	Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by the Issuer, the Borrower and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions.
Maturities:	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Borrower and the relevant Dealer(s). Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (“ FSMA ”) by the Issuer.
Interest:	Notes may be interest-bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index-linked 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 (detailed in a formula, index or otherwise) 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.

Early Redemption:

Each Series of Notes relating to a Senior Loan will be redeemed in whole, but not in part, at any time, upon notice having been given to the Noteholders, at their principal amount together with accrued and unpaid interest to the date of redemption and any additional amounts (if any) then due (i) if the Borrower elects to prepay the corresponding Senior Loan for tax reasons or by reason of increased costs or (ii) at the option of the Issuer, in the event that it becomes unlawful for the Issuer to fund such Senior Loan or to allow it to remain outstanding under such Senior Loan Agreement, all as more fully described in the Senior Loan Agreement.

The redemption of each Series of Notes relating to a Subordinated Loan will be more fully described in a series prospectus relating to the Subordinated Loan Agreement.

See Condition 5 (*Redemption and Purchase*) in “*Terms and Conditions of the Notes*”.

Relevant Event:

In the case of a Relevant Event (as defined in the Trust Deed) that is continuing the Trustee may, subject to the provisions of the Trust Deed, enforce the security created in the Trust Deed in favour of the Noteholders.

Event of Default:

Under the terms of each Senior Loan Agreement, in the case of an Event of Default (as defined in the Senior Facility Agreement) that is continuing, the Trustee may, subject to the provisions of the Trust Deed, declare all amounts payable by the Borrower under such Senior Loan Agreement to be due and payable. Upon repayment of such Senior Loan following an Event of Default, the Notes will be redeemed or repaid at their principal amount together with interest accrued to the date fixed for redemption and any additional amounts then due (if any), and thereupon shall cease to be outstanding.

Early Repayment Event:

The Subordinated Loan Agreement will provide that if an Early Repayment Event (which will be defined in the Subordinated Facility Agreement) has occurred and is continuing, all amounts under the Subordinated Loan shall be capable of being declared immediately due and payable, as to be further described in a series prospectus relating to the Subordinated Loan Agreement. Upon repayment of such Subordinated Loan following an Early Repayment Event, the Notes will be redeemed or repaid as more fully described in a series prospectus relating to the Subordinated Loan Agreement.

Certain Covenants:

As long as any of the Notes remains outstanding, the Issuer will not, without the prior written consent of the Trustee, agree to any amendment to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of a Loan Agreement, except as otherwise expressly provided in the Trust Deed or such Loan Agreement.

Clause 9 (*Covenants*) of the Senior Facility Agreement contains a negative pledge in relation to the creation of Security Interests (as defined in the Senior Facility Agreement) (other than Permitted Security Interests (as defined in the Senior Facility Agreement)) by the Borrower.

Any covenants to be provided in the Subordinated Facility Agreement shall be set out in an equivalent clause of the Subordinated Facility Agreement.

Taxation:	All payments in respect of Notes will be made free and clear of and without deduction or withholding for taxes of the Kingdom of Sweden or the Republic of Poland, as the case may be, unless the withholding or deduction is required by law. In that event, the Issuer will as provided in Condition 8 (<i>Taxation</i>) only be required to pay an additional amount to the extent that it receives a corresponding amount from the Borrower under the relevant Loan Agreement. Each Loan Agreement provides for the Borrower to pay additional amounts in these circumstances.
Governing Law:	The Notes, the Senior Loan Agreements, the Subordinated Loan Agreements and the Trust Deed and any non-contractual obligations arising out of in connection with the Notes, the Senior Loan Agreements, the Subordinated Loan Agreements and the Trust Deed will be governed by English law, except those provisions of the Subordinated Loan Agreements relating to the subordination of claims, which will be governed by Polish law.
Ratings:	<p>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.</p> <p>Credit ratings assigned to the Notes or the Programme do not necessarily mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes, the Programme or the Borrower could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.</p>
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 " <i>Subscription and Sale</i> ".

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 global economy, the condition of financial markets and macroeconomic developments in Europe all significantly influence the Group's results of operations. The world financial system has experienced unprecedented levels of volatility since 2007 due to adverse credit and liquidity conditions in the international financial markets and disruptions in the global capital markets. These economic conditions have led to widening credit spreads, reduced availability and increased cost of funding, fluctuations in capital markets, and have contributed to declining asset values, and tighter lending terms and conditions in the international banking system, including in Poland.

The financial turbulence since 2007 and its after-effects on the wider economy have led to generally more difficult earnings conditions for the financial sector and have placed significant pressure on financial institutions, several of which have either failed, merged or sought aid from governments, national central banks or the International Monetary Fund, which intervened by injecting liquidity and capital into the financial system, including by participating in the recapitalization of several financial institutions. If further defaults, nationalizations or similar adverse conditions occur, requisite liquidity levels could become more difficult and costly to procure by financial institutions, which could have a material adverse effect on the business, financial condition or results of operations of the Group.

While there was some recovery in many countries during 2010 and in the first half of 2011, there have been significant differences in the strength of the recovery in the various national economies. A number of countries in Europe, for instance, are still struggling with large budget deficits. Certain measures have been adopted to provide support to countries with distressed sovereign debt as a result of the financial crisis, including Greece, Ireland and Portugal.

Further, adverse macroeconomic developments can lead to rising unemployment rates and declining levels of consumer confidence including in financial institutions and, thus, to a reduction in demand for financial services. These conditions may lead to a reduction in growth and, in some cases, contraction of financial institutions' ordinary business, an increase in the cost of credit, declines in share prices and asset values, accelerated loan impairment losses, and decreased profitability.

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

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

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

The Polish economy remains vulnerable to market downturns and economic slowdowns in the global markets. GDP growth in Poland slowed during 2009 due to the global economic crisis, which led to a deterioration in the employment market and an increase in the unemployment rate in Poland from 9.5% at the end of December 2008 to 12.5% at the end of December 2011 (according to GUS). Increased unemployment and slower economic growth contributed to a decrease in the growth rate of both loans and deposits for the Polish banking sector.

The Polish banking sector began to experience a shortage of liquidity in 2008, which continued into 2009, increasing competition for retail deposits. The economic slowdown in Poland reduced the growth rate of the Group's portfolio of mortgage loans, corporate loans and consumer loans, in turn affecting the Group's net interest income, and net fee and commission income. Moreover, financing costs increased due to both the limited availability of funding on the inter-bank market, mainly driven by credit risk aversion, and banks' increasing interest rates on deposits resulting largely from tightening competition on the deposit market, which also had a negative impact on the net interest income earned by the Group. In addition, the quality of the Group's loan portfolio deteriorated to a certain degree as a result of the economic slowdown in Poland.

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."

Risks Relating to the Group's Business

The Group Faces Competition in the Financial Institutions Sector

In recent years the Polish banking sector has become increasingly competitive, in large part due to investments in this sector by international financial institutions as regulatory restrictions on the ability of foreign financial institutions to operate in Poland have been significantly reduced. According to the PFSA, as of 31 December 2011 there were 47 commercial banks operating in Poland, and the market share of the five largest banks in the Polish banking sector by assets, value of client deposits and amounts due from non-financial sector entities were 44.3%, 45.5% and 39.1%, respectively, as of 31 December 2011.

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

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

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

In recent years, the Polish banking sector has experienced high levels of growth, supported by the increasing earning power and wealth of the Polish population and the overall growth of the Polish economy. However, starting in 2008 the growth rate of the Polish banking sector began to slow and as of the date of the Base Prospectus, it remains relatively weaker than before. There can be no assurance that the growth rate of the Polish banking sector will return to previous levels or that it will not continue to slow or that current levels of growth

will be sustained in the future, which could have a material adverse effect on the Group's business, financial condition or results of operations.

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 current 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.

For instance, in December 2010, leaders of the Group of Twenty (“G-20”) endorsed the agreement reached by the Basel Committee on the new bank capital adequacy and liquidity framework. The agreement is intended to increase the resilience of the global banking system. On 16 December 2010, the Basel Committee on Banking Supervision published two documents proposing fundamental reforms to the regulatory capital framework. As of the date of the Base Prospectus, it is not entirely clear how the reforms introduced by Basel III and CRD 4 will affect the business, financial condition and results of operations of the Group. See “*Banking Regulations in Poland – Capital Adequacy and Risk Management Requirements – European Law Requirements*” (together, “**Basel III**”). The implementation of the Basel III reforms will begin on 1 January 2013. However, the requirements will be phased in over a period of time, so as to be fully effective by 2019.

In February 2010, the European Commission launched a public consultation with regard to further possible changes to the capital requirements directives aimed at strengthening the resilience of the banking sector and the financial system as a whole – “**CRD 4**”. The draft of CRD 4 was presented by the European Commission on 20 July 2011.

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

Furthermore, in 2008, the PFSA published Recommendation S (II), which was subsequently amended in 2011. Recommendation S (II) imposed restrictions on the foreign currency lending activity of Polish banks, which limited the Group's ability to grant loans in foreign currencies.

In February 2010, the PFSA published Recommendation T, which is intended to improve risk management in banks, including limiting excessive credit exposure on the part of retail borrowers. The PFSA stipulated that lending should be limited to no more than that which can be serviced by 50% of the average net monthly income for retail borrowers with a monthly net income at or below the level of the national average net monthly income and 65% of the average net monthly income for all other borrowers. These limitations may reduce the Group's pool of potential clients for mortgage loans and consumer loans in particular. The Group complied with Recommendation T within the August and December 2010 deadlines set by the PFSA.

In 2011, the Ministry of Finance was working on legislation imposing an obligation on financial institutions (including banks) operating in Poland to make contributions to a dedicated fund which could be used to prevent or limit the effects of any potential future crisis on the financial markets in Poland (in effect, a banking tax). As of the date of the Base Prospectus, no details of the proposed legislation have been published. However, it is anticipated that as with similar legislation in effect in other Member States, the contribution made by each financial institution under any proposed legislation would depend on the value of its equity or its balance sheet total. In March 2012, the Polish Minister of Finance announced that it is his intention to introduce such banking tax sometime in 2012.

In addition, as of the date of this Base Prospectus certain groups of Polish Parliament members have proposed draft laws imposing tax on certain financial institutions, including banks. Simultaneously, the European Commission has been working on pan-European legislation imposing financial transaction tax, a portion of the proceeds of which would be contributed directly to the EU budget.

On 18 December 2011, the Act on Consumer Credit dated 12 May 2011 (the “**New Consumer Credit Act**”) increasing the disclosure obligations of lenders entered into force. The New Consumer Credit Act requires lenders to inform their clients of the aggregate amount of interest, commissions and fees charged in connection with consumer loans, which enables consumers to more easily compare the consumer loan products available on the market, and may cause a decline in interest in the Group's consumer loans. See “*Banking Regulations in Poland – Consumer Protection*”. In addition, on 31 August 2011, a law amending the terms of a government-sponsored housing loans program called “*Rodzina na swoim*” entered into force. The new law limits the metric area of apartments eligible to participate in the program and modifies the definition of eligible beneficiaries. The new law represents a step towards a gradual termination of the program. See “*Banking Regulations in Poland – Changes in the “Rodzina na swoim” Program*”.

Furthermore, on 30 March 2012 the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards. It has been recommended that multilateral arrangements be concluded between banks and the payment card organisations, with the aim to reduce the levels of interchange fees.

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.

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

The PKO Bank Polski Group's strategic vision is to achieve long-term sustainable growth and profitability through a secure and modern universal banking model, as well as to maintain and enhance its leadership position in the Polish financial market. The Group aims to diversify its business through a universal business model. In this context, the main objectives of the Group's strategy include: (i) building customer loyalty and attracting new clients; (ii) increasing business with existing customers; (iii) maintaining operating and cost efficiency; (iv) focusing on core activities and streamlining the Group's structure; (v) maintaining a strong capital base and liquidity profile; and (vi) attracting and retaining experienced management and staff, and fostering a dynamic organizational culture (see "*Description of the Group – Strategy*").

The Group may fail to achieve its major strategic objectives in the upcoming years due to factors such as difficult economic or market conditions, stricter regulatory requirements imposed on the banking and financial services sector in Poland and, globally, increased competition on the Polish banking market, changes in client behavior 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 newer products, which include consumer loans and several corporate banking products, generally, offer a higher margin to the Group but may also carry a higher level of risk. Therefore, 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 increased from 7.6% as of 31 December 2009 to 8.0% as of 31 December 2010, and remained stable at the level of 8.0% as of 31 December 2011.

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 loan portfolio, and especially the 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 2011, the Group's coverage of impaired loans ratio stood at 48.0%.

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 mortgage loan portfolio represented 44.5% of the Group's gross lending portfolio as of 31 December 2011. Downturns in the residential and commercial real estate markets or a general deterioration of economic conditions in the industries in which the Group's customers operate, may result in illiquidity and a decline in the value of the collateral securing the Group's loans, including a decline to levels below the outstanding principal balance of those loans. A decline in the value of collateral securing the Group's loans or the inability to obtain additional collateral may, in certain cases, require the Group to reclassify the relevant loans, impair loans or increase its impairment allowance.

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

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

Losses relating to credit risk may arise if the risk management policies, procedures and assessment methods used by the Group to mitigate credit risk and to protect against credit losses prove less effective than expected. The Group employs qualitative tools and metrics for managing risk that are based on observed historical market behavior. 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, given the Group's limited experience in such segments. As a result, the Group's business, financial condition and results of operations may be adversely affected.

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

A substantial portion of the assets of the Bank (19.3% as of 31 December 2011), especially the mortgage loan portfolio, is denominated in foreign currencies, primarily CHF and EUR. 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 installment after its conversion into PLN. Such increases may result in difficulties related to the repayment of the assumed loans, which in turn may lead to a decrease in the quality of the Group's loan portfolio and an increase in impairment provisions for loans and advances extended to the Group's customers, which may adversely affect the business, financial condition and results of operations of the Group.

Moreover, as of 31 December 2011, 13.3% of the Bank's liabilities were denominated in foreign currencies. The value of the Group's loan portfolio denominated in foreign currencies is substantially larger than the value of the Group's liabilities denominated in foreign currencies. Thus the Group partly reduces its foreign exchange risk exposure through derivative transactions. The typical maturities of these derivative contracts are shorter than the maturities of the underlying loans that are denominated in foreign currency and, furthermore, the customers have the option to change the currency of their loans to PLN. As a result, the Group is required to roll over such contracts when they mature, and it is exposed to market price fluctuations of these derivatives. Consequently, significant increases in the prices of such derivative contracts may adversely affect the funding costs of the Group's foreign-currency denominated loan portfolio which, in turn, could adversely affect the business, financial condition and results of operations of the Group.

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 and net impairment allowance) from net interest income (for the year ended 31 December 2010 the Group's net interest income constituted 63.9% of the Group's net income from business activities and 68.3% of the Group's net income from business activities in the year ended 31 December 2011). As a result, the Group's operations are affected by fluctuations of interest rates in Poland and Europe. 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 net interest margin and have a material adverse effect on the Group's net interest income and, thereby, on business, financial condition and results of operations of the Group.

In addition, the increase in interest rates may result in an increase in the installment 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 2011, 48.2% of the Group's securities portfolio (which comprises financial instruments designated at fair value through profit and loss, trading assets, investment securities available for sale, and securities held to maturity) was composed of securities issued by the Polish government. An adverse effect on the price of the Polish Treasury securities may be caused by a number of factors, including: the increased supply of securities issued by the Polish government in the trading market, due to either increased issuance of such securities by the Polish government in order to finance the budget deficit; an increase in the volume of sales of such securities by investors or in domestic interest rates, or a downgrade of Poland's sovereign ratings. Should the Group attempt to sell all or a portion of the Polish Treasury securities it holds in its investment portfolio to finance its operations, the factors mentioned above would adversely affect the price it could receive, which would have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank Faces Liquidity Risk

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

In terms of current and short-term liquidity, the Bank is exposed to the risk of unexpected, rapid withdrawal of deposits by its clients in large volumes. Non-financial and budget deposits are the Bank's primary source of funding. As of 31 December 2011, 96.7% of the Group's amounts due to customers had maturities of one year or less and 42.2% 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 unfavorable 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 interbank 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.

Realization 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, Including a Reduction Due to a Decrease of The State's Shareholding, Could Increase Its Cost of Funding and Adversely Affect Its Interest Margins

Credit ratings affect the cost and other terms upon which the Bank is able to obtain funding. On 18 June 2009, Moody's downgraded the Bank's long-term local currency deposit rating from "Aa2" to "A2" with a stable outlook and its financial strength rating from "C" to "C-" with a negative outlook. Fitch assigned to the Bank a support rating of "2" on 18 December 1996, which denotes a bank for which there is a high probability of

support from the State Treasury. This probability of support indicates a minimum long-term rating floor of “BBB-”. The support rating of “2” was maintained by Fitch on 9 August 2010 and on 4 August 2011. On 25 August 2004, Standard & Poor’s assigned to the Bank a long-term local currency liabilities rating of “BBBpi” and in September 2010 it upgraded such rating to “A-pi”. This rating was maintained by Standard & Poor’s on 10 May 2011. Moreover, in December 2007, Capital Intelligence assigned to the Bank a long-term foreign currency liabilities rating of “A-” and in January 2010 it increased the support rating from “2” to “1”. On 30 May 2011 Capital Intelligence corrected a financial strength rating from “BBB+” to “BBB”. Unlike Moody’s, the long-term and financial strength ratings assigned by Fitch, Standard & Poor’s and Capital Intelligence are unsolicited.

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

Furthermore, there can be no assurance that following the proposed sale of shares in the Bank by the State Treasury and BGK, 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 63.9% of the Group’s net income from business activities during 2010 and 68.3% during 2011. The net interest income of the PKO Bank Polski 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 interbank interest rates as well as changes in FX swaps transaction costs.

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 off set such decrease by decreasing the rates payable on deposits; or (ii) interest rates payable on deposits increase and the Group is unable to off set such increase by increasing rates of loans to customers due to increased pricing competition among the banks. Decreasing margins may result in lower net interest income, and therefore adversely affect the business, financial condition and results of operations of the Group.

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

The Group is required to maintain a minimum capital adequacy ratio of 8%. As of 31 December 2011, the Group’s capital adequacy ratio stood at 12.37%. Certain developments could affect the Group’s ability to continue to satisfy the current capital adequacy requirements, including:

- an increase of the Group’s risk-weighted assets;
- ability to raise capital;
- the payment of dividends by the Bank to its shareholders;
- losses resulting from a deterioration in the Group’s asset quality, a reduction in income levels, an increase in expenses or a combination of all of the above;
- a decline in the values of the Group’s securities portfolio;
- failure to implement advanced credit and operational risk assessment methods;
- unreliability of the Group’s estimates regarding the amount of capital needed to cover its operating risk;
- changes in accounting rules or in the guidelines regarding the calculation of the capital adequacy ratios of banks (such as the recently announced planned changes in the calculation of capital requirements for credit risk); and

- changes in PLN exchange rates for the foreign currencies in which the Group's loan and advances to customers are denominated.

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

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

Moreover, there can be no assurance that the Bank will be able to comply with potentially more stringent prudential regulations concerning capital adequacy under Basel III (i.e., further changes to the CRD). In addition, due to the Bank's position in the Polish market and its place in the Polish financial system, there can also be no assurance that the Bank will not be considered by the regulators to be a systematically important financial institution and therefore subject to even more stringent capital adequacy requirements.

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

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

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

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

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

The Group has offered banking services in Ukraine since August 2004, when it acquired an interest in Kredobank. Given that Kredobank is a subsidiary of the Bank, the results of operations and the financial condition of Kredobank have a direct impact on the Group's net interest income, net fee and commission income, the quality of the loan portfolio and the net impairment allowance, and, as a result, on the operating profit of the Group.

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

The legal system in Ukraine is volatile, which creates uncertainties that do not exist in countries with more developed legal systems with respect to many of the legal and business decisions that Kredobank makes. These uncertainties result from, among other things, the possibility of adverse changes in laws, the existence of gaps and inconsistencies between laws and the regulatory structure, and difficulties in enforcement due to an

underdeveloped judicial system. This could potentially have an adverse impact on the business, financial condition and/or results of operations of Kredobank. Furthermore, the nature of much of the legislation in Ukraine, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of its legal system, place the enforceability of laws and regulations in doubt and result in ambiguities, inconsistencies and anomalies. The independence of the judicial system and its immunity from political and economic influences in Ukraine remains largely untested, and court orders are not always enforced or followed by law enforcement agencies.

In February 2009, the NBU and Kredobank entered into an agreement setting forth a performance improvement plan for Kredobank's profitability and financial condition. Kredobank's obligations under its agreement with the NBU were satisfied with respect to its capital position. On 20 April 2011, Kredobank and the NBU signed another agreement amending the NBU requirements concerning the existing condition of Kredobank. As of the date of the Base Prospectus, Kredobank is in compliance with the major requirements of the Ukrainian bank regulations and the limits imposed on Kredobank in the above-referenced agreement with the NBU. According to Ukrainian banking regulations, if a bank breaches the terms of an agreement executed with the NBU, the NBU has the right to terminate such agreement and to impose on the bank certain sanctions provided for by the Ukrainian banking regulations. Therefore, the Group cannot give any assurance that the NBU will not take additional enforcement measures against Kredobank, including a mandatory capital increase, a ban on or suspension of high risk transactions, and/or the appointment of temporary administration (the equivalent of mandatory management (*zarząd komisaryczny*)) at Kredobank. All such measures could adversely impact the business, financial condition and results of operations of Kredobank and, in turn, the Group.

If the economic conditions in Ukraine become more severe or there are any major changes in the conditions relating to the conduct of business in Ukraine, the Group may be required to recognize additional impairment on Kredobank's credit portfolio. This impairment, as well as financial performance of Kredobank that is worse than currently expected, and an increase of impaired loans, would adversely affect the business, financial condition and results of operations of the Group.

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), unauthorized 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 reputational 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 specialized 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 incentivise 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 such defection of clients away 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 achieve all of its parameters or will be sufficient to meet the needs of the Group's growing and changing business.

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

The State Treasury Holds Corporate Control Over the Bank

As of the date of the Base Prospectus, the State Treasury directly held Shares representing 40.99% of the Bank's share capital and BGK (under the exclusive control of the State Treasury) directly held Shares representing 10.25% of the Bank's share capital. The State Treasury together with BGK holds Shares representing 51.24% of the Bank's share capital, carrying the right to exercise 51.24% of the total number of votes at the General Meeting. Moreover, on 21 April 2010, the State Treasury and BGK entered into a co-operation agreement with regard to the joint exercise of the ownership rights attached to the Shares held thereby.

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 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 authorized to exercise the voting rights from the largest number of Shares at the General Meeting at which members of the Supervisory Board are elected. Pursuant to the Bank's Statute, the Eligible Shareholder determines the number of members of the Supervisory Board (including the voting by separate groups procedure, when five Supervisory Board members are to be elected). Moreover, the Eligible Shareholder is

exclusively entitled to present its member candidates of the Supervisory Board in the number determined in accordance with the formula set out in the Bank's Statute.

In April 2011, the Management Board received letters from the State Treasury and Bank Gospodarstwa Krajowego ("BGK"), acting as the Bank's shareholders, informing the Bank of the intention of the State Treasury and BGK to sell shares in the Bank (the "**Proposed Sale**") and requesting that the Bank commence preparations for the Proposed Sale. The Proposed Sale was to be effected by way of a public offering requiring the preparation of a prospectus which would have to be approved by the PFSA. The Proposed Sale was intended to be finalised in September 2011. On 19 April 2011, the Management Board approved the commencement of preparations for the Proposed Sale.

However, on 23 August 2011 the Management Board received a letter from the State Treasury and BGK informing them of the temporary suspension of the Proposed Sale. On 16 December 2011 the Management Board received letters from the State Treasury and BGK advising it that the State Treasury and BGK have resolved to abandon the Proposed Sale as well as to discontinue any work connected therewith.

Given that the State Treasury and BGK currently hold the majority of votes at the General Meeting, and that following the Proposed Sale the State Treasury may still effectively exercise the majority of votes at the General Meeting and may elect the majority of the members of the Supervisory Board, it will 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 shareholders of the Bank.

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 direct or indirect shareholding in the Bank's share capital and the total number of the votes at the General Meeting following the Proposed Sale 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 the Proposed Sale 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 favorable 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 Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies dated 29 July 2005 (the "**Act on Public Offering**"). In addition, pursuant to the Act dated 29 August 1997 – the Banking Law (the "**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 favorable for the Bank's shareholders.

The Bank May Not Pay Dividends or Interim Dividends, or May Pay Higher or Lower Dividends Than Those Provided for in its Dividend Policy

Under the Commercial Companies Code, dividend payments are authorized only if at the annual General Meeting a resolution providing for the distribution of profit among the shareholders in the form of dividend is adopted. Payment of an interim dividend may be made after a relevant decision is taken by the Management Board and such is consented to by the Supervisory Board (and following arrangement with the PFSA). The Management Board is under no obligation to propose to the annual General Meeting the adoption of such a resolution for the relevant financial year or to take a decision regarding payment of an interim dividend. Even if the Management Board does recommend that the profits generated in a relevant financial year be paid out as dividend or adopts a decision on payment of an interim dividend, the Management Board cannot assure that the annual General Meeting or the Supervisory Board, respectively, will adopt the relevant resolutions permitting payment of the dividend or interim dividend. Moreover, it should be noted that a resolution of the annual General Meeting adopting the payment of dividends requires an absolute majority of votes, which, as of the date of the Base Prospectus, is held, directly or indirectly, by the State Treasury.

In addition, the Management Board cannot ensure that the annual General Meeting will not adopt a resolution on payment of a higher or lower 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.

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, 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 Act on Banking Guarantee Fund dated 14 December 1994 (the "Act on Bank Guarantee Fund"), the Bank is a member of the mandatory deposit guarantee system and is required to create a fund to guarantee the claims of its depositors. Upon any member of the system meeting the conditions of benefiting from the guarantee, as set out in the Act on the Bank Guarantee Fund, other members of the system may be required to make payments to cover the liabilities of such entity. The amount of the payment by each member would be proportional to its interest in the Bank Guarantee Fund. Due to the scale of the Bank's operations, if a member of the mandatory guarantee system were to declare bankruptcy, the Bank may be obligated to make larger payments to the Bank Guarantee Fund than those members of the deposit guarantee system whose scale of business is relatively smaller than that of the Bank. This may have an adverse effect on the business, financial condition and results of operations of the Group.

The Bank May Fail to Comply with Provisions of the Payment Services Directive as They Are Not Implemented in Poland

As of the date of the Base Prospectus, Poland has not implemented the Directive 2007/64/EC of the European Parliament and the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (the "PSD"). The PSD aims to establish, at the EC level, a modern and coherent legal framework for payment services, regardless of whether or not such services are compatible with the Eurozone single system, in order to maintain consumer choice and a level playing field for all payment systems. The deadline for the implementation of the PSD into Polish law was 1 November 2009.

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 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, 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 collateralized by the mortgage. In order to limit the risks related to granting unsecured loans, banks will insure these loans during the interim period. If the borrower defaults on the loan before the mortgage is registered and the insurance company fails to pay damages under the insurance policy, the Bank's claim under the loan may 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. A delay in enforcing or inability to enforce a security interest in collateral may have an adverse effect on the business, financial condition and results of operations of the Group.

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

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

Furthermore, since July 2010 changes have been introduced into Polish law making it possible to bring class action lawsuits. The ability of customers to group their lawsuits against a bank in a single class action significantly lowers the legal fees and other costs of such lawsuits, which may cause court actions against the Bank or other Group companies to become more frequent. The first example of a class action lawsuit occurred in December 2010 when a group of clients filed a class action lawsuit against a Polish bank (see “*Banking Regulations in Poland – Class Action Lawsuits*”).

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

Reprivatization Claims May Be Brought Relating to Certain Real Estate in the Group’s Possession

As a result of the nationalization 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 reprivatization claims in Poland has been enacted. Under the laws currently in force, former owners of real estate or their legal successors may file requests with the administrative authorities for the establishment of the invalidity of the administrative decisions by which they were deprived of the real estate. As of the date of the Base Prospectus there are five administrative proceedings for the establishment of the invalidity of administrative decisions issued by public administration authorities with respect to any real estate currently held by the Group. Moreover, claims of former owners have been filed with respect to two real estate properties of the Group (the court proceedings are in progress), and the Bank has undertaken certain court steps in order to regulate the legal status of one additional parcel. Aside from the claims described above, reprivatization 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.

An example of a recent change to Polish regulations that has affected the Bank’s business is an amendment dated 16 December 2010 to the Polish Act on Public Finance of 27 August 2009. The amendment seeks to introduce a centralized liquidity management system applicable to Polish public sector entities through the obligatory depositing of the cash surplus of certain public finance sector entities in savings accounts maintained by BGK. As a result of such change, such public finance sector entities were obliged to transfer their funds, some of which were deposited with the Bank, to BGK by 30 June 2011.

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

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

Risks Related To The Issuer

Centre Of Main Interests

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

Risks Relating To The Notes

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

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

The Noteholders Have No Direct Recourse To The Borrower

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

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

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

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

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

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

Payments On A Loan May Be Subject To Polish Withholding Tax

In general, payments of interest on borrowed funds by a Polish entity to a non-resident legal person are subject to Polish withholding income tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received, the Borrower believes that payments of interest on the Loans made by the Borrower to the Issuer will, more likely than not, not be subject to withholding taxes under the terms of the double taxation treaty between Poland and Sweden, provided that the Polish tax documentation requirements (namely, an annual advance confirmation of the Issuer's tax residency) are satisfied. However, there can be no assurance that such double tax relief will continue to be available.

If the payments under the Loan Agreement are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), the Borrower is required to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding taxes. In the event that the Borrower fails to increase the payments, such failure would constitute an Event of Default under a Senior Loan Agreement. If the Borrower is required to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Notes May Not Be A Suitable Investment For All Investors

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

There Is No Active Trading Market For The Notes

Notes issued under the Programme will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon

prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Borrower. Although application has been made for the Notes issued under the Programme to be admitted to listing on the Luxembourg Stock Exchange, there is no assurance that such application will be accepted, that any particular Tranche of Notes will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular Tranche of Notes.

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

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

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

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

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

Notes Will Be Issued With A Minimum Denomination

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

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

Modification

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

EU Savings Directive

If, pursuant to the European Union Savings Directive (Council Directive 2003/48/EC) (the “**EU Savings Directive**”), a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive. See also “*Taxation – EU Savings Directive*” below.

Change Of Law

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

INFORMATION INCORPORATED BY REFERENCE

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

1. the audited consolidated financial statements of the Group for the year ended 31 December 2011:
 - a) consolidated income statement page 4
 - b) consolidated statement of comprehensive income page 4
 - c) consolidated statement of financial position page 5
 - d) consolidated statement of changes in equity page 6
 - e) consolidated cash flow statement page 7
 - f) notes to the financial statements pages 11 to 156
2. the auditors' opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2011 (pages 1 to 2);
3. the audited consolidated financial statements of the Group for the year ended 31 December 2010:
 - a) consolidated income statement page 2
 - b) consolidated statement of comprehensive income page 2
 - c) consolidated statement of financial position page 3
 - d) consolidated statement of changes in equity page 4
 - e) consolidated cash flow statement page 5
 - f) notes to the financial statements pages 8 to 142
4. the auditors' opinion on the audited consolidated financial statements of the Group for the year ended 31 December 2010 (pages 1 to 2);
5. the audited stand-alone financial statements of the Issuer for the year ended 31 December 2011:
 - a) administration report page 2
 - b) income statement page 3
 - c) balance sheet page 4
 - d) notes to the financial statements pages 5 to 6
6. the auditor's report on the audited stand-alone financial statements of the Issuer for the year ended 31 December 2011;
7. the audited stand-alone financial statements of the Issuer for the year ended 31 December 2010:
 - a) management report page 2
 - b) income statement page 3
 - c) balance sheet page 4
 - d) notes to the financial statements pages 5 to 6
 - e) the auditor's report page 7.

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

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

FINAL TERMS AND DRAWDOWN PROSPECTUSES

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

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

For a Tranche of Notes which is the subject of Final Terms, those Final Terms will, for the purposes of that Tranche only, supplement 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 supplemented, amended and/or replaced to the extent described in the relevant Final Terms.

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

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

USE OF PROCEEDS

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

HISTORICAL FINANCIAL INFORMATION

Capitalisation

The following table sets forth the Bank's total equity as at 31 December 2011 and 31 December 2010. The information was extracted without material adjustments from the financial statements of the Bank for the year ended 31 December 2011 which have not been incorporated in the Base Prospectus by reference (the “**2011 Stand-Alone Financial Statements**”) and the financial statements of the Bank for the year ended 31 December 2010 (the “**2010 Stand-Alone Financial Statement**”) and together with the 2011 Stand-Alone Financial Statements, the “**Stand-Alone Financial Statements**”) and should be read in conjunction with these financial statements and with the other financial data included or incorporated by reference elsewhere in this Base Prospectus (the table includes stand-alone data).

	As at 31 December 2011	As at 31 December 2010
	<i>(in PLN thousand)</i>	
	<i>(audited)</i>	
Share capital	1,250,000	1,250,000
Other capital, of which.....	17,598,753	16,640,639
<i>Reserve capital</i>	<i>12,898,111</i>	<i>12,098,111</i>
<i>Other reserves</i>	<i>3,319,621</i>	<i>3,283,412</i>
<i>General banking risk fund</i>	<i>1,070,000</i>	<i>1,070,000</i>
Total other reserves	17,287,732	16,451,523
<i>Financial assets available for sale</i>	<i>(51,164)</i>	<i>(28,808)</i>
<i>Cash flow hedges</i>	<i>362,185</i>	<i>217,924</i>
Total other capital from comprehensive income	311,021	189,116
Net profit for the year.....	3,953,622	3,311,209
Total equity	22,802,375	21,201,848

Source: 2011 Stand-Alone Financial Statements

Selected Financial Data

The following table sets forth selected consolidated financial data of the Group as at 31 December 2011 and 31 December 2010 and for the years then ended. The information was extracted without material adjustments from the Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

SELECTED CONSOLIDATED FINANCIAL DATA	As at and for the year ended 31 December 2011	As at and for the year ended 31 December 2010	As at and for the year ended 31 December 2011	As at and for the year ended 31 December 2010
	<i>(in PLN thousand)</i>		<i>(in EUR thousand)</i>	
	<i>(audited)</i>			
Net interest income	7,609,116	6,516,166	1,837,906	1,627,252
Net fee and commission income	3,101,444	3,142,829	749,123	784,844
Operating profit	4,800,512	4,080,051	1,159,516	1,018,892
Profit before income tax.....	4,780,860	4,079,236	1,154,769	1,018,688
Net profit (including non-controlling shareholders)	3,804,745	3,212,806	918,998	802,319
Net profit attributable to equity holders of the parent company....	3,807,195	3,216,883	919,590	803,337
Earnings per share for the period – basic (in PLN/EUR).....	3.05	2.57	0.74	0.64
Earnings per share for the period – diluted (in PLN/EUR).....	3.05	2.57	0.74	0.64
Net comprehensive income	3,937,416	3,297,105	951,044	823,371
Net cash flow from / used in operating activities.....	5,556,998	340,637	1,342,238	85,066
Net cash flow from / used in investing activities	(3,630,127)	(1,967,767)	(876,821)	(491,401)
Net cash flow from / used in financing activities.....	1,057,418	1,073,418	255,409	268,060
Total net cash flows	2,984,289	(553,712)	720,825	(138,276)
Total assets	190,748,037	169,660,501	43,186,931	42,840,315
Total equity.....	22,821,984	21,359,568	5,167,086	5,393,422

SELECTED CONSOLIDATED FINANCIAL DATA

	As at and for the year ended 31 December 2011	As at and for the year ended 31 December 2010	As at and for the year ended 31 December 2011	As at and for the year ended 31 December 2010
	<i>(in PLN thousand)</i> <i>(audited)</i>		<i>(in EUR thousand)</i>	
Capital and reserves attributable to equity holders of the parent company.....	22,823,274	21,357,578	5,167,378	5,392,919
Share capital	1,250,000	1,250,000	283,010	315,633
Number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000
Book value per share (in PLN/EUR)	18.26	17.09	4.13	4.31
Diluted number of shares (in thousand)	1,250,000	1,250,000	1,250,000	1,250,000
Diluted book value per share (in PLN/EUR)	18.26	17.09	4.13	4.31
Capital adequacy ratio.....	12.37%	12.47%	12.37%	12.47%
Tier 1 capital.....	16,664,233	15,960,072	3,772,920	4,030,016
Tier 2 capital.....	1,545,549	1,512,546	349,925	381,927
Tier 3 capital	133,134	145,928	30,143	36,848

Source: Consolidated Financial Statements

Consolidated Income Statements

The following tables set forth the consolidated income statements and the consolidated statements of comprehensive income of the Group for the year ended 31 December 2011 and for the year ended 31 December 2010. The information was extracted without material adjustments from the Consolidated Financial Statements and should be read in conjunction with the financial data included or incorporated by reference elsewhere in this Base Prospectus.

CONSOLIDATED INCOME STATEMENTS	Year ended 31 December 2011	Year ended 31 December 2010
	<i>(in PLN thousand)</i> <i>(audited)</i>	<i>(in PLN thousand)</i> <i>(audited)</i>
<i>Continued operations:</i>		
Interest and similar income.....	12,037,762	10,415,315
Interest expense and similar charges.....	(4,428,646)	(3,899,149)
Net interest income.....	7,609,116	6,516,166
Fee and commission income.....	3,837,165	3,880,863
Fee and commission expense.....	(735,721)	(738,034)
Net fee and commission income.....	3,101,444	3,142,829
Dividend income.....	6,800	5,663
Net income from financial instruments designated at fair value.....	(75,056)	(62,577)
Gains less losses from investment securities.....	20,179	73,056
Net foreign exchange gains.....	337,296	346,762
Other operating income.....	451,723	469,388
Other operating expense.....	(309,186)	(293,736)
Net other operating income and expense.....	142,537	175,652
Net impairment allowance and write-downs.....	(1,930,447)	(1,868,364)
Administrative expenses.....	(4,411,357)	(4,249,136)
Operating profit.....	4,800,512	4,080,051
Share of profit (loss) of associates and jointly controlled entities.....	(19,652)	(815)
Profit before income tax.....	4,780,860	4,079,236
Income tax expense.....	(976,115)	(866,430)
Net profit (including non-controlling shareholders).....	3,804,745	3,212,806
Profit (loss) attributable to non-controlling shareholders.....	(2,450)	(4,077)
Net profit attributable to equity holders of the parent company.....	3,807,195	3,216,883
Basic earnings per share for the period (in PLN).....	3.05	2.57
Diluted earnings per share for the period (in PLN).....	3.05	2.57
Weighted average number of ordinary shares during the period (in thousand).....	1,250,000	1,250,000
Weighted average diluted number of ordinary shares during the period (in thousand).....	1,250,000	1,250,000

Source: Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

	For the year ended 31 December 2011	For the year ended 31 December 2010
	<i>(in PLN thousand)</i>	<i>(in PLN thousand)</i>
	<i>(audited)</i>	<i>(audited)</i>
Net profit (including non-controlling shareholders).....	3,804,745	3,212,806
Other comprehensive income.....	132,671	84,299
Currency translation differences from foreign operations	16,894	(1,211)
Share in other comprehensive income of an associate.....	(1,233)	271
Unrealised net gains on financial assets available for sale (gross)	(33,649)	(16,159)
Deferred tax on unrealised net gains on financial assets available for sale	6,398	2,750
Unrealised net gains on financial assets available for sale (net)	(27,251)	(13,409)
Cash flow hedges (gross)	178,100	121,788
Deferred tax on cash flow hedges	(33,839)	(23,140)
Cash flow hedges (net)	144,261	98,648
Total net comprehensive income	3,937,416	3,297,105
Total net comprehensive income, of which attributable to:.....	3,937,416	3,297,105
equity holders of PKO Bank Polski SA.....	3,940,696	3,301,437
non-controlling shareholders.....	(3,280)	(4,332)

Source: Consolidated Financial Statements

Consolidated Statements of Financial Position

The following table sets forth the consolidated statements of financial position of the Group as at 31 December 2011 and as at 31 December 2010. The information was extracted without material adjustments from the Consolidated Financial Statements and should be read in conjunction with the financial data included elsewhere in this Base Prospectus.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
as at 31 December 2011 and 31 December 2010

As at 31 December

	2011	2010
	<i>(in PLN thousand)</i>	<i>(in PLN thousand)</i>
	<i>(audited)</i>	<i>(audited)</i>
ASSETS		
Cash and balances with the central bank	9,142,168	6,182,412
Amounts due from banks	2,396,227	2,307,032
Trading assets	1,311,089	1,503,649
Derivative financial instruments	3,064,733	1,719,085
Financial assets designated upon initial recognition at fair value through profit and loss	12,467,201	10,758,331
Loans and advances to customers	141,634,494	130,668,119
Investment securities available for sale	14,393,276	10,219,400
Investments in associates and jointly controlled entities	123,119	172,931
Non-current assets held for sale	20,410	19,784
Inventories	566,846	530,275
Intangible assets	1,800,008	1,802,037
Tangible fixed assets	2,541,317	2,576,445
- of which investment properties	248	259
Current income tax receivables	5,957	4,318
Deferred income tax asset	543,922	582,802
Other assets	737,270	613,881
TOTAL ASSETS	190,748,037	169,660,501
EQUITY AND LIABILITIES		
Liabilities		
Amounts due to the central bank	3,454	3,370
Amounts due to banks	6,239,164	5,233,875
Derivative financial instruments	2,645,281	2,404,795
Amounts due to customers	146,473,897	132,981,215
Debt securities in issue	7,771,779	3,298,867
Subordinated liabilities	1,614,377	1,611,779
Other liabilities	2,450,763	2,092,834
Current income tax liabilities	78,810	67,744
Deferred income tax liability	29,364	22,764
Provisions	619,164	583,690
TOTAL LIABILITIES	167,926,053	148,300,933
Equity		
Share capital	1,250,000	1,250,000
Other capital	17,881,264	16,888,145
Currency translation differences from foreign operations	(92,023)	(109,747)
Unappropriated profits	(23,162)	112,297
Net profit for the year	3,807,195	3,216,883
Capital and reserves attributable to equity holders of the parent company	22,823,274	21,357,578
Non-controlling interest	(1,290)	1,990
TOTAL EQUITY	22,821,984	21,359,568
TOTAL LIABILITIES AND EQUITY	190,748,037	169,660,501
Capital adequacy ratio	12.37%	12.47%
Book value (in PLN thousand)	22,821,984	21,359,568
Number of shares (in thousand)	1,250,000	1,250,000
Book value per share (in PLN)	18.26	17.09
Diluted number of shares (in thousand)	1,250,000	1,250,000
Diluted book value per share (in PLN)	18.26	17.09

Source: Consolidated Financial Statements

Selected Key Ratios

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

	As of and for the year ended 31 December		
	2011	2010	2009
	(%) (unaudited)	(%) (unaudited)	(%) (unaudited)
Profitability ratios			
NIM for the Bank ¹	4.6	4.3	3.8
Cost to income ratio for the Group (C/I) ²	39.6	41.7	47.9
ROA net for the Group ³	2.1	2.0	1.6
ROE net for the Group ⁴	17.5	14.9	14.8
Capital Ratios			
Tier 1 ratio for the Group ⁵	11.24	11.30	13.47
Capital adequacy ratio for the Group	12.37	12.47	14.81
Loan portfolio quality			
Impaired loans ratio for the Group ⁶	8.0	8.0	7.6
Coverage of impaired loans and advances for the Group ⁷	48.0	44.6	43.2

Source: the Bank

¹ Calculated by dividing net interest income of the Bank for the year ended 31 December 2011, 2010 and 2009, respectively, by the average balance of total interest-earning assets (calculated as the arithmetical average of interest-earning assets at the beginning and at the end of reporting period and interim quarterly periods).

² Calculated by dividing administrative expenses by total net income on business activity (defined as operating profit before administrative expenses and net impairment allowance).

³ Calculated by dividing net profit attributable to the parent company for the year ended 31 December 2011, 2010 and 2009, respectively, by average total assets (calculated as the arithmetical average of total assets at the beginning and the end of the reporting period and interim quarterly periods).

⁴ Calculated by dividing net profit attributable to the parent company for the year ended 31 December 2011, 2010 and 2009, respectively, by average total equity attributable to the parent company (calculated as the arithmetical average of total equity at the beginning and the end of the reporting period and interim quarterly periods).

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

⁶ Calculated by dividing the gross carrying value of impaired loans and advances to customers by the gross carrying value of loans and advances to customers.

⁷ Calculated by dividing the balance of impairment allowances on loans and advances to customers by the gross carrying value of impaired loans and advances to customers.

DESCRIPTION OF THE GROUP

Overview

PKO Bank Polski is the largest commercial bank in Poland and the leading bank in the Polish market in terms of total assets, net income, total equity, loan and deposit portfolios, number of customers and size of the distribution network, as well as the largest commercial bank in terms of market capitalization in CEE as of the date of the Base Prospectus. 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.

As of 31 December 2011, the Bank serviced approximately 7.6 million retail banking customers (including 7.2 million individual customers, 308.4 thousand small and medium enterprises (“SME”) clients, and 43.9 thousand Housing Sector Entities, excluding Inteligo clients), approximately 644.5 thousand customers of the Bank using the Inteligo electronic banking platform and 11.6 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 and offers Internet banking products and services. The Bank also generates income from its investment operations by investing the Bank’s excess liquidity on the interbank 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 1,198 branches, 1,400 agencies, 2,457 ATMs and 321 self-service terminals, as of 31 December 2011, 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 25,908 full-time equivalent staff and employees as of 31 December 2011.

As of 31 December 2011, the Group had total assets of PLN 190,748.0 million, amounts due to customers of PLN 146,473.9 million and loans and advances to customers of PLN 141,634.5 million. The Bank had market shares with regard to the Polish banking sector of 14.7%, 21.0% and 17.7%, respectively (based on PFSA data).

For the year ended 31 December 2010, the Group generated a net profit attributable to equity holders of the parent company of PLN 3,216.9 million, and PLN 3,807.2 million for the year ended 31 December 2011, which, according to data from the PFSA, accounted for 28.2% and 24.2%, respectively, of the net profit of the Polish banking sector over the same periods.

The Group has a strong capital base, with a capital adequacy ratio of 12.37% and a Tier 1 ratio of 11.24% with Tier 1 capital of PLN 16,664.2 million as of 31 December 2011 and no hybrid capital on the Group’s balance sheet.

History

PKO Bank Polski, at first operating under the name Poczтовая 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, Poczтовая Kasa Oszczędnościowa was the largest entity collecting the savings of Polish households. Following World War II, Poczтовая 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 was re-established as an independent legal entity in 1987 and designated by the Polish government as one of four national specialized banks to service a special sector of the centrally planned economy. PKO’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 organizational 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/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/Handlowy Powszechny Towarzystwo Emerytalne S.A. (now PKO BP BANKOWY

Powszechnie 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. and established an electronic payment services centre – CEUP eService. In 2002, the Bank acquired an existing online banking company, Inteligo, a leader on the Polish market. Since 2004, the Bank has been offering banking products and services in Ukraine through its subsidiary Kredobank. In 2007, the Bank opened its first foreign branch in London. In the second half of 2009, the Group, through its indirect subsidiary PKO BP Faktoring S.A., started operational activity by offering factoring services in Poland.

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

The initial public offering of shares in the Bank was conducted within the scope of the privatization 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”.

Competitive Strengths

In the opinion of the Management Board, the PKO Bank Polski 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. As of the date of the Base Prospectus, the Group’s business is focused on the Polish market and as of 31 December 2011, approximately 99.2% of the Group’s total assets were located in Poland. Poland, the largest country in CEE with a population of approximately 38.2 million, is attractive in terms of demographics, with 31.2% of the population aged 20 to 39 (as compared to 27.3% in the EU). The performance of the Polish economy in 2011 was supported by investments (mainly public investments tied to the inflow of EU funds) with private consumption declining in the fourth quarter of 2011 as higher CPI inflation and fiscal consolidation depressed consumption growth to 2.0% on a year-on-year basis. However, consumption growth was still above the EU average in 2011 amounting to approximately 0.5%. The support of EU funds makes a substantial difference to the Polish economy, as the public investment rate (as a percentage of GDP) is one of the highest in the EU. The whole-year performance of the economy improved as compared to 2010, as GDP growth accelerated to 4.3% (from 3.9% in 2010, according to the data from GUS). The official forecasts of the NBP, the European Commission, and the IMF point at growth moderation in 2012. Nevertheless, Poland is expected to remain one of the leading economies in CEE as well as the EU with the European Commission estimating the 2012 growth rate to stand at 2.5%, compared to 0.6% for the EU as a whole. Moreover, the Management Board believes that the Polish banking sector remains fragmented and significantly unpenetrated, and there is high potential for further growth of the banking industry in Poland. According to the NBP and GUS, the loans and deposits of the Polish banking sector amounted to 54% and 51%, respectively, of Poland’s GDP as of 31 December 2010 compared to an average in the Eurozone of 165% and 155%, respectively, based on ECB data. The Management Board believes that the Group has withstood the recent economic and financial turmoil with greater financial strength than many of its local and foreign competitors. The Group also believes that its market leadership position in an attractive market, together with a comprehensive range of products and services, will provide the Group with a strong platform for sustained and profitable growth.

Strong Capital Base, Liquidity and Balance Sheet

The Group maintains a strong capital position with a Tier 1 ratio of 11.24% with Tier 1 capital at the level of PLN 16,664.2 million as of 31 December 2011 and no hybrid capital on the Group’s balance sheet. The Group’s capital adequacy ratio stood at 12.37% as of 31 December 2011. The Group’s total equity of PLN 22,822.0 million as of 31 December 2011 was the largest among Polish banks (based on the reports of the banks for 2011), 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 96.7% as of 31 December 2011. 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. Moreover, the Group is almost entirely funded by deposits, with amounts due to customers representing 87.2% of the Group’s total liabilities as of 31 December 2011, with 71.1% 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 loan ratio of 8.0% as of 31 December 2011.

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

Largest Customer Base and Distribution Network in Poland

As of 31 December 2011, the Bank serviced approximately 7.6 million retail customers (excluding Inteligo customers, but including 7.2 million private individual customers, 308.4 thousand SME clients, and 43.9 thousand housing sector entities), approximately 644.5 thousand customers using Inteligo, the Bank's electronic banking platform, and 11.6 thousand corporate clients. The Bank has an extensive distribution network that offers significant opportunities to attract additional customers and expand its range of products and services to existing customers. As of 31 December 2011, the Bank had 1,198 branches, 1,400 agencies, 2,457 ATMs and 323 self-service terminals, 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 with approximately 640 thousand customers. 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 specialized financial services such as leasing, factoring, investment funds, pension funds, investment banking, electronic payment services and online banking. The Group is able to capitalize 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 recognized brands in Poland. According to a study by Millward Brown SMG/KRC, an independent market research firm, PKO Bank Polski is the most recognized 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 gives the Group a competitive advantage over many of its competitors with parent headquarters in jurisdictions outside of Poland.

Stable Financial Performance and Effective Cost Management

The Group's core banking activities have continued to generate consistent profits. For the years ended 31 December 2011, 2010 and 2009, the Group's ROE and ROA were 17.5%, 14.9% and 14.8% and 2.1%, 2.0% and 1.6%, respectively. The Management Board believes that the Group's size, financial stability and liquidity position have enabled the Group to generate operating margins exceeding the operating margins of most of its competitors. Moreover, the Bank's NIM stood at 4.6% for the year ended 31 December 2011 and 4.3% for the year ended 31 December 2010, which was above the average market level of 3.13% and 3.07%, 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 39.6% for the year ended 31 December 2011 compared to 41.7% for the year ended 31 December 2010. The Group believes that it has the potential to continue to maintain its current efficiency level.

Prudent Risk Management

An integral part of the Bank's organization and culture is its prudent approach to risk management. The Bank's consistent focus on risk management has resulted in lower loan losses and sound asset quality relative to the average levels on the Polish banking market, even in the recent global economic crisis. The Bank has maintained

its orientation towards core retail and corporate banking products, thereby enabling it to avoid material losses resulting from investments in structured credit instruments. The Bank's long-standing experience in risk management has enabled it to create the largest databases of risk profiles in Poland which was recently expanded to also cover SMEs. The Bank uses such databases to prepare detailed risk management models. In addition, the Bank recently completed the development and implementation of a centralized, 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 behavioral scoring system that is based on a customer's risk profile, rather than risks associated with individual products.

Strategy

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

This vision is underpinned by a loyal customer base, an efficient organization, a trained and skilled workforce, a robust funding and balance sheet profile and a prudent approach towards risk management for the benefit of all major Group stakeholders. The Group remains strongly committed to its shareholders, customers, market institutions, employees, suppliers and the various local communities in which the Group operates.

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

The core objectives of the Group's strategic development comprise:

- market share growth in various segments to reinforce the Bank's leadership position;
- stable and continuous growth in profitability and efficiency; and
- maintenance of a robust capital adequacy ratio level and liquidity levels.

Many projects and investments implemented over the last years are starting to deliver their full potential:

- significant investments and commitment in corporate banking allowed the Group to achieve a leading position in this key market segment;
- improved operating efficiency and a material increase of net profit; and
- significant increases in efficiency and costs savings initiatives led the Group to achieve one of the lowest cost to income ratios ("C/I") among the Group's European peers.

The Group aims to diversify its business through the development of a universal banking model. In this context, the core components of the Group strategy comprise:

Building Customer Loyalty and Attracting New Clients

The Group believes that its current leadership position is attributable to its universal banking model, focus on retaining and enhancing the satisfaction of its existing clients, as well as its ability to attract new clients (affluent and young customers as well as SMEs). According to its strategy the Group will continue to be focused on product and service innovation at every level, with clear market segmentation, traditional and new distribution channels and brand revitalization. Key actions include:

- applying a behavioral segmentation process, broadening the product range so as to align better with retail customer needs, and increasing its corporate banking product range (transactional products and leasing) and the range of investment banking products (treasury products, brokerage services and structured finance);
- implementing the new marketing strategy aimed at strengthening and modernizing the Bank's image (rebranding, introducing a unified corporate identity, increasing brand recognition among young people), and modernizing and standardizing the branch network (improving functionality, uniformity, and service levels);
- optimizing the branch network by closing branches in less attractive locations while pursuing further growth, mainly in large cities, to respond to the needs of customers and to optimize coverage in areas where the Group is currently underrepresented;

- standardizing the agency network and centralizing the Bank's co-operation with intermediaries;
- technological development of, and increasing the product range offered within, the Inteligo banking platform, as well as enhancing the functionality of the iPKO e-banking platform;
- improving the Bank's asset management expertise and implementing a new customer service model in its private banking segment;
- implementing a new segmentation of corporate banking clients and an integrated service approach to provide tailored services to SMEs; and
- automating and centralizing business processes to improve customer service quality and efficiency, combined with staff training programs and quality assessment using a 'mystery shopper' scheme.

Increasing Business with Existing Customers

The Group's strategy is focused on increasing the product-per-client ratio in order to increase fee and commission income and diversify revenue sources. The expected closing of the penetration gap between the number of products purchased by the average customer in the Polish financial market, which is significantly below that of consumers in other European countries, represents an attractive business opportunity. Key focus areas include leasing, factoring, transactional services, credit cards, long-term savings products, bancassurance and investment banking services. The main strategic initiatives include:

- implementation of the direct campaigns system (operating CRM) and target group modeling system (analytical CRM);
- broadening the product base, especially with respect to savings, investment and insurance products, as well as transactional banking, leasing and investment banking products;
- development of sales skills with the support of product centers through a staff training program and new incentive-based remuneration systems taking into account the product-per-client ratio; and
- a new sales campaign management system.

Maintaining Operating and Cost Efficiency

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

- implementing the new operational model, which envisages the centralization, automation and standardization of the number of business processes related to sales functions and support activities, including a reduction in back offices from over 100 to five as well as the reorganization of the head office and various functions within the capital group;
- developing advanced IT technologies, including primarily applications supporting the automation of business and sales processes, and the development of internal IT competencies to ensure improved flexibility and swiftness in implementing new technological solutions;
- simplifying internal processes and procedures and implementing the principle of end-to-end responsibility (responsibility for the entire business process across all levels) with a view to achieve better supervision over efficiency and safety of operational processes; and
- implementing new internal scoring models and using CRM in the credit risk management process.

Focusing on Core Activities and Streamlining the Group Structure

The Group's strategy is to focus on core banking activities supplemented by a range of complementary products and financial services. The Group intends to optimize and streamline its structure and to increase efficiency within the Group and consistency of its operational model. The key strategic initiatives in this respect include:

- integrating Group companies, primarily the 'product factories', within the Bank by, among other things, centralizing back-office functions or shifting the operations of the subsidiaries to the Bank;
- disposing of non-core assets;
- defining a new development strategy for Kredobank to gradually become a regional bank in Western Ukraine also operating in certain selected larger cities of other regions in the country and a niche player focused predominantly on retail and SME clients; and
- improving the Group's own real estate management efficiency.

Maintaining a Strong Capital Base and Liquidity Profile

The Group intends to maintain a strong capital base and liquidity profile by way of:

- optimization of sources and uses of capital based on a detailed strategic planning and budgeting process with a focus on capital allocation to units that improve the risk-return profile of the Group;
- diversifying the funding base by continuing commercial focus on retail customer deposits and placement of the Bank's bonds to Polish and foreign investors.

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

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

- a comprehensive review of the Group's organizational structure, remuneration, training and recruitment systems;
- new firm-wide and incentive-based remuneration systems, a well-defined career path and succession system;
- attract and retain a highly-qualified senior management;
- a new training process, including the establishment of a competencies academy for top and mid-level managers of the Group, and introduction of e-learning tools; and
- improved internal communication, including a comprehensive employee involvement and satisfaction survey, to improve staff identification with the Group, impart the Group's values and strengthen its organizational culture.

The strategic plan of the Group set out above expires on 31 December 2012. In accordance with the Bank's Statute, the new strategy of the Bank will have to be adopted by the Management Board and approved by the Supervisory Board.

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. The Group offers a broad range of retail and commercial banking products and services to private individuals, SMEs, corporate and public sector entities as well as certain non-banking financial services products. Furthermore, PKO Bank Polski Group is the largest bank in CEE by assets (as of 31 December 2011) and market capitalization (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 2011) and enjoys a strong and improving 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 in brokerage, asset management, pension funds, financial support, leasing, factoring, investment banking, card payment settlement and real estate development. For the years ended 31 December 2011 and 2010 the net profit of the Bank's fully consolidated subsidiaries (before consolidation adjustments) accounted for 0.8% and 1.5%, respectively, of the Group's consolidated net profit attributable to the parent company.

The Group divides its operations into three segments: retail banking, corporate banking, and investment activities:

- The retail banking segment comprises transactions of the Bank with retail customers, SMEs and mortgage market clients, as well as the activities of the following subsidiaries: Kredobank, PTE BANKOWY, PKO TFI, IFS, CEUP eService, Qualia Development Group and Fort Mokotów Inwestycje Sp. z o.o. and PKO BP Finat Sp. z o.o. This segment includes, among others, the following products and services: current and saving accounts, deposits, private banking services, investment and insurance products, credit and debit cards, consumer and mortgage loans, corporate loans for SME, and housing market customers.
- The corporate banking segment includes transactions of the Bank with large corporate clients, as well as the activities of the Bankowy Fundusz Leasingowy group and Bankowe Towarzystwo Kapitałowe group. This segment includes, among others, the following products and services: current and saving accounts, deposits, credit products, depositary services, currency and derivative products, sell buy-back and buy sell-back transactions, investment loans, leasing and factoring services. Within the corporate

segment, the PKO Bank Polski also enters, on its own or in consortiums with other banks, into loan agreements to finance large investment projects.

- The investment segment comprises the Bank's portfolio activity for its own account, such as investing, treasury services, brokerage activities, interbank transactions, derivative instruments and debt securities transactions, and the activities of PKO Finance and Centrum Finansowe Puławska (own activities). The net result of internal settlements related to funds transfer pricing, the result on long-term sources of financing and the result on positions classified for hedge accounting are included in the net result of this segment. Internal funds transfer is based on transfer pricing dependant on interest rates. The transactions between business segments are conducted on an arm's length basis. Long-term external financing includes the issuance of securities, subordinated liabilities and funds under the EMTN Program as well as amounts due to financial institutions.

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

	For the Year Ended 31 December			
	2011		2010	
	(in PLN thousand) (audited)	%	(in PLN thousand) (audited)	%
Retail segment.....	3,012,117	63.0	2,840,939	69.6
Corporate segment.....	449,745	9.4	398,630	9.8
Investment segment, of which:	1,338,650	28.0	840,482	20.6
Own activities	289,413	6.1	411,705	10.1
Transfer centre	1,049,237	21.9	428,777	10.5
Share of profit (loss) of associates and jointly controlled entities.....	(19,652)	(0.4)	(815)	0.0
Gross profit.....	4,780,860	100.0	4,079,236	100.0

Source: Consolidated Financial Statements

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

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

Retail Banking

Overview

PKO Bank Polski is the leading retail banking institution in Poland. As of 31 December 2011, the Bank had the leading position in terms of total assets, loans, deposits, number of personal accounts maintained and bank cards serviced. As of 31 December 2011, the Bank also had 1,131 retail branches, which constitute the main distribution channel of the Bank's products and services, and 1,400 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. In addition, the Bank offers online banking services to its clients using the iPKO and Inteligo platforms.

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

- private individual customers subdivided into the mass segment (individuals who do not qualify as personal or private banking clients) and personal and private banking clients ("PI customers");
- SMEs with annual turnover of up to PLN 10 million; and
- entities engaged in the housing sector, including housing associations, real estate developers, real estate agents, housing communities and real estate managers ("housing sector entities").

As of 31 December 2011, the Bank serviced approximately 7.6 million retail banking customers (including approximately 7.2 million PI customers, 308.4 thousand SMEs, and 43.9 thousand housing sector entities), and approximately 644.5 thousand Inteligo customers. Total loans and advances and deposits to Retail Banking Customers amounted to PLN 110.1 billion and PLN 114.0 billion, respectively.

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. As of 31 December 2011, the Bank had 1,131 retail branches, which constitute the main distribution channel of the Bank's products and services, and 1,400 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. The Bank's branch network represented 16.9% of the total number of commercial bank branches in Poland as of 31 December 2011 (based on PFSA data). The Bank is also continuing to refurbish its existing branches to standardize its image throughout its branch network, refresh its branding, upgrade its branches to respond to changing client expectations and develop other distribution channels based on new technologies. The Bank's branch and agency network is complemented by non-exclusive financial intermediaries. As of 31 December 2011, the Bank was distributing products on the basis of 1,375 agreements with nonexclusive financial intermediaries. The Bank reviews the locations of its distribution channels on an ongoing basis to provide better access to its targeted customer base. As part of its strategy, the Bank will continue to optimize its network of branches and agencies to ensure a strong presence in all large cities.

As of 31 December 2011, the Bank operated 2,457 ATMs and 323 self-service terminals. As of 31 December 2010, the Bank had 14.5% 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, SMS, mobile banking and self-service terminals. 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 Customers and SME customers online access to bank accounts, term deposits and various other products. The Bank is in the process of adding further functionalities to its online distribution platforms, including lending and long-term savings products. As of 31 December 2011, approximately 3.2 million retail banking customers were using iPKO online banking services and in addition, the Bank maintained approximately 644.5 thousand Inteligo clients (PI and SME customers).

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 (Superkonto 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 "Superkonto" product provides access to several other products and services such as various credit lines, overdraft facilities, life and non-life insurance products, wire transfers, direct debits, standing orders and debit cards. As of 31 December 2011, the Bank's customers held approximately 5.5 million current accounts maintained as part of the Superkonto offer and the new "PKO Konto" current account offer, and the Bank issued approximately 5.3 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. As of 31 December 2011, the Bank's PI customers had PLN 20.8 billion deposited on such accounts.

In addition, as of 31 December 2011, the PI customers had approximately 250.0 thousand foreign currency current accounts denominated in USD, EUR, GBP and CHF and approximately 736.8 thousand Inteligo internet online current accounts.

In March 2011 the Bank launched a new range of current accounts for PI customers, which was supported by intensive marketing activities. Moreover, in May 2011, the Bank further developed its product range by offering certain additional types of current accounts for PI customers.

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 with the Group of at least PLN 5,000 but less than PLN 20,000 (based on end of month balance) or whose deposits in the accounts maintained with the Bank exceed PLN 150,000 but are less than PLN 500,000;
- **“Private banking clients”** – individuals with an average monthly income or inflow into their accounts with the Group of PLN 20,000 or more (based on end of month balance) or whose deposits in the accounts maintained with the Bank exceed PLN 500,000 but are less than PLN 1,000,000; and
- **“Private banking customers”** – individuals whose deposits in the accounts maintained with the Bank exceed PLN 1,000,000.

The Bank offers specialized products and services to such customer segment as part of its personal and private banking program, which provides customers with the services of a personal adviser, separate VIP teller areas at selected branch locations, the ability to negotiate terms of certain services as well as negotiated rate term deposit products, loan products with flexible approval procedures and payment schedules, foreign exchange products and services, bank cards for affluent customers, and various insurance products. As of 31 December 2011, the Bank had approximately 45.7 thousand private banking clients and 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 19.6%, 22.6% and 24.4% of the total loans to retail banking customers as of 31 December 2011, 2010 and 2009, respectively.

The cash loan is the Bank’s basic consumer finance product addressed to PI customers, which is characterized by high margins and minimum requirements concerning documenting income and providing collateral. The consumer finance offer is complemented by a cash credit facility “*Szybki serwis kredytowy*”, while the offer for personal and private banking customers is complemented by “*Kredyt AURUM*” and “*Kredyt PLATINUM*”. Those products are offered in PLN and in convertible currencies. Such offers are addressed to the Bank’s existing customers and to clients who have not dealt with the Bank before.

Payment Cards

The Bank offers its retail customers a comprehensive range of payment card products, issued by the Bank in conjunction with Visa, MasterCard and Diners Club programs. The Bank also offers VISA Infinite and Master Card Platinum credit cards to its private banking customers. As of 31 December 2011, the Bank had issued approximately 7.2 million payment cards, including 1.0 million credit cards for retail customers.

Housing Mortgage Loans

The Bank holds a leading position in the Polish housing mortgage loan market and such loans amounted to 59.3%, 56.6% of total loans to retail banking customers as of 31 December 2011, 2010 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. As of 31 December 2011, mortgage loans denominated in foreign currencies constituted 40.4% of the Bank’s mortgage loans. For the year ended 31 December 2011, only 7.3% of the newly sold mortgage loans were denominated in foreign currencies, while for the year ended 31 December 2010 such figure stood at 14.8%.

The Bank’s primary home loan products consist of products offered under the brand “*Własny Kąt*” (consisting primarily of standard repayment mortgages for financing home or apartment purchases, renovations or refurbishments) and government-sponsored loans under the program “*Rodzina na Swoim*” in cooperation with BGK (a state-owned special purpose bank specializing in public sector financing). These loans are secured by mortgages on the property being acquired or other property. Until such mortgages are perfected and registered in the mortgage register, loans may be secured by credit insurance, promissory notes, guarantees or other forms of security.

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. The package for the SME customers includes, among others, current accounts, auxiliary and foreign currency negotiated term deposits, loan and credit facilities, bank cards (including the first credit card on the Polish market directed to SMEs) and other services. As of 31 December 2011, the Bank maintained approximately 291 thousand SME deposit accounts. In addition, SME customers had approximately 65.6 thousand Inteligo accounts.

The Bank offers investment and working capital loans to its SME customers. Investment loans amounted to PLN 10.7 billion, PLN 10.0 billion and PLN 8.2 billion as of 31 December 2011, 2010 and 2009, respectively, whereas working capital loans amounted to PLN 4.6 billion, PLN 4.3 billion and PLN 3.8 billion as of 31 December 2011, 2010 and 2009, 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” and the PKO debit card “Partner”. As of 31 December 2011, the Bank had issued approximately 247 thousand of such 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), 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 Bankowy Fundusz Leasingowy group). For a more detailed description, please see “*Investment Banking – Brokerage House*” below.

In addition, in cooperation with various leading Polish and international insurance companies such as PZU S.A., PZU Życie S.A., and STU Ergo Hestia S.A., the Bank offers its retail banking customers various insurance products connected to its banking products, including property insurance, third-party liability insurance, loss of employment protection insurance and travel, health and life insurance. In addition, the Bank in cooperation with insurance companies uses insurance as collateral in connection with mortgage loans, investments and working capital loans granted to SME customers. For the years ended 31 December 2011 and 2010, the Bank generated net income from its loan insurance of PLN 382.0 million and PLN 502.7 million, respectively.

Corporate Banking

Overview

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, is the market leader in the corporate banking segment in terms of value of loans outstanding. Corporate banking customers (“**corporate banking customers**”) include companies and corporate entities with an annual turnover of at least PLN 10 million.

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

- mid-sized companies – companies with an annual turnover of at least PLN 10 million and not more than PLN 30 million;

- large companies – companies with an annual turnover of at least PLN 30 million and not more than PLN 200 million;
- strategic clients – companies with an annual turnover of more than PLN 200 million; and
- public sector entities – local government units (“LGUs”), central and local public administration and public institutions.

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

In the year ended 31 December 2011, the Bank serviced a total of approximately 11,400 corporate banking customers (of which mid-sized companies, large companies, strategic clients and public sector customers held a 46%, 19%, 10% and 25% share, respectively). As of 31 December 2011, the total gross loans and advances to those customers were PLN 33.6 billion and total deposits were PLN 28.9 billion.

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 specialized lending products (such as leasing and factoring) and card services.

Distribution Channels

The Bank conducts its corporate banking business primarily through a nationwide sales network comprising 54 specialized corporate branches grouped in 13 Regional Corporate Units as of 31 December 2011. Relationship managers are based in the corporate branches. In addition, the Bank employs product specialists who work with relationship managers to develop products and services specifically tailored to customer needs.

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 treasury bills and bonds, and 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 optimize 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).

Other Corporate Banking Products and Services

Other products and services offered by the Bank to its corporate banking customers include financial services offered by companies in the Group and sold through the Bank's distribution network, including brokerage services, domestic and international settlement, insurance services and international services. For a description please see "Investment Banking – Brokerage House" and "Investment Banking – Key Subsidiaries".

Investment banking

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

Overview

The treasury department is responsible for managing the Bank's surplus liquidity, currency risk, interest rate risk and the development of products (primarily hedging products) offered mostly to the Bank's corporate banking customers.

The Bank has conservatively managed its investment portfolio, thereby avoiding many of the pitfalls that have afflicted several financial institutions in the recent economic downturn. 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.

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 and specialized financial services, including factoring, leasing, investment funds, pension funds and electronic payment services, and focuses on new product development to meet its customers' requirements. Nevertheless, the Group expects that it will maintain its orientation towards core retail and corporate banking services for the foreseeable future.

Operations

As of 31 December 2011, the Bank's treasury asset portfolio amounted to PLN 29.9 billion, composed primarily of PLN-denominated treasury bonds and treasury bills.

The Bank enters into deposits on the interbank 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 contribute 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 very limited trading activities on its own behalf. Within its trading activities the Bank cooperates with non-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 and treasury bill auctions. The Bank is the only certified retail distributor of government bonds in Poland.

In addition, the Bank's standard offer for non-financial customers includes mostly foreign exchange spot or forward transactions, negotiated deposits, treasury bills, treasury bonds, municipal and corporate bonds, and derivative transactions such as swaps and various kinds of foreign exchange options. 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 following table shows details of the Bank's treasury asset portfolio as of the dates indicated below.

	As of 31 December		
	2011	2010	2009
	<i>(in PLN thousand)</i>		
	<i>(audited)</i>		
Securities.....	27,947,223	22,138,232	22,535,184
Trading book ¹	1,311,089	1,503,649	2,212,955

	As of 31 December		
	2011	2010	2009
	(in PLN thousand) (audited)		
Banking book ²	26,636,134	20,634,583	20,322,229
Deposits with other banks.....	1,914,393	1,501,919	1,133,859
Receivables due from repurchase agreements.....	-	-	105,427

Source: Stand-Alone Financial Statements

1) Trading assets.

2) Financial assets designated at fair value through profit and loss and investment securities available for sale.

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

	As of 31 December		
	2011	2010	2009
	(in PLN thousand) (audited)		
FRA (forward rate agreement).....	158,002,000	92,420,000	37,118,000
IRS (interest rate swap).....	390,954,272	304,834,350	228,547,768
FX swaps (including CIRS).....	85,970,291	56,734,794	51,160,563
FX futures and FX forwards.....	8,038,977	7,422,251	5,987,841
FX options.....	13,289,349	8,754,074	9,855,172
Other.....	2,132,267	4,470,977	2,906,151

Source: Stand-Alone Financial Statements

Treasury Products

In addition, the Bank's standard offer for corporate banking customers includes negotiated deposits, treasury bills, treasury bonds, municipal and corporate bonds, forward rate agreements, interest rate swaps and CIRS as well as foreign exchange transactions (options, spots, swaps, foreign exchange forward transactions). Treasury products are sold by product specialists and directly by a team of corporate dealers from the Bank's treasury department.

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 2011, the Bank arranged 12 corporate bond issues (of which 5 were underwritten) with an aggregate value of PLN 3.2 billion and 109 municipal bond issues with an aggregate value of PLN 1.6 billion. As of 31 December 2011, the total amount of corporate and municipal debt securities held by the Bank in connection with its underwriting activities was PLN 6.03 billion.

Brokerage House

DM PKO BP is a securities brokerage house that operates as an internal division within the Bank. DM PKO BP is one of the largest brokers in Poland and has operated as a broker in the Polish capital market since 1991. DM PKO BP offers its clients a wide range of brokerage services, including accepting and executing clients' orders, acting as a market-maker, conducting tender offers, offering financial instruments, investment advisory, asset management, financial analysis, equity research and corporate finance advisory services. As of 31 December 2011, DM PKO BP's services were offered through 37 brokerage outlets and approximately 967 of the Bank's branches that comprise the Bank's distribution network. DM PKO BP aims to further expand its stand-alone branch network.

DM PKO BP's customer base consists of both retail and institutional investors (including foreign institutional investors). As of 31 December 2011, customers of DM PKO BP held 155 thousand investment accounts and 153 thousand active registry accounts, to evidence securities that were bought on the primary market, with PLN 30.5 billion in equities, PLN 12.4 billion in debt securities and other instruments. DM PKO BP discontinued offering portfolio management services in the fourth quarter of 2011.

During 2011, DM PKO BP ranked 7th in the Polish market in equities trading with a 5.05% market share in equities trading (based on WSE data). DM PKO BP is one of the largest retail bond trading houses in Poland, trading 45.17% of all retail bonds for the year ended 31 December 2011. DM PKO BP also holds the leading market position in sale of retail treasury bonds and sold 21,821,301 bonds (total nominal value – PLN 2.2 billion) to customers during the year ended 31 December 2011 and 23,680,977 bonds (with a total nominal value of PLN 2.4 billion) for the year ended 31 December 2010. It also offers investment units of 162 investment funds

managed by 12 investment fund managers, including PKO TFI. In addition to equities and retail bonds, DM PKO BP also trades derivatives and held a 3.66% futures and 14.92% index options local market share by volume for the year ended 31 December 2011. DM PKO BP aims to increase its institutional client base and product offer for such clients.

Key Subsidiaries

The Group also provides other specialized 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 equity holders of the parent company was 0.8% for the year ended 31 December 2011 and 1.5% for the year ended 31 December 2010. The Group is in the process of reorganization to increase efficiencies and may dispose of certain non-strategic Group companies. The key subsidiaries are described below.

PKO Towarzystwo Funduszy Inwestycyjnych S.A. – asset management

PKO TFI is an asset management company established in 1997. As of 31 December 2011, PKO TFI was the third largest asset management company in Poland by funds under management, managing 29 investment funds and sub-funds with total assets of PLN 8.06 billion and had a share of the Polish asset management market of approximately 7.05% 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

PTE BANKOWY manages the open pension fund PKO BP Bankowy. PTE BANKOWY was jointly founded in 1998. As of 31 December 2011, PTE BANKOWY held assets under management of PLN 7.6 billion and was ranked ninth on the Polish market in terms of total assets under management (based on data provided by the PFSA). Its management intends to focus on increasing PTE BANKOWY's current market position, its profitability and the Bank's return on investment.

Inteligo Financial Services S.A. – online banking service platform

Inteligo was established in 2000 by Bankgesellschaft Berlin AG and was wholly acquired by the Bank in 2002. Inteligo provides the Bank's customers with online banking services. In addition to servicing accounts through electronic access channels (including the establishment of an online banking platform for all of the Bank's customers), Inteligo also assists the Bank with the development and expansion of long-term strategic initiatives such as, *inter alia*, a Bank-wide call centre as an additional distribution channel and the development of a remote client identification and authorization system. Inteligo also provides online banking technology for Kredobank and Bank Pocztowy S.A. The Bank's customers may use the Inteligo platform to purchase certain external services such as additional credit for mobile phones, participation units in investment funds, reports from Biuro Informacji Kredytowej S.A. as well as certain property insurance products offered by the PZU S.A. group. Since December 2008, the company had owned 80.33% of PKO BP Finat Sp. z o.o., whose core business activity is focused on providing settlement services as a clearing agent for both pension and investment funds. On 24 August 2011, Inteligo sold all the shares held in PKO BP Finat Sp. z o.o. to the Bank. The Bank intends to continue to utilize Inteligo's technological and IT solutions to augment its banking operations as well as to cross-sell new financial products.

Centrum Elektronicznych Usług Płatniczych eService S.A. – card payment settlement services

CEUP eService was founded in 1999 and became a wholly owned subsidiary of the Bank in 2001. CEUP eService provides card payment settlement services and is expanding the network (one of the largest in Poland) of merchants that accept debit, credit and charge cards issued by various banks and manages the Bank's point of sale ("POS") terminal network, the data flow in connection with the settlement of payment card businesses and certain cash flow operations in connection with POS terminal network stations. During 2011, CEUP eService serviced POS transactions (payment transactions and cash withdrawals) amounting to PLN 23.5 billion and held a significant market share of approximately 24.4% in terms of POS transactions value in Poland (based on data provided by the company). The objective of the Bank's investment in CEUP eService is to develop the Bank's and CEUP eService's business relationships with its merchant network.

Bankowy Fundusz Leasingowy S.A. – leasing services

Bankowy Fundusz Leasingowy S.A. was established in 1999. Bankowy Fundusz Leasingowy S.A. and its subsidiary (Bankowy Leasing Sp z o.o.) provide operational and financial leasing of tangible and real estate assets. For the year ended 31 December 2011, Bankowy Fundusz Leasingowy (including subsidiaries) held a market share of approximately 5.4% by value of assets leased over the period (based on data provided by the Polish Leasing Association).

Kredobank S.A. – banking services in Ukraine

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

Kredobank is a commercial bank providing basic banking services to both individual and corporate clients. As of 31 December 2011, Kredobank's distribution network comprised 130 outlets in 22 of the 24 regions of Ukraine and in the Autonomous Republic of Crimea. Kredobank's scope of operations in Ukraine includes deposit taking, lending activity, servicing bank accounts, foreign exchange transactions and offering securities brokerage services. According to data published by the NBU, Kredobank's market share (calculated as a percentage of the total net assets of the banking sector of Ukraine) was 0.36% as of 31 December 2011.

While real GDP growth in Ukraine averaged almost 6.9% per annum between 2000 and 2008 (based on IMF figures), the economy experienced a deep recession during 2009, with a negative annual real GDP growth rate of 14.8% (based on 2001 prices). During 2010 and 2011, the Ukrainian economy recorded a real GDP growth rate of 4.2% and 5.2%, respectively (based on 2001 prices). The recession experienced by the Ukrainian economy was a result of domestic financial instability, a sharp drop in external demand and prices for steel, Ukraine's major export. From the beginning of the downturn, domestic banks continue to be 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. The economic recovery started from 2010 and continued up to this date is driven mainly by strong private consumption and investment activity (amid easing price pressures) and strong investment activity (ahead of the European football championships to be held in 2012). In light of the weaker global economic situation and the drop in demand for Ukraine's exports resulting therefrom, as well as the negative base effects (due to, in part, the exceptionally strong harvest in 2011), GDP growth is expected to weaken in 2012 (the current IMF forecast indicates 4.8% real GDP growth). The expected moderate growth and relatively low inflation create tentative room for some monetary policy easing in 2012. The NBU began to ease monetary conditions in the first quarter of 2012 (including cuts in overnight borrowing rates, lower pressure on banking sector liquidity). In an environment of more accommodative monetary policy, heightened uncertainty, and current account imbalance, the Ukrainian currency appears vulnerable and at risk of gradual depreciation.

In November 2008, the IMF granted Ukraine a stand-by loan in the amount of USD 16.5 billion to help stabilize the Ukrainian financial system and to facilitate the implementation of monetary and exchange rate policy shifts, banking recapitalization and fiscal and income policy adjustments. As part of the agreement with the IMF, the Ukrainian government agreed to recapitalize the Ukrainian banks. In February 2009, the NBU and Kredobank entered into an agreement stipulating a performance improvement plan to improve the profitability of Kredobank and its financial condition. Since February 2009 up to the date of the Base Prospectus, the regulatory capital of Kredobank was increased by:

- USD 35.0 million in subordinated loans extended by the Bank (PLN 119.6 million at the mid exchange rate of the NBP as of 31 December 2011), provided that Kredobank repays the Bank by way of early repayment of the subordinated loans extended prior to February 2009 of USD 38.0 million (PLN 129.9 million at the mid exchange rate of the NBP as of 31 December 2011); and
- UAH 1,024.1 million in 2009 and UAH 368.0 million in 2010 through a share issuance (a total of PLN 435.8 million at the mid exchange rate of the NBP as of 31 December 2011).

On 30 December 2010, the Bank deposited USD 4.8 million in Kredobank's account maintained by the Bank of New York Mellon, which was subsequently pledged for the benefit of Kredobank as a security for Kredobank's loan receivables. A successful debt collection carried out by Kredobank and the recovery of claims secured by deposits resulted in the reduction of the amount of the deposit to USD 2.9 million as of 31 December 2011.

On 20 April 2011 Kredobank and the NBU signed another agreement according to which the NBU adjusted its requirements to the existing conditions of Kredobank taking into account the support measures implemented by the Bank, comprising the guarantees and deposits securing selected loan receivables of Kredobank.

On 29 November 2011 the Bank acquired a 100% stake in a licensed Ukrainian factoring company "Private Investments" private limited liability company to be used as the special purpose vehicle in a restructuring transaction regarding Kredobank's non-performing loans. In December 2011 this company acquired a dedicated portfolio of receivables from Kredobank amounting to UAH 1,645 million (PLN 700 million at the mid exchange rate of the NBP as of 31 December 2011). At the same time, the Bank granted to the company a loan in USD with the purpose of funding the purchase of the above portfolio of receivables in the amount of USD 63.07 million. The loan was disbursed on 14 December 2011. Its final repayment date is 29 February 2013 but it can be repaid earlier from the proceeds of the collection of receivables under non-performing loans purchased

from Kredobank. On 9 February 2012 a portion of the loan amounting to USD 297 thousand was repaid; the balance of the loan as of the date of the Base Prospectus amounts to USD 62,773 thousand.

Following a sale of a portion of its capital interest and a subsequent increase of share capital by the new participant, as of the date of the Base Prospectus, the Bank directly holds 6.59% of the share capital of the factoring company. The remaining 93.41% of the shares in the factoring company are held by Inter-Risk Ukraina additional liability company, which is wholly owned by the Bank.

As of the date of this Base Prospectus, Kredobank is in compliance with major requirements of the Ukrainian bank regulations and the limits imposed on Kredobank in the agreements with the NBU. The restructuring of Kredobank's non-performing loan portfolio in 2011 secured Kredobank's compliance with most of the NBU requirements set forth in the agreement with the NBU and aims to improve the efficiency of debt recovery activities. Since the completion of the restructuring, the Bank has closely supervised the implementation of various risk management policies at Kredobank, especially credit risk management tools. The Bank's representatives on Kredobank's supervisory board approve all decisions regarding the granting of loans in amounts exceeding USD 2.5 million.

As of 31 December 2011, the equity of Kredobank amounted to UAH 663 million (PLN 282 million) – ranking 35th in the Ukrainian banking sector, based on the NBU's data. For 2011 Kredobank reported a net loss of UAH 252.5 million (PLN 93.8 million). As of 31 December 2011, the loan portfolio (gross) of Kredobank was UAH 2,085 million (PLN 887 million). The coverage ratio for impaired loans and advances with impairment allowances in Kredobank as of 31 December 2011 amounted to 23.66%. As of 31 December 2011, the total amounts due to customers of Kredobank amounted to UAH 2,675 million (PLN 1,138 million). Kredobank's capital adequacy ratio was 22% as of 31 December 2011 and was higher than the NBU's regulatory minimum of 10%.

Under the current challenging market conditions, Kredobank intends to complete various restructuring and efficiency improvement initiatives with the aim to establish a solid platform for future growth. In 2011, the Bank developed and adopted a new strategy for Kredobank consisting of two stages: (i) restructuring and business reorganization; and (ii) the implementation of best practices with respect to its products, internal procedures and distribution chain, while focusing on selected geographical areas of the Ukrainian market. The implementation of the new strategy of Kredobank is aimed at improving capital adequacy, improving the profitability of assets, better risk management and a focus on strategic direction of Kredobank as a regional bank in Western Ukraine which also operates in certain selected larger cities in other regions in the country and is a niche player focused predominantly on retail and SME clients.

Ratings

The following section contains information regarding ratings assigned by Moody's, Fitch, Capital Intelligence and Standard and Poor's. Moody's, Fitch, Capital Intelligence and Standard and Poor's, all of which are established in the European Union and which 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 ratings of Moody's, Fitch, Capital Intelligence 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 Bank has been assigned ratings by Fitch (on 18 December 1996 and maintained on 9 August 2010, and 4 August 2011, unsolicited), Moody's (on 14 January 2003, 24 February 2007 and 18 June 2009), Standard & Poor's (on 25 August 2004, in September 2010 and maintained on 10 May 2011, unsolicited) and Capital Intelligence (on 30 November 2000, in December 2007, in January 2010 and on 30 May 2011, unsolicited) as set forth in the table below.

Category	Fitch	Moody's	Standard & Poor's	Capital Intelligence
Long-term assessment of liabilities and deposits (foreign currencies / domestic currency)		A2/A2 with a stable outlook ⁽¹⁾	A-pi ⁽²⁾	A- ⁽³⁾
Short-term assessment of liabilities and deposits (foreign currencies / domestic currency)		Prime- 1/Prime- 1 with a stable outlook ⁽⁴⁾		A2 ⁽⁵⁾
Support	2 ⁽⁶⁾			1 ⁽⁷⁾
Financial strength		C-with a negative outlook ⁽⁸⁾		BBB ⁽⁹⁾
Prospect of maintaining the assessment.....				Stable ⁽¹⁰⁾

Notes:

- 1) Liabilities rated A are considered upper-medium grade and are subject to low credit risk. Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 2 indicates a mid-range ranking of that generic rating category. A Moody's rating outlook is an opinion regarding the likely direction of a rating over the medium term.
- 2) "A" rated liabilities are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. Ratings from 'AA' to 'CCC' may be modified by the addition of a "+" or "-" sign to show the relative standing within the major rating categories. Ratings with a 'pi' subscript are based on an analysis of an issuer's published financial information, as well as additional information in the public domain. They do not, however, reflect in-depth meetings with an issuer's management and are therefore based on less comprehensive information than ratings without a 'pi' subscript. Ratings with a 'pi' subscript are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event occurs that may affect the issuer's credit quality.
- 3) High credit quality. Strong capacity for timely fulfillment of financial obligations. Possesses many favorable credit characteristics but may be slightly vulnerable to adverse changes in business, economic and financial conditions. Capital Intelligence appends "+" and "-" signs to foreign and local currency long term rating in the categories from "AA" to "C" to indicate that the strength of a particular entity is, respectively, slightly greater or less than that of similarly rated peers.
- 4) Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
- 5) Very strong capacity for timely repayment but may be affected slightly by unexpected adversities.
- 6) Bank Support Rating of "2" denotes a bank for which there is a high probability of external support. The potential provider of support is highly rated in its own right and has a high propensity to provide support to the bank in question. This probability of support indicates a minimum Long-Term Rating floor of "BBB".
- 7) The likelihood of a bank receiving support in the event of difficulties is extremely high. The characteristics of a bank with this support rating may include strong government ownership and/or clear legal guarantees on the part of the state. The bank may also be of such importance to the national economy that state intervention is virtually assured. The ability and willingness of potential supporters to provide sufficient and timely support is extremely strong.
- 8) Banks rated "C" possess adequate intrinsic financial strength. Typically, these will be institutions with more limited but still valuable business franchises. These banks will display either acceptable financial fundamentals with a predictable and stable operating environment, or good financial fundamentals within a less predictable and stable operating environment. A "-" modifier is appended to distinguish those banks that fall in intermediate categories.
- 9) Basically sound overall; slight weaknesses in financial or other factors could be remedied fairly easily. May be limited by unstable operating environment. Capital Intelligence appends "+" and "-" signs to foreign and local currency long term ratings in the categories from "AA" to "C" to indicate that the strength of a particular entity is, respectively, slightly greater or less than that of similarly rated peers.
- 10) Outlook – expectations of improvement, no change or deterioration in a bank or corporate rating over the 12 months following its publication are denoted "Positive", "Stable" or "Negative". The time horizon for a sovereign rating outlook is longer, at 12-24 months.

Intellectual Property

The Group uses a number of trademarks in its activities. As of the date of the Base Prospectus, the Group has registered rights to 105 trademarks, including 51 trademarks of the Bank. The Bank has filed for the registration of an additional 27 trademarks with the Patent Office, including 24 trademarks of the Bank. The Bank has filed for registration of one trademark abroad under national procedure. It also applied for a registered community design in the Office for Harmonization in the Internal Market in respect of five trademarks. Additionally, registration of four trade marks of the subsidiaries is pending.

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

Licenses

License for the Bank to use the Inteligo logo

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

The above-described license has material importance for the activities carried out by the Group in respect of PKO'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 335 registered internet domains, including the www.pkobp.pl domain.

Information Technology

In 2008, the Bank completed the development and implementation of a centralized, integrated information technology ("IT") system (the "Integrated IT System") throughout its distribution network. Due to its scale and complexity, the Integrated IT System project has been one of the largest information technology projects ever carried out in Poland. The new IT system allows for a comprehensive view of client information and thus effectively strengthens the Group's distribution activities. In addition, the new system further improves the risk management capabilities of the Bank.

The Integrated IT System is designed to ensure that IT development and maintenance services are closely coordinated throughout the Bank's extensive distribution network. The Integrated IT System has been uniquely tailored to the specific scope and nature of the Bank's business. The Bank employs more than 150 employees to support and maintain its Integrated IT System.

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

The Integrated IT System has been designed to consolidate core banking systems within the Group and to deliver solutions to the customer-facing operations of the Bank. 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 standardized 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. In addition, the Bank continually assesses its internal credit risk reporting systems to determine if improvements and enhancements are required to maintain compliance with Basel II.

As of the date of the Base Prospectus, the Bank uses over 200 applications. 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.

Material Contracts

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

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

Financing Agreements

CHF 950,000,000 Credit Facility for the Bank

On 27 July 2007, the Bank, as the borrower, concluded a credit agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd., BNP Paribas, Citibank, N.A. and Standard Bank Plc., as the arrangers, and Bank Handlowy w Warszawie S.A., as the facility agent, based on which the Bank was granted a term loan in the amount of CHF 950,000,000 for general funding purposes. Under the agreement, the Bank is required to pay interest at the rate of LIBOR plus 0.135% per annum. The final maturity date is the fifth anniversary of the date of the agreement. As of 31 December 2011, the outstanding amount under this facility was CHF 950,000,000 (PLN 3,451,635,000).

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

For the purposes of the agreement, loss of the State Treasury's control over the Bank constitutes an event of default. The agreement defines 'control' as the right to command (directly or indirectly) the entity's management process or policies on the basis of: (i) holding a relevant number of votes at the Bank's general meeting; (ii) contractual provisions; or (iii) other reasons. Once an event of default has occurred and is not redressed, the facility agent may (and upon receipt of relevant instructions from the majority lenders, must): (i) cancel all or some of the financing made available under the agreement; (ii) declare the receivables consisting of all or some of the financing paid under the agreement to be immediately due and payable; (iii) establish that all or some of the amounts paid under the agreement are payable at the request of the facility agent acting in accordance with the majority lenders' instructions. On 14 July 2011 the Bank informed the lenders, through the intermediation of the facility agent, about the proposed sale of shares in the Bank by the State Treasury and Bank Gospodarstwa Krajowego and noted that the proposed change in the Bank's shareholding structure would not constitute an event of default under the facility agreement. The lenders acknowledged the above notice and as of the date of the Base Prospectus have not presented any objections thereto.

EUR 100,000,000 Finance Contract between the Bank and the EIB

On 29 April 2004, 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 100,000,000 for the purpose of financing through loans small and medium-sized projects related to the environment and infrastructure, and development of knowledge-based economy, energy, health, education and industry projects. The terms of disbursement of each tranche, including, in particular, the amount of the loan, the disbursement date, the interest rate, the currency and the repayment period proposed by the Bank in a disbursement request are subject to the EIB's consent in a disbursement notice. As of 31 December 2011 the balance of the credit facility was PLN 322,868,322.27 (EUR 73,100,054.85).

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 'change of control' is understood as any material change of the ownership structure regarding the Bank's share capital in result of which the State Treasury (directly or indirectly, through a shareholding in the Bank's share capital, holding a relevant number of votes at the Bank's general meeting or otherwise): (i) will cease to hold more than 50% of the share capital or 50% of votes at the Bank's general meeting; or (ii) losing the right to appoint or dismiss the majority of members of the management or supervisory board of 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 there will probably occur a change of control event with respect to the Bank, or if the EIB has any reasonable grounds to claim that there has occurred a change of control over the Bank or a change of control over the Bank will in fact occur, the EIB may request that the Bank conduct consultations therewith. Once 30 days have lapsed from notification of the Bank's request or following a change of control over the Bank (whichever of those events occur earlier), the EIB will have the right to demand the Bank to make an early repayment of the loan, with accrued interest, provided that, in the reasonable opinion of the EIB, the change of control event has caused or will probably cause a material adverse change as defined in the agreement.

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

On 31 July 2009, the Bank and the EIB entered into a finance contract, based on which the EIB made available to the Bank a credit facility of EUR 150,000,000 for the purpose of financing through loans 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 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 subject to acceptance by the EIB in a disbursement notice. As of 31 December 2011, the balance of the credit facility was CHF 227,250,000.

Under the agreement the Bank is required to notify the EIB of any circumstances: (i) of any person or group of persons acting, formally or informally, in concert to secure the control over the Bank; or (ii) of the State Treasury's loss, directly or indirectly, through its 100% owned subsidiary, of the holding of more than 50% of the Bank's share capital. For the purposes of the agreement 'control' is understood as the authority to direct an entity's management process or policies resulting from: (i) holding a relevant number of votes at the Bank's general meeting; (ii) contractual provisions; or (iii) other reasons.

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, if the EIB has any reasonable grounds to claim that there has occurred a change of control over the Bank or a change of control over the Bank will occur, the EIB may request that the Bank conduct consultations therewith. Once 30 days have lapsed from notification of the Bank's request or following a change of control over the Bank (whichever of those events occurs earlier), the EIB will have the right to demand the Bank to make an early repayment of the loan, with accrued interest, provided that, in the opinion of the EIB, the change of control event has caused or will probably cause a material adverse change as defined in the agreement.

EUR 100,000,000 Framework Loan Agreement between the Bank and the CEB

On 31 July 2008, the Bank and the CEB entered into a framework loan agreement, based on which the CEB made available to the Bank a loan of EUR 100,000,000 for the partial financing of investment projects aimed at job creation and preservation in SMEs in Poland. For each tranche, the terms of disbursement, including, in particular, the amount of the loan, the disbursement date, the interest rate and the repayment period are to be determined jointly by the Bank and the CEB and specified in each disbursement agreement. As of 31 December 2011, the balance of the loan was CHF 75,600,000 and EUR 49,814,126.

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 Bank Gospodarstwa Krajowego will not constitute an event of default under the loan agreement.

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. As of 31 December 2011, the balance of the loan was EUR 75,000,000.

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 Bank Gospodarstwa Krajowego 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 recognized rating agencies decreased below a certain level, provided that such decrease may adversely impact the performance of the borrower under the loan agreement.

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

On 5 July 2011, Bankowy Fundusz Leasingowy and Bank Polska Kasa Opieki S.A. executed a credit facility agreement whereunder Bankowy Fundusz Leasingowy was granted a loan of no more than PLN 400 million for financing or refinancing leasing agreements executed by Bankowy Fundusz Leasingowy, provided that the maximum value of financing of any single leasing agreement can not exceed the net value of the subject of the leasing less the initial payment (in case of financing) or the outstanding net value under a leasing agreement (in case of refinancing). Pursuant to the terms of the agreement, the amount of financing was made available in tranches. The tranches may be made available during the term of the facility, i.e. until 31 March 2012. The facility accrues interest established on the basis of WIBOR 1M increased by a margin as stated in the agreement. As of 31 December 2011, the indebtedness under this agreement amounted to PLN 321,664,000.

Material Issues of Debt Securities

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

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

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

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

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

The loans extended to the Bank by PKO Finance on 21 October 2010 and on 7 July 2011 were senior loans.

If a certain event defined in the Trust Deeds occurs and continues, the trustee may, subject to the provisions of the Trust Deeds, seek to enforce the security interests pledged by PKO Finance under the Trust Deeds in favor 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 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 Trust Deed, 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 authorization 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 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 26 April 2011, Moody's confirmed the rating for the Programme to be at the level of A2 for unsecured debt and A3 for secured debt (A-rated debt is characterized by higher than average reliability and low credit risk level, and Moody's adds figures 1, 2 and 3 to each of the ratings, thus designating their position in the relevant group) and Prime-1 for long-term debt (issuers who are assigned such rating have the greatest ability to repay short-term financial obligations).

Proposed letter of undertaking with the European Bank for Reconstruction and Development (the "EBRD") relating to the Programme

It is envisaged that a portion of the Notes issued under the Programme may be acquired by the EBRD. In consideration of the EBRD's potential participation in the Programme, the Bank plans to undertake, by signing a relevant letter of undertaking (the "**Letter of Undertaking**"), to develop and grow, on a "best efforts" basis, the business of lending to micro, small and medium-sized enterprises meeting certain eligibility criteria. It is envisaged that pursuant to the Letter of Undertaking, such businesses will have to: (i) employ no more than 249 full-time equivalent staff, including full-time management; (ii) have a maximum annual turnover of EUR 50 million or a maximum annual balance sheet total of EUR 43 million; (iii) be registered and located in the Republic of Poland; (iv) have majority private sector ownership and control; (v) obtain all necessary appropriate approvals, permits etc; and (vi) use the amounts from the loans for the purposes that will be specified in the Letter of Undertaking. The Letter of Undertaking will impose certain restrictions on the use of proceeds from such loans and provides such proceeds shall not be used to finance, among others, investments in securities, financial institutions or any speculative investment activities.

It is envisaged that the Letter of Undertaking will also provide that the Bank will endeavor to increase the size of the portfolio of the loans meeting the eligibility criteria by an amount at least equal to the aggregate principal amount of the Notes subscribed for by the EBRD during the period commencing on the first day of the quarter commencing prior to the date of the Letter of Undertaking and ending on 31 December 2014, and to grow such portfolio at the rate of 5 per cent. annually so increased for as long as the EBRD holds all or some of the Notes.

Furthermore, pursuant to the Letter of Undertaking, the Bank will agree, on a “best effort” basis, to follow the EBRD’s Environmental and Social Procedures for Corporate Lending referred to as Performance Requirement 2 (*Labour and Working Conditions*) in relation to, inter alia, the management of working relationships, working conditions, terms of employment, retrenchment and non-employee workers, as well as Performance Requirement 9 (*Financial Intermediaries*) in relation to, inter alia, environmental and social due diligence, stakeholder engagement and the requirements for subprojects; moreover, it undertook to provide the EBRD with annual reports on its compliance with such requirements.

It is also envisaged that the Letter of Undertaking will require the Bank to adhere, on a “best efforts” basis, to the best practices in respect of foreign currency lending and the management of the Bank’s loan portfolio.

Moreover and subject to the paragraph below, it is envisaged that EBRD would only participate in an issuance of Notes under the Programme with maturities of 5 or 7 years.

Notwithstanding the foregoing, there will be no obligation under the Letter of Undertaking for the EBRD to participate in the Programme and, accordingly, the EBRD may elect not to acquire any Notes issued under the Programme.

Issue of Subordinated Bonds by the Bank

On 30 October 2007, the Bank issued 16,007 subordinated bonds of PLN 100,000 nominal value each. The issue price of each bond equaled its nominal value. The aggregate nominal value of the issue was PLN 1,600.7 million. The final redemption date of the bonds, at the nominal value thereof, is 30 October 2017 with the Bank’s option of early redemption on 30 October 2012. The subordinated bonds were issued in order to recognize the proceeds from the issue (subordinated liabilities), and as a consequence, to increase the capital base of the Bank.

In accordance with the terms and conditions of the issue of subordinated bonds, the bonds do not have the form of a document and are registered in the records kept by the Bank. The bonds bear variable interest based on the 6-month WIBOR rate plus 100 basis points. However, in the case of interest paid out in the interest periods after 30 October 2012 (the early redemption date) and unless the Bank fails to use the early redemption option, the interest will be increased by the relevant margin and 25 basis points. Interest on the bonds is payable semi-annually until the date of their redemption. The bonds are unsecured.

Issue of Bonds by Bankowy Fundusz Leasingowy

On 10 November 2011, Bankowy Fundusz Leasingowy 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 Bankowy Fundusz Leasingowy agreed to issue, in private offerings by 9 November 2016, bonds in several series and the total value of the program of up to PLN 600 million. The bonds have been issued as bearer, dematerialized and unsecured bonds. The program provides that the bonds issued in one series must have a total nominal value of not less than PLN 10 million. As of 31 December 2011 the Bank has issued bonds with the total nominal value of PLN 345 million. Pursuant to the program, Bankowy Fundusz Leasingowy undertook to redeem all of the issued bonds at their nominal value by 9 November 2016. The Bank agreed to underwrite each series of the bonds not subscribed for by the bondholders. The agreement governing the program provides for certain standard events of default following the occurrence of which the Bank may terminate the agreement with immediate effect and is waived of its obligation to underwrite any portion of the bonds in issue.

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

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

As of the date of this Base Prospectus, the total nominal value of the bonds outstanding under the Domestic Market Programme amounts to PLN 1,900,000,000.

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 Banking Law and the resolution of the management board of the Bank dated 14 December 2010.

A structured BPW is an unsecured security issued to a bearer. Structured BPWs do not bear interest. The redemption amount for structured BPWs is established on the basis of the terms and conditions of the issue

thereof. The redemption amount is equal to the nominal value of the structured BPWs and a premium calculated in accordance with the formula provided in the terms and conditions of the issue of the BPWs.

As of the date of this Base Prospectus, the Bank has issued four tranches of structured BPWs within the scope of the programme with a total value of PLN 253,641,000.

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 Bank's future business needs and related to 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 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 favorable 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.

The agreement provides for contractual penalties. The liability of the parties is limited to actual damages. Except for any personal injuries, the liability of the parties is limited to PLN 36,500,000. The restriction also does not apply to any obligation to pay the due fee and to redress any injuries caused in result of failure to pay the fee.

The net annual fee for the services stated as of the date of execution of the agreement amounted to PLN 22,000,000. Moreover, the New Integrated IT System Agreement provides for a variable fee that depends on the pool of orders for development work.

The New Integrated IT System Agreement was concluded for a term of 30 months, 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.

Insurance Coverage

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

Significant Tangible Fixed Assets

Significant Tangible Fixed Assets

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

	As of 31 December		
	2011	2010	2009
		(PLN thousand)	
		(audited)	
Land and buildings	1,691,339	1,722,797	1,749,813
Machinery and equipment	559,727	603,388	651,577
Means of transport.....	62,344	47,703	44,832
Assets under construction.....	144,776	96,022	207,251
Investment properties	248	259	322
Other	82,883	106,276	123,899
Total	2,541,317	2,576,445	2,777,694

Source: Consolidated Financial Statements

As of the date of the Base Prospectus, the most important fixed assets of the PKO Bank Polski 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, except for the below-referenced transfer of the ownership title to the real estate where the Bank's headquarters is situated.

The Bank's Properties

As of the date of the Base Prospectus, the Bank has 747 plots of land which are either owned by the Bank, held under usufruct or occupied under lease agreements. Moreover, the Bank holds 11 pieces of real estate without legal titles. As of 31 December 2011, the total book gross value of the properties held by the Bank was PLN 4,490.1 million, including that presented in the "land and buildings" item of PLN 2,081.1 million and in the "investment property" item of PLN 0.8 million.

The Bank holds as the owner or holder of a cooperative member's ownership right to 794 buildings or premises with a total area of 725,562.46 m². Furthermore, the Bank utilizes 11 pieces of real estate including 35 facilities with the total area of 27,847.33 m², without legal titles. The Bank, under lease agreements, occupies 1,831 buildings and premises with a total usable area of approximately 216,955.48 m². Leases are usually made for 5 years or unspecified term periods.

The Bank believes that the building situated in Warsaw at Puławska 15, where the headquarters of the Bank are situated, is significant to the Bank's operations. On 1 July 2011 the Bank, acting as the sole shareholder of Centrum Finansowe Puławska, who was the perpetual usufructuary of the land on which the building is situated and the owner of the building, adopted a resolution on the dissolution and liquidation of such company, the main business of which was the management of the building situated in Warsaw at ul. Puławska 15. Following the completion of such dissolution and liquidation, the transfer of the ownership title to the building in favor of the Bank took place on 1 March 2012; the Bank currently holds the perpetual usufruct right to the land together with the building situated thereon located in Warsaw, at ul. Puławska 15.

The Bank leases parts of its buildings and premises which are not used by the Bank for its operation to third parties. As of 31 December 2011, the total area leased by the Bank is approximately 45,108.72 m².

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 2003 and 2011 amounted to PLN 1,134.9 million. As of 31 December 2011, the net book value of the Integrated IT System was PLN 707.9 million.

Environmental Protection

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

Regulatory Issues

The operations of the PKO Bank Polski Group carried out in the financial services sector (banking sector, investment funds association and the investment funds managed thereby, pension fund society and the pension fund managed thereby, and brokerage activities) are regulated activities.

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

- Kredobank;

- PKO TFI; and
- PTE BANKOWY.

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

The aforementioned operations of the PKO Bank Polski Group are subject to strict supervision of the Polish and foreign regulatory authorities, including the PFSA and the NBU, and must be carried out in compliance with community regulations and the provisions of Polish law and other countries in which the PKO Bank Polski 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 PKO Bank Polski 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 PKO Bank Polski 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.

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

Legal, Administrative and Arbitration Proceedings

The Group in the ordinary course of business is routinely involved in legal proceedings concerning its operational activities. To the Bank’s best knowledge, as of 31 December 2011, with respect to suits involving claims of at least PLN 2 million each, the Bank was (i) a plaintiff or a claimant in 11 proceedings; and (ii) a defendant or participant in 19 proceedings.

According to the Bank’s best knowledge, as of 31 December 2011, the total value of claims subject to court disputes where: (i) the Bank acts as a defendant amounted to PLN 337.6 million, while the total value of claims brought by the Bank as a plaintiff had a value of PLN 135.4 million. As of 31 December 2011, 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 1.4 million. With respect to the Bank, such figure amounted to PLN 2.3 million. The total value of the write-downs recognized in connection with the proceedings, the value of which exceeds PLN 5 million, amounted to PLN 122 million, including PLN 121.5 million in connection with the proceedings in Ukraine related to the enforcement of loans extended by Kredobank.

According to the information held by the Bank as of the date of the Base Prospectus, 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 proceedings regarding the establishment of the invalidity of resolutions of the General Meeting or 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.

Administrative proceedings regarding the Warsaw real property at ul. Puławska and ul. Chocimska

Centrum Finansowe Puławska is party to proceedings commenced at the request dated 7 May 2010 of the heirs of the owners of a part of the real property situated at ul. Puławska and ul. Chocimska in Warsaw where the Bank’s registered seat is currently located, to establish that the decision of the Local-Government Court of Appeal (Samorządowe Kolegium Odwoławcze, the “SKO”) dated 10 April 2001 declaring the administrative decision of the Presidium of the National Council for the Capital City of Warsaw (Prezydium Rady Narodowej m. st. Warszawy) dated 1 March 1954 was issued in gross breach of law but that it was impossible to find such decision invalid on account of the irrevocable legal consequences thereof. Centrum Finansowe Puławska filed for an administrative decision refusing to declare the invalidity of the SKO’s decision dated 10 April 2001 on account that the applicants do not qualify as parties and because of the irrevocable legal consequences of the said decision of SKO. Additionally, Centrum Finansowe Puławska stated that the motion dated 7 May 2010 was filed by the same entities at whose request the Voivodship Administrative Court in Warsaw had already issued a judgment in the past in the same matter. By judgment of the Voivodship Administrative Court dated 30 May 2005 the complaint against the SKO decision dated 23 June 2003 regarding refusal to re-commence proceedings in a case ended by a final SKO decision dated 26 January 1998, was dismissed. The SKO, by decision dated 26 January 1998, upheld the SKO’s decision dated 2 December 1997 whereby it was established that the decision of

the Head of the Department of Survey and Municipal Management of the Office of the District of Warsaw Mokotów dated 14 May 1990 regarding delivery of the land located at ul. Puławska and Chocimska for management for an unlimited term, was issued in gross breach of law, but, on account of the irrevocable legal consequences thereof, it declined to find such decision invalid. Neither of the decisions of the SKO have been appealed. Additionally, the Supreme Administrative Court, by decision dated 22 November 2006, dismissed the final appeal (skarga kasacyjna) against the above-referenced judgment of the Voivodship Administrative Court. By decision dated 4 April 2011 the SKO found that the decision of the SKO dated 10 April 2001 was issued in gross breach of law. By letter dated 9 May 2011 Centrum Finansowe Puławska requested another review of the case and finding that the SKO's decision dated 4 April 2011 was invalid because it related to a matter that had been already settled by another final decision, or the revocation of the SKO's decision dated 4 April 2011 on account of the irrevocable legal consequences resulting from the decision of the SKO dated 10 April 2001. The SKO, under a decision dated 23 January 2012, upheld the SKO's decision dated 4 April 2011. The SKO decision of 23 January 2012 was challenged before the Voivodship Administrative Court in Warsaw. The complaint was lodged with the SKO on 27 February 2012. The SKO shall remand the case to the court along with the files and response to the complaint within 30 days of filing. The SKO may, within its jurisdiction, acknowledge a complaint up to the date of a hearing which is set by the court. As of the date of the Base Prospectus, the Voivodship Administrative Court in Warsaw has not scheduled the date of the respective hearing. As of the date of the Base Prospectus, Centrum Finansowe Puławska is in process of liquidation. Upon the deletion of Centrum Finansowe Puławska from the Register of Business Entities, the Bank will assume all the rights and obligations of the liquidated company.

Proceedings before the President of the Antimonopoly Office or the Antimonopoly Court for Infringement of Mutual Consumer rights

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

The Bank is a party to the proceedings initiated by the President of the Antimonopoly Office against operators of Visa and Europay systems and banks issuing Visa and Europay/Eurocard/Mastercard credit cards. The claims under these proceedings relate to the practices restricting competition on the market of banking card payments in Poland and consist of alleged participation in an illegal price fixing arrangement under which parties to the arrangement fixed interchange fees on transactions using Visa and Europay/Eurocard/Mastercard cards as well as limited the access of external entities to this market. On 29 December 2006, the Antimonopoly Office decided that the practices consisting of the illegal price fixing arrangement under which the parties to the arrangement fixed "interchange" fees restricted market competition and consequently ordered the banks to cease these practices, and imposed a fine, inter alia, on the Bank in the amount of PLN 16.6 million against which the Bank recognized a provision at the full value thereof. On 19 January 2007 the Bank appealed the decision of the President of the Antimonopoly Office to the Regional Court in Warsaw – the Court of Competition and Consumer Protection (the "**Antimonopoly Court**"). On 21 January 2008, the Antimonopoly Court suspended the execution of the challenged decision of the President of the Antimonopoly Office regarding the price fixing arrangement under which the parties to the arrangement allegedly fixed "interchange" fees. In its decision dated 12 November 2008, the Antimonopoly Court found that the banks involved in the proceedings, including the Bank, had not participated in an illegal price fixing arrangement. On 12 January 2009, the President of the Antimonopoly Office appealed this decision. The Bank replied to the appeal on 13 February 2009. On 22 April 2010, the Appeal Court in Warsaw overturned the Antimonopoly Court's judgment and remanded the case to the Antimonopoly Court for further proceedings. MasterCard S.A. submitted a motion dated 20 May 2011 for the suspension of the proceeding, because of the proceeding pending before the General Court of the European Union (formerly known as the Court of First Instance) initiated by MasterCard. On 7 June 2011 an attorney representing some of the banks involved in the proceedings, including the Bank, applied for the dismissal of the motion for the suspension of the proceeding filed by MasterCard S.A. arguing that the proceedings before the General Court of the European Union were not of a preliminary character with respect to the proceedings in question. On 20 December 2011 a hearing was held during which no resolution of the appeals was reached. The Antimonopoly Court requested MasterCard S.A. to submit, by 31 January 2012, further documents and explanations with respect to MasterCard S.A.'s motion for the suspension of the proceeding, with the next date of the hearing to be set by the court. The date of the hearing was initially set for 9 February 2012, however, following a motion filed by the Bank this date was postponed and the next Antimonopoly Court hearing is to be held on 24 April 2012.

Following multilateral discussions, on 30 March 2012 the Polish Payment System Council adopted a report regarding interchange fees on transactions using payment cards in which it recommended that multilateral arrangements be concluded between the banks and the payment card organisations, with the aim of reducing the levels of interchange fees. On 13 April 2012, several banks that are parties to the proceeding, including the Bank, filed a motion for the postponement of the hearing until the end of September 2012. The applicants indicated that the Polish Payment System Council has decided to request that the operators of Visa and Europay

systems make, by no later than 30 May 2012, a binding declaration according to which the interchange fees charged by such organisations will be reduced no later than September 2012.

Proceedings before the Antimonopoly Office regarding the use by the Bank of prohibited clauses in the standard forms of contract and other issues.

On 3 January 2012 a proceeding was initiated before the delegature of the Antimonopoly Office in Poznań. This proceeding is related to: individual retirement accounts, standard forms of bank account contracts, an advertisement of a loan of the Bank titled “Mini Ratka”. Pursuant to the request of the Antimonopoly Office, the Bank filed its response in which it provided the Antimonopoly Office with the requested information and explanations and an opinion regarding the allegations of the Antimonopoly Office. The Bank is seeking the discontinuance of this proceeding. According to the Bank’s response, the contested clauses are not prohibited. As of the date of the Base Prospectus, this proceeding is pending. On 30 January 2012 another proceeding was initiated before the delegature of the Antimonopoly Office in Warsaw. This proceeding is related to individual retirement accounts. Pursuant to the request of the Antimonopoly Office, the Bank filed its response in which it provided the Antimonopoly Office with the requested information and explanations and an opinion regarding three allegations related to individual retirement accounts raised by the Antimonopoly Office. The Bank is seeking the discontinuance of this proceeding as it believes the contested clauses are not prohibited. As of the date of the Base Prospectus, this proceeding is pending.

Proceedings regarding terminal applications

On 19 November 2003, CEUP eService executed a cooperation agreement with a supplier of POS software (the “**Contractor**”) regarding the use of software for the POS terminals (the “**POS Verifone Agreement**”) and a licence agreement for the use of POS software designed for electronic distribution of prepaid services (the “**Prepaid Agreement**”). Subsequently, in the years 2006 – 2008, CEUP eService and the Contractor executed certain other agreements: a licence agreement and a maintenance of loyalty application software service agreement (the “**Loyalty Application Agreement**”), a licence agreement and a maintenance of PIN PAD Ingenico application software service agreement (the “**PIN PAD Agreement**”) as well as a licence and a maintenance of POS terminals software service agreement (the “**POS Ingenico Agreement**”). On 14 January 2011, the Contractor delivered to CEUP eService a notice of the termination of the above-mentioned agreements. In the opinion of CEUP eService, the above-mentioned actions of the Contractor were in breach of the understanding reached between the parties and, thus, such terminations should be considered ineffective. On 19 April 2011 CEUP eService filed a suit against the Contractor to establish, *inter alia*, that CEUP eService held the author’s economic rights to the terminal application (arguing in favour thereof, *inter alia*, by noting that the employees of CEUP eService had made material creative contributions to the development of the terminal applications) and to establish that the Contractor was required to deliver to CEUP eService the existing source codes to the applications. If the court failed to grant those requests, CEUP eService demanded the establishment of the fact that: (i) the licences granted to CEUP eService under the Prepaid Agreement and the POS Verifone Agreement will expire by operation of law on 31 December 2012, because the termination deadlines stated in those agreements do not apply to the licence agreements; and (ii) the termination of the Loyalty Application Agreement, the PIN PAD Ingenico Agreement and the POS Ingenico Agreement were ineffective, because any licences granted for more than five years (in this case for 99 years) are regarded as licences granted for an unspecified time only after five years and that only after such time may they be terminated by the licensor. Additionally, CEUP eService applied for the creation of a security interest against the claim for finding as ineffective the Contractor’s termination of the POS Ingenico Agreement, the Loyalty Application Agreement and the PIN PAD Ingenico Agreement by: (i) granting CEUP eService the right to use the applications that were the subjects of the above agreements until the completion of the proceedings; (ii) demanding that the Contractor delivering the existing source codes to the above-referenced applications be at the discretion of the Regional Court in Warsaw; and (iii) by prohibiting the Contractor, until the completion of the proceedings, to dispose of the rights to the above applications without the consent of CEUP eService. Since the relevant motion for the establishment of security interest against the claim was not immediately reviewed by the court, CEUP eService withdrew the motion. No subsequent motion demanding the creation of security for CEUP eService’s claims was filed. In response to the statement of claim, dated 13 June 2011, the Contractor challenged all the demands made in the statement of claim and requested the establishment of a security interest for its claims by: (i) requesting CEUP eService to remove the Verifone payment application and the prepaid application from the POS terminals and all other devices; and (ii) requiring CEUP eService to stop installing such applications until completion of the proceedings. By a decision dated 14 July 2011, the Regional Court in Warsaw dismissed the Contractor’s motion for the establishment of a security interest. The proceedings are currently in progress.

Other Proceedings

Claims for the establishment of the invalidity of resolutions of the General Meeting

The Bank is a defendant in two court cases regarding establishment of invalidity of resolutions of the General Meeting, due to, according to the claim from one of the Bank's shareholders, failure to observe the requirement of voting by secret ballot. The Regional Court in Warsaw, by judgment dated 11 August 2010, found that the resolution No. 1/2009 of the ordinary General Meeting dated 30 June 2009 regarding the election of the Chairman of the ordinary General Meeting, was invalid. The Bank appealed the judgment. On 18 October 2011 the Court of Appeals dismissed in its entirety the claim brought by the Bank's shareholder to overrule Resolution No. 1 of the ordinary General Meeting of the Bank dated 30 June 2009 regarding the election of the Chairman of the ordinary General Meeting. The aforementioned judgment is final and non-appealable. A cassation against the judgment may be filed to the Supreme Court.

With respect to proceeding regarding the establishment of the invalidity of resolution No. 1/2011 adopted by the Bank's extraordinary General Meeting of 14 April 2011 regarding the election of the Chairman of the extraordinary General Meeting, on 20 January 2012 the Circuit Court in Warsaw dismissed the action brought by a shareholder of the Bank to declare the invalidity of resolution No. 1 of the ordinary General Meeting of the Bank dated 14 April 2011 regarding the election of the Chairman of such extraordinary General Meeting; as at the date of this Base Prospectus, the judgment is not yet final and non-appealable.

With respect to proceedings regarding the establishment of the invalidity of resolution No. 1/2010 of the ordinary General Meeting dated 25 June 2010 regarding the election of the Chairman of the ordinary General Meeting and resolution No. 7/2010 regarding the approval of the consolidated financial statements of the Group for 2009 or resolution No. 18/2010 regarding the acknowledgement of the duties performed by the members of the Supervisory Board in 2009 (the request stated in the statement of claim drafted by the Bank's shareholder was imprecise), on 1 March 2012 the Circuit Court in Warsaw – following an earlier clarification by the claimant that the subject of the action does not concern resolution No. 7/2010 adopted by the Bank's ordinary general meeting on 25 June 2010 – dismissed the action brought by a shareholder of the Bank to overrule Resolution No. 1 of the ordinary general meeting of the Bank dated 25 June 2010 regarding the election of the chairman of such ordinary general meeting, as well as resolution No. 18/2010 of such ordinary general meeting regarding the granting of a vote of acceptance to a member of the Bank's Supervisory Board; as at the date of this Base Prospectus, the judgment is not yet final and binding.

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

On 15 May 2009, one of the shareholders of Warimex sp. z o.o., acting on behalf of the company, filed a suit in the Regional Court in Warsaw against Bank Amerykański w Polsce S.A. (transformed into DZ Bank Polska S.A.) and the Bank requesting adjudication in favor of Warimex sp. z o.o. in bankruptcy the sum of PLN 163,971,852 as damages related with the defective representation on termination of the loan agreement dated 1 July 1997 executed between Warimex sp. z o.o. and the syndicate of Bank Amerykański w Polsce S.A., and the Bank. In response to the statement of claim dated 21 October 2010, the Bank requested the dismissal of the claim, based on the plaintiff's lack of authorization to file the claim and the authority of a judged case, or the dismissal of the suit based on the claim being barred by the Bank's Statute of limitation and on such suit being unjustified by merit. The hearing in the above-referenced matter was set for 6 September 2011. At a court session on 6 September 2011, the parties maintained their current positions. The Court urged the parties to reach a settlement, which was ultimately not concluded. The case was adjourned until 17 January 2012. At the hearing on 17 January 2012 the Court decided to postpone the hearing to 20 April 2012 due to the fact that the Prosecutor's Office was not properly notified before the hearing.

Request to conclude a settlement filed by a natural person

The Bank received a request to conclude a settlement dated 19 December 2011 filed with the District Court in Warsaw by a natural person who is seeking, in particular, the reimbursement of PLN 200,000,000 as compensation for, as he alleges, loss of remuneration and other losses of a personal nature. No relevant documents supporting such claim were attached to the request. On 27 March 2012 a court hearing took place at which the settlement was not concluded.

Employees

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

Headcount	As of 31 December		
	2011	2010	2009
PKO Bank Polski	25,908	26,770	27,846

Headcount	As of 31 December		
	2011	2010	2009
Other companies in the Group	3,015	3,010	3,252
Total	28,924	29,780	31,098

Source: The Bank

The table below presents the number of employees employed with the PKO Bank Polski Group as of the indicated dates, by main geographical regions in which the PKO Bank Polski Group operates.

Headcount	As of 31 December		
	2011	2010	2009
Poland	27,460	28,379	29,510
Ukraine.....	2,033	1,896	2,338
UK.....	8	8	8
Total	29,501	30,283	31,856

Source: The Bank

As of 31 December 2011, approximately 62% of the employees of the Bank held higher education qualifications, and approximately 38% have secondary and post-secondary education.

The average monthly basic salary paid to the Bank's employees increased to PLN 4,189, PLN 4,353 and PLN 4,997 in the years ended 31 December 2009, 2010 and 2011, respectively.

The provisions against pension and retirements benefits or any jubilee awards for the Group employees as of 31 December 2011 stood at PLN 428.3 million.

The number of redundancies due to reasons not attributable to employees was 1,327, 985 and 1,253 jobs for the years ended 31 December 2009, 2010 and 2011, 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.

Trade Unions and Collective Labor Agreements

As of the date of the Base Prospectus, there were three trade unions operating at the Bank which hold special status:

- Niezależny Samorządny Związek Zawodowy "Solidarność" Pracowników PKO BP S.A.;
- Krajowy Związek Zawodowy Pracowników PKO BP S.A.; and
- Związek Zawodowy Pracowników Banku PKO BP S.A.

of which only two first ones are representative.

On 28 March 1994 the Bank and trade unions operating at the Bank concluded a Collective Labor 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 Labor Agreement, the Bank's employees, apart from base salary, are entitled to bonuses, jubilee awards, performance bonuses and severance payments upon retirement or becoming disabled.

The Collective Labor 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 21 December 2011 the Bank and the representative trade unions operating at the Bank executed an understanding regarding the rules applicable for terminating employment relationships with the employees of PKO Bank Polski for reasons other than caused by employees in 2012. 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 2012. The understanding has been executed for the period between 1 January 2012 and 31 December 2012. The understanding provides:

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

In 2011 the value of severance pay and damages paid by the Bank to the employees subject to the group layoffs amounted to PLN 49 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 labor dispute.

Employee Shareholding

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

Risk management

The Bank's operations are subject to various risks, including but not limited to credit risk, market risk and liquidity risk as well as operational risk and business risk. Controlling the impact of these risks on the operations of the Group is one of the most important objectives in the management of the Bank and the Group. The risk level is an important factor in the planning process.

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

- the maintenance of full organizational separation of the risk and debt collection functions from the business functions of the Bank;
- the integration of risk management with planning and controlling processes;
- the risk and debt collection area provides ongoing support for meeting business objectives while keeping risk at an acceptable level;
- ongoing control of risk levels; and
- adjustment of the risk management model on an ongoing basis to reflect new risk factors and risk sources.

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

- risk identification by analyzing the sources of existing and potential risks which can result from the Bank's current or planned activities or assessing the significance of the potential impact of these types of risk on the Bank's financial situation;
- risk measurement and assessment by determining the risk measures adequate to the type and materiality of the risk and availability of data, the quantification of risk using predetermined measures, and determining the degree or scope of risk from the point of view of the realization of risk management

goals as part of the risk measurement stress testing is carried out to assess the potential losses in the event of non-standard conditions on the market;

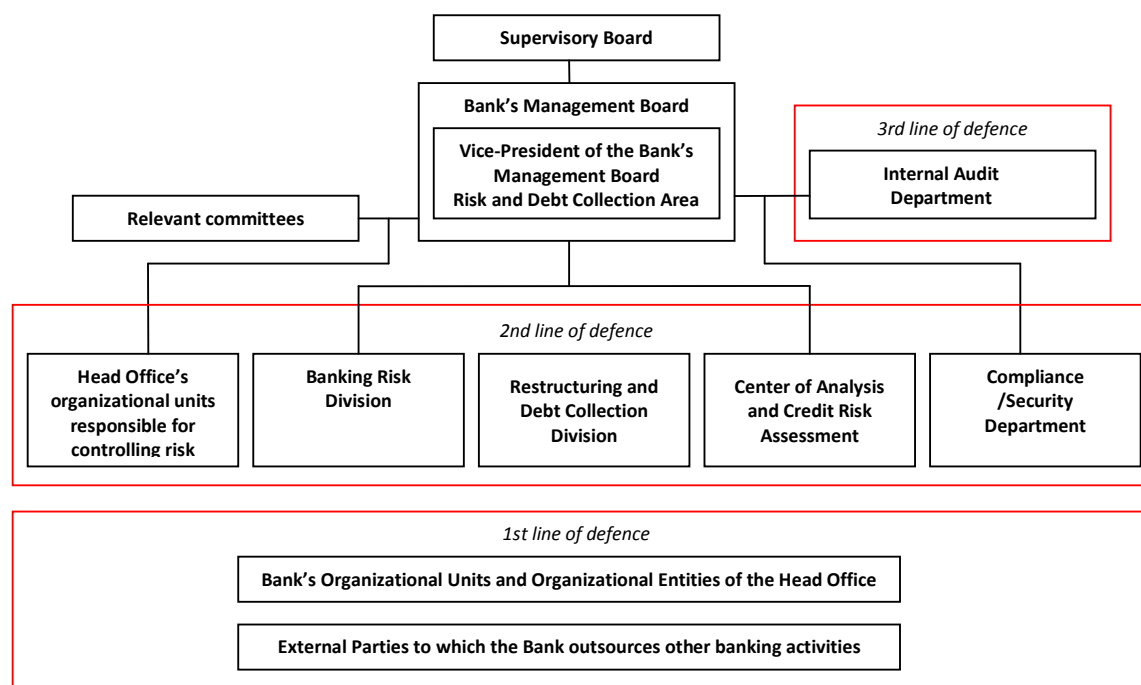
- forecasting and monitoring the risk incurred by the Bank by preparing forecasts of risk levels and monitoring discrepancies between actual data and forecasts or benchmarks (e.g. limits, thresholds, planned values, recommendations);
- reporting risk by periodically informing the Supervisory and Management Boards and other persons in managerial positions within the Bank about the results of risk measurements, actions taken and recommended actions;
- management actions specifically realized by issuing internal regulations which form the risk management process, determining the risk tolerance level, determining the limit levels and threshold values, issuing recommendations and taking decisions about the use of tools which support risk management.

The risk management process is carried out in the environment that comprises:

- the application of methods and methodologies from the system of internal regulations;
- the Bank's IT environment, which permits the flow of information required for proper risk assessment and control (including central IT systems that support risk assessment and central databases);
- and internal organization, which includes operational units, their tasks, scope of responsibilities and respective relations.

Risk Management Organization

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



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

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

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

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

Independence of the lines of defense consists of maintaining organizational independence in the following areas:

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

The first line of defense is, in particular, effected in the organizational units of the Bank, the organizational units of the Bank's Head Office, the companies in the Group and the external entities which the Bank commissioned to carry out the activities related to banking activities and concerns the activities of those units and entities which may generate risk. The units and entities are responsible for identifying risks, designing and implementing appropriate controls, including in the external entities, unless controls have been implemented as part of the measures taken in the second line of defense. At the same time, the Group companies have to maintain consistency and comparability of the risk assessment and control used by the Bank and in the Group companies, while at the same time taking into consideration the specific nature of the Bank's operations and the market on which it operates.

The second line of defense is effected, in particular, in the Risk and Debt Collection Area, the specialist organizational units of the Bank responsible for analyses of loan applications of the Bank's clients, in the organizational unit of the Bank's Head Office managing compliance risk, as well as the organizational units of the Bank's Head Office responsible for controlling.

The organizational units of the Bank's Head Office of the Bank that are grouped within the Banking Risk Division, the Restructuring and Debt Collection Division, and the Centre of Analysis and Credit Risk Assessment manage risk within the limits of competence assigned to them.

The Banking Risk Division is responsible for the preparation and implementation of systemic solutions with respect to the management of credit, operational, market (including liquidity) and strategic risks as well as capital adequacy management. The most important tasks of this Division include:

- identification of risk factors and the sources of risk;
- risk measurement and periodical monitoring and reporting with regard to the risk level;
- measurement and assessment of capital adequacy;
- taking decisions and making recommendations to the Assets and Liabilities Committee and the Management Board with regard to acceptable risk levels;
- the creation of internal provisions with regard to risk and capital adequacy management; and
- the development of IT systems which support risk and capital adequacy management.

The Restructuring and Debt Collection Division is responsible for ensuring the effective and efficient collection and restructuring of impaired loans. The most important tasks of this Division include:

- efficient collection and recovery of impaired loans and improvement of the effectiveness of such actions;
- sale of impaired loans and the outsourcing of certain tasks, as well as the effective management of property seized as a result of the Bank's enforced collection actions.

Furthermore, the Bank carries out effective early monitoring of delays in the repayment of retail loans through the use of telephone calls and other standard means of communication as well as direct visits to the clients.

The Centre of Analysis and Credit Risk Assessment is responsible for limiting the credit risk of the Bank's individual exposures in respect of retail and corporate market clients, including financial institutions which are material, specifically in terms of the scale of exposure, the customer segment or risk level. In connection with the implementation of Recommendation T by the Bank, the Analysis and Credit Risk Assessment Centre takes lending decisions in respect of individual clients.

Risk Management Committees

Market risk management and portfolio credit risk management in the Bank are supported by the following committees:

- the Risk Committee (the “**RCO**”);
- the Assets and Liabilities Committee (the “**ALCO**”);
- the Operational Risk Committee (the “**ORC**”);
- the Bank’s Credit Committee (the “**BCC**”);
- the Central Credit Committee (the “**CCC**”); and
- regional credit committees in detail and corporate branches (the “**RCC**”).

The RCO and the ALCO committees are chaired by the President of the Management Board. The ORC and the BCC are the committees chaired by the Vice President of the Management Board who is in charge of the Risk and Debt Collection Area. The ALCO and the BCC meet on a weekly basis. The ORC meets on a quarterly basis.

The RCO:

- monitors the adequacy and effectiveness of the risk management system, capital adequacy and implementation of the Bank’s risk management policy realized according to the Bank’s Strategy; and
- analyzes and assesses the use of strategic risk limits defined in the Banking Risk Management Strategy.

The RCO supports the Supervisory and Management Boards in the process of managing banking risk by making recommendations and taking decisions on capital adequacy and assessing the effectiveness of the banking risk control system.

The ALCO takes decisions within the scope of its authorizations and recommends actions to the Management Board with regard to market and liquidity risk management, management of portfolio credit risk, and management of the Bank’s assets and liabilities.

The ORC supports the Management Board in the process of managing operational risk by making recommendations related to, among others, the level of operational risk tolerance by the Management Board, operational risk report acceptance reserved for the competencies of the Management Board, the definition of operating risk stress testing and other actions related to systemic operating risk management. The ORC participates in the decision-taking process concerning threshold values and critical Key Risk Indicators (“**KRI**”), operating risk limits reserved for the competencies of the ORC, key parameters used to calculate value at risk (“**VaR**”) in respect of operating risk and the individual approach to exceptions.

The BCC takes credit decisions in respect of significant individual credit exposure or issues recommendations in this respect to the Bank’s Management Board.

The CCC supports the respective managing directors of the Bank’s Head Office and Board Members with by making recommendations during their decision-making processes.

The RCC issues recommendations to branch directors and directors of the regional corporate branches in matters with a higher risk level.

The Bank oversees the operation of its subsidiaries. Within the scope of such supervision, the Bank also determines and approves the development strategy of the companies, also with regard to the level of risk, supervises risk management in such companies and supports their growth. It also considers the level of risk associated with the operations of particular companies within the monitoring and reporting system of the Group.

Credit Risk

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

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

- a credit transaction requires a comprehensive credit risk analysis which results in a credit score or an internal credit rating;

- credit risk in respect of credit transactions is measured at the stage of investigating a loan application and by periodically taking into consideration changing macroeconomic factors and changes in the financial position of the borrowers;
- for exposures significant for reasons of their risk level or value, credit risk assessments are subject to additional verification by independent internal credit risk assessment units, independent of business units;
- the terms and conditions of a transaction offered to a customer depend on the assessment of the level of credit risk associated with such transaction;
- credit decisions may be made only by authorized persons;
- credit risk is diversified in terms of geographical area, business sector, products and clients; and
- the expected level of credit risk is hedged by the Bank by accepting legal security, credit margins charged to the customers and by impairment allowances in respect of credit exposures.

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

Currently, the Bank is implementing an advanced credit risk management method that is fully compliant with the IRB method.

Rating and Scoring Methods

The risk associated with single loan transactions is assessed by the Bank through the use of scoring and rating methods which are created, developed and supervised by the Banking Risk Division.

These methods are supported by specialist central IT applications. The manner of credit risk assessment is defined in the Bank's internal regulations, whose main purpose is to ensure uniform and objective credit risk assessment in the lending process. These regulations determine the manner in which the level of credit risk associated with single credit exposure should be assessed and secured by collateral, as well as criteria for granting or refusing loans.

Retail

The Bank assesses the credit risk for individual clients based on the client's borrowing capacity and their creditworthiness. A client's borrowing capacity assessment consists of verifying their current financial standing (especially net disposable income), while the creditworthiness assessment covers the client score and credit history obtained from the Bank's internal records and from external databases.

Corporate

Credit risk assessment for institutional clients is conducted at the level of the client and at the level of the transaction (except for certain types of transactions that involve SME customers which are assessed according to a scoring approach). The assessment is expressed in a rating of the client and a rating of the transaction. The synthetic measure of credit risk, which reflects both risk factors, is a joint rating.

The rating and scoring information is used widely by the Bank in the process of risk management in the area of credit decisions and within the system for credit risk measurement and reporting. With a view to the early identification of potential increases in credit risk or risk associated with the impairment of the collateral of loans granted to institutional clients, the Bank implemented an Early Warning System (the "EWS").

Credit Evaluation and Approval Process

The Bank has a tiered system for dividing competencies within the credit approval process. The so-called competence limit depends on the position of the decision maker within the Bank's organizational 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 authorized 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 organizational entities, branch directors, directors of regional corporate branches, the director of the Credit Analysis Center and the director of the

Analysis Center and Credit Risk Assessment – in respect of individual customers. In addition, employees of certain regional branches have credit approval authority within approved limits.

Recommendations of the credit committees support the credit approval decision-making process. Depending on the amount of the proposed credit facility or loan, the BCC may issue recommendations. The credit committees participate in decisions regarding approvals of applications that involve significant loan amounts or a higher degree of risk.

A negative opinion of the credit committee is binding for the person who makes a credit approval decision, except that for the BCC which issues recommendations to the Management Board. A negative recommendation of a credit committee may be appealed by the decision maker to a higher level of the decision making ladder.

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 established 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 real property and an assignment of receivables under the insurance agreement covering such property. Until a mortgage can be established effectively, depending on the amount of the loan and its type, the Bank accepts temporary collateral in the form of a blank promissory note, guarantee or insurance. In the case of housing loans granted to retail customers, instead of temporary collateral, a higher credit margin is applied until the mortgage on the real property is perfected.

When granting consumer loans to individual clients, the Bank usually accepts personal collateral (a guarantee under civil law or an aval) or establishes collateral on the client's current account, car or securities.

To secure loans which finance SMEs, as well as corporate clients, the following forms of collateral, among others, are used: bank guarantees, transfers of dues 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 substantial loans, several types of collateral are established, combining personal and tangible collateral whenever possible;
- liquid collateral is preferred, such as property collateral, 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;
- collateral exposed to the risk of significant unfavorable value fluctuations is treated as ancillary;
- 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 favor of the Bank; and
- effective establishment of collateral in accordance with the agreement is a condition for the release of the loan funds.

Established collateral is subject to periodic monitoring in order to determine the current credit risk level of the transaction. The Bank monitors the property and financial standing of the entity that issues personal collateral, the condition and value of the object serving as property collateral, and other circumstances affecting the possibility of debt recovery by the Bank.

Collateral in the form of a mortgage is subject to special assessment. The Bank performs periodic monitoring of real properties accepted as collateral (the loan to value (“**LtV**”) ratio is taken into account) and monitors the prices on the real estate market. If this analysis shows a significant drop in prices on the real estate market, the Bank activates emergency procedures.

Portfolio Risk Measurement

In order to assess the level of credit risk and credit portfolio profitability, the Bank uses various credit risk measurement and assessment methods, including probability of default, expected loss, credit value at risk,

accuracy ratio, the share and structure of impaired loans, the share and structure of exposures meeting the criteria of individual impairment, the ratio of covering loans with recognized impairment, the ratio of covering non-performing loans and the cost of portfolio credit risk.

The Bank systematically extends the scope of its credit risk measures, taking into account the requirements of the IRB approach as well as the scope of the 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, the inclusion of credit risk in the price of the product offer, the determination of the optimum amount of so-called cut-off points, and the determination of rates for making impairment allowances.

Impairment of Credit Exposure

The Bank periodically reviews its credit exposures to identify which loans are threatened with impairment, measures the impairment of its credit exposure and establishes write-offs and provisions. The process of establishing write-offs and provisions comprises the following stages:

- identification of the objective evidence of impairment and of events material 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 measurement findings; and
- recording of the impairment measurement findings.

The method for defining the amount of the write-offs 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 are each treated as objective evidence of individual impairment.

The Bank uses three methods for impairment assessment:

- the individual method for individually significant credit exposures for which objective evidence of impairment on an individual basis was stated;
- the portfolio method, which is applied in the case of credit exposures which are not individually significant but for which objective evidence of individual impairment has been found; and
- the group method (IBNR), which is used in the case of credit exposures where no objective evidence of individual impairment have been identified but there are conditions indicating the possibility of the occurrence of incurred but not identified losses.

The write-down for impairment of the carrying amount of a credit exposure is the difference between the carrying amount of that exposure and the present value of the expected future cash flow from that exposure. When defining a write-off 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 fulfillment. The write-down for credit exposure impairment defined under the portfolio or collective method is the difference between the carrying amount of such exposure and the present value of the expected future cash flow, assessed with statistical methods on the basis of historical monitoring of exposures from homogenous portfolios. Calculations of portfolio parameters (probability of default and recovery rates) are performed on a quarterly basis. Recovery rates are calculated with the use of transition matrices and vectors of payments. Every single projected payment of principal, interest and collateral is taken into account. Estimates of payments are based on historical observations and they are discounted using the current average effective interest rate for the portfolio.

When defining the provision for off-balance sheet credit exposure with respect to individually significant credit exposure for which objective evidence of impairment on an individual basis was stated or pertains to debtors whose other types of exposure meet such conditions, the Bank uses the individual method; the provision for off-balance sheet credit exposure, defined under the individual method, is set as the difference between the expected value of the balance sheet exposure set to arise from the off-balance sheet liability awarded (from the assessment date to the date of the occurrence of the overdue debt which has been identified as objective evidence of individual impairment) and the present value of the expected future cash flow generated from the balance sheet exposure arising from the awarded liability in excess of the current value of the balance sheet exposure concerned.

With respect to other types of credit exposure and in accordance with the methodology applied by the Bank, the need to establish provisions depends on the relation between the level of using the off balance sheet liabilities granted as of the date of review and the average level of using the liability until the default day (understood as a delay in loan repayment of at least three months), assessed on the basis of the historical observations for the exposure group with similar risk characteristics.

Recoveries on overdue loans are initially handled by the Restructuring and Debt Collection Division, which as of 31 December 2011 employed 473 persons, which is split into sub-teams depending on the type of loan. Depending on the type of liability, overdue status of the loan and, if applicable, the financial standing of the borrower or the status of the collateral, the collection team takes various actions, including, among others, restructuring, instituting legal proceedings against the borrower and foreclosing on the collateral. The Bank cooperates with third-party collection agencies selected following tender proceedings.

Risk Management Tools

The main credit risk management tools used by the Bank are as follows:

- threshold levels determining the availability of credit for clients, including cut-off points, the minimum number of points awarded during the course of client creditworthiness assessments made using the scoring system for individual clients or the rating class and joint rating for institutional clients, from which a loan transaction can be made with a given client;
- the loan transaction credit risk terms and conditions defined for a given type of transaction (the minimum value of the LtV ratio, the maximum LtV, the maximum credit amount and the required collateral);
- the minimum credit spread – credit risk spreads related to the Bank’s specific credit transaction concluded with an institutional client, with the provision that the client may not be offered an interest rate lower than that resulting from the reference rate increased by the credit risk spread; and
- limits specifying the risk appetite, including the following limits:
 - concentration limits – the limits defined in Article 71.1 of the Banking Law;
 - industry limits – limits of the risk level related to financing institutional clients from industries characterized by high credit risk levels,
 - limits resulting from Recommendation S and Recommendation T related to the credit exposure of the Bank’s clients,
 - transaction limits – limits in respect of activities on the interbank market and on the institutional clients’ market in the area of derivatives; and
- competence limits – which define the maximum level of authority required to take credit decisions with respect to the Bank’s clients, the limits depend mainly on the Bank’s amount of credit exposure towards a given client (or a group of related clients) and the period of the credit transaction; competence limits also depend on credit decision making levels within the Bank’s organizational structure.

Risk Concentration

The Bank monitors credit risk concentration in respect of types of exposure to individual clients (or groups of related clients) and the types of exposure to groups of clients or credit portfolios exposed to a common risk factor.

In particular, the Bank monitors credit portfolios by geographical regions, loan currency, industry sector, and loans secured by real property.

The risk of a concentration of exposure to individual clients (or groups of related clients) is monitored pursuant to Article 71 of the Banking Law in respect of the exposure concentration limit (the total amount of individual exposure may not exceed 25% of the Bank’s own funds).

Risk Reporting

The Bank prepares monthly and quarterly credit risk reports for ALCO, BCC and the Management and Supervisory Boards. Credit risk reporting specifically covers periodic communication on risk measurement and the scale of credit risk exposure. Aside from information about the Bank, the reports also include the credit risk data for Kredobank and the Bankowy Fundusz Leasingowy group, which, given the nature of their business, also face a significant level of credit risk.

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 Securities Market Association, while those made with Polish counterparties are made in accordance with the standards developed by the PBA. Framework agreements with Polish financial institutions for debt securities are made based on the Bank's internal standards. To mitigate credit risk in the case of a planned increase in the scale of operations of a financial institution which has entered into a framework agreement with the Bank, the parties enter into a collateral Credit Support Annex ("CSA") agreement. Based on the CSA 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 ISMA and CSA agreements signed by the Bank contain provisions defining the permitted difference between credit exposure and collateral value. The CSA agreements, which are annexes to the ISDA agreements, provide that cash and securities may constitute collateral.

Entering into a master agreement with a counterparty is the basis for the verification of the internal limit per counterparty and of the length of the period of the Bank's engagement in derivative transactions. The client limit is based on an internal assessment (internal rating), as well as on the amount of own funds of the Bank and the client.

The net exposure to the derivatives risk on the inter-bank market for the 10 largest counterparties (excluding exposure to the State Treasury and the NBP) as of 31 December 2011 is presented in the table below.

Counterparty	31 December 2011
	<i>(in PLN thousand)</i> <i>(unaudited)</i>
Counterparty 1	112,015
Counterparty 2	104,000
Counterparty 3	93,667
Counterparty 4	91,009
Counterparty 5	68,449
Counterparty 6	57,548
Counterparty 7	54,471
Counterparty 8	47,737
Counterparty 9	41,021
Counterparty 10	33,652

Source: The Bank

When a credit transaction is made with a financial institution which has its registered office outside of Poland, the international standards of loan agreements of the Loan Market Association are applied.

The Bank co-operates on the wholesale market with financial institutions whose registered offices are located in the territories of nearly 50 countries. Within the limits set, the Bank may enter into transactions with over 200

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. The exposure to financial institutions on the wholesale market is of a high quality and generates low credit risk, as confirmed by external ratings granted by rating agencies and also by internal ratings granted to the counterparties by the Bank.

Market Risk

“Market risk” is defined as the risk of incurring a financial loss due to adverse changes in market parameters, such as 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 optimized 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:

- for interest rate risk – the VaR model, stress tests, interest rate gap and interest income sensitivity measurements;
- 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 and off-balance sheet items 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 an effort 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 – within which a hypothetical fluctuation in interest rates of various currencies at the level of ± 200 bp is assumed;
- 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 in the last five years is calculated; in order to determine such change, the sum of the absolute values of the changes at all of the vertices is used;
 - a peak-type bending of the yield curve, where a one-year vertex is assumed to change by the value of the largest observed change in the interest rate for this vertex; 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 the most and a one-year vertex is assumed not to change; and
 - a basis risk between yield curves: this scenario assumes a loss which may potentially be realized in connection with a change of the spread between yield curves which arises from imperfect correlation between the benchmark yield curve used for treasury bond valuation and the swap yield curve used for the valuation of bond risk hedging instruments.

The VaR of the Bank and stress tests regarding the Group's interest rate risk sensitivity as at 31 December 2011, 2010 and 2009 are presented in the table below.

Name of the sensitivity measure	As of 31 December		
	2011	2010	2009
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
10-day VaR*	62,661	39,004	17,086
Parallel movement of the interest rate curves by 200 bp	530,726	522,641	233,304

Source: Consolidated Financial Statements

Notes:

* Due to the nature of the activities carried out by the other Group entities generating significant interest rate risk as well as the specific nature of the market in which they operate, the Group does not calculate consolidated VaR. These companies apply their own risk measures in the interest rate risk management. Kredobank uses the 10-day VaR, which amounted to PLN 29,673 thousand as at 31 December 2011 and PLN 30,150 thousand as at 31 December 2010, respectively.

As of 31 December 2011, the interest rate 10-day VaR ("IR VaR") was PLN 62.7 million, approximately 0.36% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totalled PLN 17,348 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.

In measuring interest rate risk the Bank takes into account the risk identified by DM PKO BP attributable to services involving debt securities transactions carried out by the brokerage house as an intermediary and acting for its own account as well as the risk relating to underwriting services.

The Group's exposure to interest rate risk as of 31 December 2011 consisted mostly of the Bank's exposure. The interest rate risk for PLN, EUR and CHF generated by the other Group companies did not have a material impact on the interest rate risk for the entire Group and thus did not significantly change its risk profile. The interest rate risk for USD was materially changed through exposure of the Group's subsidiaries with the greatest role played by the exposure of Kredobank.

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 realize 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, European FX vanilla options, American FX binary options, European FX binary options and European FX (single and double) barrier options. The Bank has not, however, entered into any agreements with foreign banks for the sale of ready-made option strategies, as all of the option strategies that it offers are tailored to the specific needs and requirements of a particular client or a group of clients. 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 PFSA, for the purposes of calculating the regulatory capital requirements, exposures in options, for which the Bank has not obtained approval for the application of its own valuation models, are hedged back-to-back with the same tenor and amount on the interbank market with counterparties who offer the best prices. Currently, options hedged back-to-back with the same tenor and amount are European FX double barrier options (as of 31 December 2011, no transactions were concluded). The Bank applies a delta-hedging strategy to hedge the risk attributable to European plain vanilla options, American and European binary options and European single barrier options for which the Bank has obtained approval from the supervisory authority to apply its own valuation models, whereas open risk positions are kept within the internal limits determined by the Bank. As of 31 December 2011, the Bank completed 799 European plain vanilla option transactions, whereas the open delta position without hedge (gross in foreign currencies) was PLN 506.5 million. As of 31 December 2011, the Bank completed 149 European binary options transactions, while the open delta position without hedge (gross in foreign currencies) was approximately PLN 13.3 million. As of 31 December 2011, the Bank executed 30 European barrier options transactions, while the open position of unhedged delta (gross in foreign currencies) accounted for PLN 69.8 million in these options (no American barrier options transactions were completed). Consequently, the open options were maintained by the Bank mainly in European plain vanilla options which were hedged through the use of a delta hedging strategy.

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 measurements. 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;
- scenario of changes of foreign exchange rates observed in October 2008; in this scenario PLN decreases in relation to USD at 18.78%, EUR 10.55%, CHF 16.11%, other currencies 10.10%; and
- scenario of changes of foreign exchange rates observed in October 2008; in this scenario PLN increases in relation to USD at 11.43%, EUR 6.90%, CHF 8.78%, other currencies 7.69%.

With respect to foreign exchange risk mitigation, the Bank defines limits with regard to, among other things, the value of FX position, Value at Risk for a 10-day time horizon at 99% confidence level and daily loss from trading transactions on the foreign exchange market.

The VaR of the Bank and stress tests regarding the Group's exposure to foreign exchange risk, for all currencies jointly, as at 31 December 2011, 2010 and 2009 are presented in the table below.

Name of the sensitivity measure	As at 31 December		
	2011	2010	2009
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
10-day VaR*	1,470	3,171	1,092
Change of exchange rates CUR/PLN by 20%**	17,210	8,109	929

Source: Consolidated Financial Statements

Notes:

* In light of the nature of operations of the other companies in the Group which generate material foreign exchange risk and the special nature of the market where they operate, the Bank does not designate a consolidated sensitivity measure of VaR. Those companies apply their own risk measures for the purposes of managing foreign exchange risk. The 10-day VaR measure is applied by Kredobank and such value, as of 31 December 2011 was approximately PLN 467 thousand.

** The table presents the value of the most adverse stress-test of the scenarios: PLN appreciation by 20% and PLN depreciation by 20%. The value of stress-test at the end of 2009 and 2010 was brought to comparability.

As of 31 December 2011, the 10-day VaR at a 99% confidence level resulting from foreign exchange operations ("FX-VaR") was PLN 1.5 million, approximately 0.01% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totalled PLN 17,348 million.

The foreign exchange positions in the Group as of 31 December 2011, 2010 and 2009 are presented in the table below.

	As at 31 December		
	2011	2010	2009
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
USD	(180,781)	(78,916)	(31,811)
GBP	50	48,073	1,501
CHF	(37,266)	(18,820)	(3,634)
EUR	83,153	(4,035)	26,489
Other (Global Net)	11,630	11,257	12,101

Source: Consolidated Financial Statements

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 2011 was PLN 5.4 million. The average absolute position in the portfolio of derivatives on the WIG20 index in 2011 was PLN 1.4 million.

Liquidity Risk

“Liquidity risk” is defined as the risk that the Bank may be unable to meet its obligations on a timely basis due to a lack of liquid funds.

The Bank applies the following liquidity risk management policies:

- activities are undertaken with a view to maintaining the level of risk within the accepted risk profile;
- an acceptable level of liquidity is maintained, which depends on keeping the appropriate level of liquid assets; and
- the main sources of financing of the Bank’s assets are stable sources, first of all a stable deposit base.

In order to assess the level of liquidity risk the Bank uses different risk measurement and assessment methods, including the contractual and real-term liquidity gap method, the liquidity reserve method, verification of the stability of the deposit base and loan portfolio and shock analyses.

The Bank has a highly diversified deposit base and a large portion of liquid assets on its books. The liquidity risk management tools used by the Bank include entering into transactions ensuring long-term financing of credit activities.

The methods for measuring liquidity risk are based on the evaluation of contractual and adjusted liquidity gaps. The contractual liquidity gap is a list of all balance positions by their maturity, whereas the adjusted liquidity gap is a list of individual balance categories by their assumed actual maturity. The liquidity reserve is the difference between the most liquid assets and the expected and potential liabilities that mature in a given period. The most liquid assets include lockable treasury papers both in PLN as well as in foreign currencies, money bills, Treasury bills, Treasury bonds and interbank loans less the interbank deposits which, as of 31 December 2011, amounted to PLN 23.5 billion and accounted for approximately 76% of these 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 foreign currencies. As of 31 December 2011 these assets accounted for approximately 15%, 8% and below 1% of the most liquid assets, respectively.

The table below presents the adjusted liquidity gap as of 31 December 2011. 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.

	<u>a’vista</u>	<u>0-1 month</u>	<u>1-3 months</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>12-36 months</u>	<u>36-60 months</u>	<u>over 60 months</u>
Group adjusted liquidity gap	7,299,484	12,094,029	(1,599,805)	1,399,996	(1,169,611)	10,276,571	16,150,066	(44,450,730)
Group adjusted cumulative liquidity gap	<u>7,299,484</u>	<u>19,393,513</u>	<u>17,793,708</u>	<u>19,193,704</u>	<u>18,024,093</u>	<u>28,300,664</u>	<u>44,450,730</u>	<u>-</u>

Source: Consolidated Financial Statements

In all time bands the adjusted cumulative liquidity gap is positive, which reflects a net surplus of maturing assets over maturing liabilities. As of 31 December 2011, cumulative liquidity gap for up to a one-month horizon was PLN 19.4 billion.

The Bank reduces funding mismatch in exchangeable currencies (EUR, USD and CHF) with the use of derivative transactions such as CIRS and FX swaps, acquiring long term funds in EUR 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 Bank prepares reports on the level of market risk for operating purposes on a daily and weekly basis. Reports on the level of market and liquidity risk for management purposes, which are presented to ALCO and the Management and Supervisory Boards, are prepared on a monthly and quarterly basis.

Operational Risk Management

“Operational risk” is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk.

The Bank’s internal regulations clearly define the distribution of duties and competencies in the area of operational risk management. In accordance with these regulations, all the issues related to operational risk management are supervised by the Management Board, which sets the objectives for operational risk management, defines policies for operational risk, sets the operational risk tolerance level and limits and accepts reports relating to operational risk.

Operational risk management is performed both through systemic solutions and regular ongoing management of risk.

Systemic operational risk management consists of developing internal regulations and other solutions relating to operational risk and concerning, *inter alia*, human resources, the organization of the Bank, the accounting system, IT, security, internal processes, client service processes, and outsourcing certain banking and other activities.

Systemic operational risk management is centralized at the level of the Bank's headquarters. Each business and support line has a dedicated unit which is responsible for the identification and monitoring of operational risk associated with the products or internal processes which they supervise and for taking appropriate steps to ensure an acceptable level of operational risk.

Day-to-day operational risk management involves preventing operational risk from arising within internal processes and systems or during the course of product realization, undertaking activities aimed at limiting the number and scale of threats (operational risk events), eliminating the negative effects of operational risk events, and collecting data on operational risk events.

Ongoing operational risk management is conducted by every organizational unit of the Bank.

Moreover, a significant role in operational risk management is performed by the Banking Risk Division, which co-ordinates the identification, measurement, monitoring and reporting of operational risk in the entire Group.

The Bank obtained the approval of the PFSA for using the Advanced Measurement Approach ("AMA") for calculating the capital requirements relating to operating risk as of 30 June 2011. After it meets the additional terms and conditions posed by the PFSA, the Bank will be able to lower the capital requirement related to operating risk to a level lower than 75% of the value calculated in accordance with the Standardized Approach.

In order to limit exposure to operational risk the Bank applies different solutions, such as audit and control systems, human resources management (appropriate staff selection, enhancement of the professional qualifications of its employees, and motivational packages), operational risk map implementation, determination of setting threshold values of KRIs, tolerance level and limits for operational risk, contingency plans, insurance coverage, and outsourcing.

The selection of instruments used to mitigate operational risk is chosen depending on, among other factors, the availability and adequacy of instruments mitigating the risk, the nature of the business or process in which the operational risk has been identified, risk materiality, and the cost of using an instrument.

In addition, the internal regulations of the Bank provide for the obligation not to undertake any business activity which is subject to excessive risk, and if such business activity is conducted, the internal regulations state that the Bank must either withdraw from or limit such business activity. The level of operational risk is considered to be excessive if the potential benefits from conducting such business activity are lower than the potential operational losses from engagement in such operations.

Operational risk assessment is conducted using data collected on operational risk events, internal audit results, results of internal functional control, results of operational risk self-assessment and KRIs.

The Bank regularly monitors use of tolerance and KRI levels, use of limits for operational risk and operational risk events exceeding threshold value defined for operational risk.

Risk reporting

The Bank prepares quarterly reports on the operational risk of the Bank and the subsidiaries in the Group for the ORC, Management and Supervisory Boards. The reports contain information relating to the Bank's operational risk profile resulting from the process of identification and assessment of threats, the results of operational risk assessment and monitoring, limits and tolerance, operational risk map, operational events and their financial effects, and the most significant projects and undertakings regarding operational risk management. Assessment of internal capital for operational risk, which comply with the requirements of the AMA, is also included. In addition short summary of operational risk is provided to the senior management monthly.

Compliance Risk

"Compliance risk" is defined as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that the Bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct (including ethics), applicable to its banking activities.

The objective of compliance risk management is the strengthening of the Group companies' image as entities acting legally and according to the adopted standards and which are reliable, fair and honest by eliminating compliance risk, counteracting the potential loss of the Group's reputation or 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 understood as risk related to the possibility of negative variations from the Group's planned results due to a deterioration in the Group's image.

The objective of managing reputational risk is to protect the Group's image and limit the probability of the occurrence and amount of reputation-related losses. Reputational risk ratios are calculated based on an annual assessment of particular negative image-related events identified in a given calendar year for particular types of image-related events. The main tools used to determine the Group's reputational risk level are:

- a catalogue of image-related events categories containing a list of image-related categories with appropriate weights assigned;
- a register of image-related events containing a list of negative image-related events that occurred, grouped by image-related events categories.

Monitoring of image-related events is performed on an ongoing basis and includes:

- monitoring the Group's internal and external channels of communication with the environment in terms of the identification of the negative effects of image-related events;
- gathering and analyzing information relating to the occurrence or potential occurrence of an image-related event; and
- registering data on the identified negative effects of image-related events.

The reports on the level of reputational risk are prepared in the Bank on an annual basis. The reports are addressed to the organizational units of the Banking Risk Division.

Management of reputational risk in the Group mainly comprises preventative activities aimed at reducing or minimizing the scale and the scope of image-related events, as well as selecting effective tools for protective measures aimed at eliminating, mitigating or minimizing the unfavorable effect of negative image-related events on the Group's image.

Strategic Risk

"Strategic risk" is defined as risk related to the possibility of negative financial consequences caused by erroneous decisions, decisions made on the basis of an inappropriate assessment or the failure to make correct decisions relating to the direction of the Bank's strategic development.

Managing strategic risk is aimed at maintaining, on an acceptable level, the negative financial consequences resulting from bad decisions, decisions made on the basis of an incorrect assessment or failing to make appropriate decisions on the direction of the strategic development of the Bank.

In measuring the strategic risk, the Bank takes into account the impact of selected types of factors, identified by the activity and by the environment, which comprise in particular:

- external factors;
- factors related to the growth and development of the banking operations;
- factors related to the management of human resources;
- factors related to investment activities; and
- factors related to the organization's culture.

Monitoring of the strategic risk level is performed in the Bank on an annual basis at minimum.

Strategic risk reporting is conducted annually in the Bank. Reports on strategic risk are prepared for the Bank's Management Board and for managing directors of the Bank's Head Office.

Management of strategic risk in the Bank covers:

- measuring the strategic risk level;
- reporting the strategic risk level and its changes; and
- actions taken in case of a high level of strategic risk.

INDUSTRY OVERVIEW

The information contained in this section has been extracted from publicly available documents and information. The source of any external information is always given if such information is used in this section. Such information has been accurately reproduced, and as far as the Issuer and the Bank are aware and are able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. While reviewing, searching for and processing macroeconomic, market, industry or other data from external sources such as PFSA or government publications, no independent verification of such was carried out by the Issuer, the Bank, the Arranger or the Dealers or any of their affiliates or the Issuer's or the Bank's advisors in connection with the Programme. The Bank does not intend to and does not warrant to update the data concerning the market or the industry as presented in this section, subject to the duties resulting from generally binding regulations.

The Polish Economy

The Polish economy is one of the fastest developing economies in the EU. Poland, with its 38.2 million residents, remains the largest accession member of the EU and the sixth largest EU country by population. With a GDP of EUR 369.5 billion in 2011 (according to Eurostat), it is the eighth largest EU economy and the 20th largest economy globally. The Polish economy has expanded consistently, with real GDP growing at a CAGR of 4.3% over the five years to 31 December 2011. In 2009, Poland was the only European country to record positive GDP growth, 1.6%, which increased to 3.8% in 2010 and to 4.3% in 2011, and prospects for continued growth appear strong. Eurostat projects Polish GDP growth at 2.5% in 2012 and 2.8% in 2013 compared to 0.0% and 1.5% respectively for the EU. The country's economic performance is underpinned by a stable political and regulatory environment, which supports the ongoing development of a market economy.

The following table shows GDP, population and GDP growth rate for 2011 for the 20 largest countries in the EU by GDP.

Rank ¹	Country	GDP	Population	2011 real GDP Growth Rate
		(EUR billion)	(in million)	(%)
1	Germany.....	2,570.8	81.8	3.0
2	France.....	1,987.7	65.0	1.7
3	United Kingdom.....	1,737.1	62.4	0.7
4	Italy	1,580.2	60.6	0.4
5	Spain	1,073.4	46.2	0.7
6	Netherlands	602.1	16.7	1.2
7	Sweden.....	387.1	9.4	3.9
8	Poland	369.5	38.2	4.3
9	Belgium.....	369.0	10.9 ²	1.9
10	Austria.....	301.3	8.4	3.1
11	Denmark.....	239.8	5.6	1.0
12	Greece	215.1	11.3	(6.9)
13	Finland	191.6	5.4	2.9
14	Portugal	171.0	10.6	(1.6)
15	Ireland	156.4	4.5	0.7
16	Czech Republic	154.9	10.5	1.7
17	Romania.....	136.5	21.4	2.5
18	Hungary.....	100.8	10.0	1.7
19	Slovakia.....	69.1	5.4	3.3
20	Luxembourg	42.8	0.5	1.1

Source: Eurostat

1) Rank by GDP

2) Provisional data

The Polish economy is diverse, with no single sector accounting for more than 25% of Poland's total GDP in 2010. Industry, trade and repair, manufacturing and leasing of real estate are the greatest contributors to Poland's GDP. Small and medium-sized enterprises (defined as an enterprise with less than 250 employees, yearly sales of less than EUR 50 million and/or total assets less than EUR 43 million) are also significant contributors to the Polish economy. According to data from the Polish Agency for Enterprise Development small and medium-sized

enterprises represented 99.8% of the total number of enterprises in Poland in 2008, contributed 46.9% of GDP and employed 77.7% of total employees in Poland.

Furthermore, Poland has maintained a stable “A-” sovereign rating from Standard & Poor’s. The Polish government is tightening its structured fiscal balance and decreasing its public debt through various initiatives, which include the reform of the pension system, a privatization program and the implementation of rules for public spending. The goal of these activities is to ensure that the ratio of national debt to GDP stays below 60%, which is required under the Constitution of the Republic of Poland and is one of the eligibility criteria for accession to the Eurozone.

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

	For the year ended 31 December		
	2011	2010	2009
Real GDP growth (%).....	4.3	3.9	1.6
Individual consumption growth (%).....	3.1	3.2	2.1
Public sector spending growth (%).....	(0.7)	4.4	2.0
Investment expenditures growth (%).....	8.5	(0.2)	(1.2)
Inflation rate y/y (%).....	4.3	2.6	3.5
Average wage growth (%).....	5.0*	4.0	5.5
Unemployment (%).....	12.5	12.4	12.1
Exports growth (%).....	7.3	12.1	(6.8)
Imports growth (%).....	5.9	13.9	(12.4)
Budget deficit / GDP (%).....	1.6	1.7	1.8
Government debt / GDP (%).....	52.8	52.8	49.9
PLN / EUR (average).....	4.12	3.99	4.33

Source: GUS, NBP

* estimated figure

Poland’s key economic indicators remained stable in the fourth quarter of 2011 in spite of the fiscal crisis in the eurozone peripheries. The full-year performance of the economy improved in relation to 2010, as GDP growth accelerated to 4.3% (from 3.9% in 2010) supported by private consumption and investment (mostly public spending on infrastructure) and net exports (helped by PLN depreciation). The inventories’ momentum slowed indicating growth moderation in the coming future.

Furthermore, the Polish banking sector, characterized by relatively strong capitalization and a solid deposit base, remained resilient throughout the crisis and continued to provide funding to Polish companies and consumers.

Forecasts of Macroeconomic Indicators

Although the official forecasts of the NBP, the European Commission and the IMF point at growth moderation in 2012, Poland is expected to remain one of the fastest growing countries in the CEE and in the EU, with GDP growth remaining higher than the averages for both the CEE region and EU countries. It is expected that the primary drivers of this continued economic growth will be public infrastructure spending, net exports and weaker but stable household spending. The extent of corporate investments remains uncertain in spite of very good financial conditions of enterprises (corporate sector bank deposits are at a record high). The improvement in the overall business outlook is a factor that could potentially change the attitude of enterprises to increasing output. Public consumption spending will be curbed through the implemented fiscal austerity measures. Public investment should gradually slow down after the Euro 2012 championships as the EU’s 2007-2013 funds gradually decrease.

According to the European Commission’s forecasts, real GDP growth rate in Poland will be 2.5% and 2.8% in 2012 and 2013, respectively, compared to 0.0% and 1.5% in the EU. The EC also projects that the annual rate of HICP inflation will remain close to 2.3% in the EU in 2012 and ease to approximately 1.8% in 2013, as compared to 3.5% and 2.9%, respectively, in Poland.

The Polish Banking Sector

Structure of the Polish Banking Sector

The Polish banking market is still operating as a two-tiered system. According to the PFSA, as of 31 December 2011, there were 47 commercial banks in Poland, 19 branches of credit institutions and 574 relatively small co-operative banks.

The Polish banking sector is also characterized by the large number of banks in which foreign owners hold majority stakes. As of 31 December 2011, the number of banks and branches of credit institutions with majority foreign share in the Polish banking sector was 56. The following table shows the share in the banking sector's total assets of the various categories of Polish banks (based on the type of majority shareholder), for the years indicated.

	As of 31 December		
	2011	2010	2009
	(%)		
Domestic investors	35.0	33.8	31.9
The State Treasury	22.5	21.5	20.8
Co-operative banks	6.1	6.1	5.8
Other	6.4	6.2	5.3
Foreign investors	65.0	66.2	68.1
Commercial banks	No data	61.5	62.8
Branches of foreign credit institutions	No data	4.7	5.3

Source: PFSA

In the period from 2009 to 2011, the number of bank branches in Poland increased from 6,507 to 7,077 (according to the NBP and PFSA).

According to the PFSA, as of 31 December 2011, the share of the five largest Polish banks in total deposits and loans of the banking sector was 45.4% and 39.1%, respectively. These shares have progressively decreased, as shown in the table below, which sets forth the share of the five largest banks in Poland in deposits, loans and total assets as of the dates indicated.

	As of 31 December		
	2011	2005	2000
	(%)		
Deposits from non-financial institutions	45.4	55.8	54.7
Loans to non-financial institutions	39.1	45.0	46.1
Total assets	44.3	48.6	46.5

Source: PFSA

The concentration ratios of the five largest banks in Poland are relatively low compared to those in most EU Member States, indicating relatively high competitive pressure in the Polish banking sector and the potential for market consolidation. As of 31 December 2011 the assets of the five largest banks in Poland accounted for 44.3% of the total assets of the Polish banking sector. The condition of the ten largest banks has a crucial impact on the banking sector. According to the PFSA, as of 31 December 2011 their share in the total assets of the banking sector was 62.1%.

Competitive Landscape of the Polish Banking Sector

The level of competition on the Polish banking sector is relatively high due to its low level of concentration. Among the other factors having an impact on competition are the recent mergers of major Polish banks, e.g. the merger of BPH S.A. and GE Money Bank S.A. in 2009, the acquisition of AIG Bank Polska S.A. by Santander Consumer Bank in 2009, the acquisition of GMAC Bank Polska by Getin Bank in 2010, the finalizing of the purchase of the Bank Zachodni WBK S.A. by Banco Santander in 2011, the finalizing of the purchase of Allianz Bank Polska by Getin Noble Bank (currently operates as Get Bank S.A.) in 2011, the acquisition of AIG Bank Polska by Santander Consumer Bank in 2011, the transformation of the Polish branch of EFG Eurobank Ergasias into Polbank EFG in 2011, and the merger of ING Bank Śląski with ING Bank Hipoteczny in 2011.

Furthermore, in 2008 a new bank, Alior Bank S.A., was established in the Polish banking market.

During the financial crisis in 2008 and 2009, Polish banks were forced to seek alternatives to foreign funding sources to enable them to continue their lending activity. In conjunction with the erosion of trust caused by the financial crisis, which restricted the availability of funding from the Polish inter-bank market, this development

led to an increased focus of banks on gaining access to funding from deposits. This trend resulted in strong competition on the savings product market (what is referred to as the ‘deposit war’). During 2010, banks’ competition for deposits became less fierce as banks had built considerable liquidity buffers, credit activity slowed down and financial market conditions eased

In 2011, competition between banks on the credit market generally increased. Due to greater credit risk caused by worsening macroeconomic conditions, the majority of the banks maintained restrictive credit policies. Banks slightly loosened their lending policies to enterprises, which was aimed at improving the financial condition of enterprises and improving the quality of the credit portfolios of this customer segment. Banks tightened their criteria for consumer and housing loans in connection with the new regulatory requirements and the deteriorating financial condition of consumers. In the second half of 2011 competition has increased in the deposit market as a result of the decline in the attractiveness of the capital market and following the announced amendments to the tax regulations regarding the taxation of deposits with daily interest capitalization. Retail lending growth in 2011 was negatively impacted by a change of the criteria for the “*Rodzina na swoim*” program, as well as the implementation of the PFSA’s Recommendations S and T.

Financial Situation of the Polish Banking Sector

In 2011, the Polish banking sector grew. Despite the continued international economic crisis and the economic difficulties of some euro area countries. The Polish banking sector was negatively affected by the sovereign debt and public finance crisis in some of the EU economies. The banks needed to adjust their activities to the changes in the macroeconomic and regulatory environment, as well as to improve their capital base, in particular retain their earnings and refrain from paying out dividends, as was recommended by the PFSA. The amount of own funds played a vital role in the resilience of the Polish banking sector, its resistance to the phases of the business cycle and to both external and internal negative factors.

The following table sets forth Polish banks’ aggregate assets, deposits from the non-financial sector and loans to the non-financial sector.

	As of 31 December		
	2011	2010	2009
	<i>(in PLN billion)</i>		
Polish banks’ aggregate assets	1,295.1	1,159.4	1,057.4
Deposits from non-financial sector	698.5	620.4	567.2
Loans to non-financial sector	800.8	698.5	641.2

Source: PFSA

The main structural driver for significant growth before the global financial crisis, both in the value of deposits as well as customer loans, was the low level of banking intermediation in Poland compared to other EU Member States. The banks’ aggregate assets in the Polish banking sector as of 31 December 2010 amounted to 82.0% of Poland’s GDP for the year as compared to the average in Eurozone of 350%. The proportion of total assets held by banks in Poland to GDP has progressively increased over the last 15 years, as shown in the table below.

	As of 31 December			
	2010	2005	2000	1995
Assets (PLN billion).....	1,159.4	587.0	428.5	149.3
GDP (PLN billion).....	1,415.4	983.3	744.4	337.2
Assets to GDP (%).....	81.9	59.7	57.6	44.3

Source: PFSA, GUS

Given the favorable economic situation in Poland in the period between 2007 and 2008, the significant investments of banks in the region and the general increase of corporate and household incomes, this difference narrowed significantly resulting in the development of new loan and deposit business. As of the fourth quarter of 2008 this development of new loan and deposit business came to an end.

Between 2009 and 2010, the dynamics of credit slowed down significantly in comparison to the period of 2007 to 2008. Credit growth was mainly concentrated in mortgage credit for households. Due to deterioration in credit quality as labor market conditions worsened, banks significantly restricted the supply of consumer credit. The volume of credit for enterprises decreased during both 2009 and 2010 due to both a drop in demand for credit as companies scaled back their investment projects as well as further tightening of the credit policies of banks. The only sector where there was a visible increase in credit dynamics in 2009 to 2010 in comparison to 2007 to 2008 was credit for local authorities due to the fact that they continued with public infrastructure projects (co-funded by EU funds) and have good credit standing.

In the first half of 2011 the conditions on the market for loans to institutional customers improved, and after a period of decreases the value of loans started to rise once again. The recovery of the economy is gradually being reflected through increased demand for loans by institutional customers, and the stabilization of the quality of credit portfolio in the increased supply on the part of the banks.

The following table sets forth the value of loans extended to the non-financial sector in Poland.

	As of 31 December			Change	
	2011	2010	2009	2011-2010	2010-2009
	<i>(in PLN billion, except percentages)</i>			<i>(%)</i>	
Households	532.0	475.4	416.4	11.9	14.2
In % of total	66.4%	68.1%	64.9%	-	-
Non-financial corporations	264.5	219.7	222.1	20.4	(1.1)
In % of total	33.0%	31.5%	34.6%	-	-
Non-profit institutions.....	4.2	3.4	2.7	23.3	25.9
In % of total	0.5%	0.4%	0.5%	-	-
Total.....	800.8	698.5	641.2	14.6	8.9

Source: PFSA

In 2011, the lending market saw an increase in the volume of corporate loans, a decrease in the housing loan rate, as well as restrictions in the volume of consumer loans. These lending volume changes, specifically in terms of housing loans denominated in foreign currencies, were significantly affected by foreign exchange rate fluctuations, including the depreciation of the PLN against CHF and EUR, which on the other hand increased the value of loans in PLN.

Increased household deposit volumes during 2009, 2010 and 2011 were driven by the result of attractive deposit offers from banks, limited funding from the interbank market and in 2011 additionally a decrease in the attractiveness of the capital market and funding by parent companies.

During 2010, as the 'deposit war' abated, slowdown in households income and increased competition from alternative forms of saving resulted in slower growth in households deposits. Corporate deposit growth was stable, supported by gradual improvement in financial results and the accumulation of liquidity by the corporate sector.

In the first half of 2011 the trend involving the limited growth rate of deposits was maintained. The reasons behind this included term deposits being less attractive combined with the relative improvement of the condition of the economy, which induced some to increase spending or make investments. On the other hand, some households experienced decreased income and some businesses increased self-financing, thus decreasing the balance of their deposits.

The following table sets forth the deposits from the non-financial sector collected in the banking sector in Poland.

	As of 31 December			Change	
	2011	2010	2009	2011-2010	2010-2009
	<i>(in PLN billion, except percentages)</i>			<i>(%)</i>	
Households	477.4	422.4	387.7	13.0	8.9
In % of total	68.3%	68.1%	68.4%	-	-
Corporates.....	205.9	182.8	165.1	12.6	10.7
In % of total	29.5%	29.5%	29.1%	-	-
Non-profit institutions serving households	15.3	15.2	14.4	0.3	6.0
In % of total	2.2%	2.4%	2.5%	-	-
Total.....	698.5	620.4	567.2	12.6	9.4

Source: PFSA

In 2011 the trend involving the limited growth rate of deposits was maintained as the slowdown in household income and increased competition on the banking market resulted in slower growth in household deposits. Corporate deposits increased, supported by gradual improvement in the financial results and the increase in liquidity by the corporate sector.

The financial results for the banking sector in 2011 increased by 37.7% to PLN 19.6 billion gross (PLN 15.7 billion net), compared to PLN 14.2 billion gross (PLN 11.4 billion net) for 2010.

The positive financial performance of banks in 2011 resulted from lower write-offs resulting from the improvement of the financial condition of certain borrowers, as well as an increase in interest income and maintaining a stable increase in operating costs.

The following table presents the financial results of the Polish banking sector as well as the cost to income ratio and return on equity.

	2011	2010	2009
	<i>(in PLN billion except percentages)</i>		
Net profit.....	15.7	11.4	8.3
Cost to income ratio	51%	52.4%	54.2%
Return on equity.....	No data	8.9%	8.6%
Deposits from non-financial sector.....	698.5	620.4	567.2

Source: PFSA

Key Trends in the Polish Banking Sector

Convergence in the Polish Banking Sector

There is high potential for further growth of the banking industry in Poland. According to the PFSA and GUS, the banks' aggregate assets in the Polish banking sector as of 31 December 2011 amounted to 84.0% of Poland's GDP for the year as compared to the average in the Eurozone, which was 356% according to the ECB. Despite the current unfavorable market conditions, this overlaying growth trend is still intact and will be a main factor for future asset and income growth once the market starts to recover fully.

Impact of the Financial Crisis on Polish Banks

The financial crisis had a significant impact on the Polish banking market, impacting the quality of the loan portfolios and the level of earnings in the Polish banking sector, as well as putting pressure on funding for banks. However thanks to the limited involvement of banks with 'toxic assets', no speculative asset bubbles in Poland, deposits being the main source of banks' funding (with only limited reliance on funding from financial markets), the high capital adequacy ratios of banks (with high share of high quality capital – Tier 1 capital) and the stable macroeconomic situation (no recession), the Polish banking sector went through the global financial crisis largely unscathed and in 2010 demonstrated improved financial results, which continued into 2011.

The inflow of funds from abroad declined and the availability of funding on the interbank market was reduced following a lack of trust in the market. As a result, the banks sought alternative sources of funding which significantly increased competition on the deposit market.

In 2011, the relation of loans to deposits deteriorated from 112.6% as of 31 December 2010 as compared to 108.7% as of 31 December 2011, mainly due to the depreciation of the PLN against foreign currencies (see "Exchange Rates").

Competitive Environment

The level of competition in the Polish banking sector is high. Among the factors impacting competition are the recent mergers involving foreign and domestic investors. Moreover, due to the financial crisis, some of the international banks in Poland are and may be under pressure to sell their subsidiaries in Poland.

In 2011 competition among banks on the credit market increased. Due to higher credit risk caused by the worsening macroeconomic conditions, the majority of banks maintained restrictive credit policies.

Growing Importance of Alternative Distribution Channels and Products

In recent years alternative distribution channels, in particular internet banking, are becoming of increasing importance. Moreover, new products, such as markets for financial advisory services, wealth management, insurance products and various investment funds in Poland have seen significant growth and will be a significant driver for profitability in the future. This general trend is expected to continue in the coming years.

Capital Adequacy

Over the course of the past three years, Polish banks have strengthened their 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 2011	30 June 2011	31 December 2010	30 June 2010	31 December 2009	30 June 2009	31 December 2008
Capital adequacy ratio	13.1	13.7%	13.8%	13.3%	13.3%	12.4%	11.2%

	31 December 2011	30 June 2011	31 December 2010	30 June 2010	31 December 2009	30 June 2009	31 December 2008
Own equity for capital adequacy (in PLN billion).....	110.9	105.2	100.6	95.7	90.1	87.0	77.6

Source: PFSA

Two key factors have contributed to the strengthening capital base of the Polish banking sector: capital accumulation and equity issuances.

Capital accumulation has been driven by a reduction of dividend payments in response to the PFSA's policies, especially its recommendation to banks during June 2009 to revise their dividend policies in order to accumulate capital.

In addition, several Polish banks undertook rights issues in 2011. The trend was initiated by the Bank in 2009 and was continued in 2010. The Bank's offering was followed by those of Millennium Bank S.A., which raised PLN 1.1 billion through a rights issue in January 2010, and BRE Bank S.A., which raised PLN 2.0 billion through a rights issue in May 2010.

The implementation of Basel III will affect the situation for the Polish banking sector; but is expected to have a limited impact on the capital needs of the Polish banking sector given the current high capitalization levels and high quality of capital.

Asset Quality

The quality of the loan portfolios of Polish banks has been improving since the fourth quarter of 2008. In 2010, the rate of decline began to slow substantially and the decline in the quality of corporate portfolios slowed down considerably in the second half of 2010, in 2011 the quality of the portfolio improved. Notably, the credit quality of large corporate clients is materially better than that of SMEs.

Since the end of 2008, the asset quality in the household segment has been deteriorating, primarily in the consumer loan portfolio and since 2011 in the mortgage loan sector.

The quality of the mortgage loans portfolio remains relatively sound, which is in part due to the fact that a large part of the portfolio has not yet been sufficiently seasoned (which is expected to take place in several years). The overall level of non-performing loans is currently relatively high compared to recent historical levels, but the pace of growth in NPL ratios has leveled off. The table below sets out the NPL ratios of various types of client segments in Poland, as of the dates indicated.

	December 2011	June 2011	December 2010	June 2010	December 2009	June 2009	December 2008
				%			
NPL ratio of corporate clients.....	10.3	11.0	12.4	12.3	11.6	9.6	6.5
NPL ratio of households.....	7.2	7.2	7.2	6.7	6.0	4.8	3.5
Total NPL ratio.....	7.4	7.5	7.8	7.7	7.1	6.5	4.4

Source: PFSA

Inflation Rate and Interest Rates

Inflation in Poland (as measured by the consumer price index ("CPI") remains elevated and above the NBP inflation target of 2.5% plus or minus 1 percentage point – it increased to 4.3% in 2011 (from 2.6% in 2010 and 3.5% in 2009), according to GUS. The rise in inflation is due in part to rising commodity prices globally (notably food, energy and fuels), and in part to moderate underlying inflation pressure domestically. In the aftermath of the 2008-2009 global crisis, the Monetary Policy Council decreased the NBP's interest rates to a record low of 3.5% in the middle of 2009. As inflation entered the uptrend in 2010-2011, exceeding the upper band of the inflation target of 3.5% at the end of 2010 and rising above 4.0% year-on-year in 2011, the NBP started to normalize monetary policy and increased interest rates by an aggregate of 100 bps, to 4.50% in the first half of 2011. Solid economic growth in Poland may lead to a gradual rise in wages and inflationary pressure in the medium-term. At the same time, the strong rise in commodity prices in the global markets creates a risk of persistently elevated inflation. Despite CPI inflation rate remaining above 4%, interest rates were stable in the second half of 2011 as the NBP remained focused on growth risks stemming from the Eurozone crisis. The NBP's interest rates are currently as follows: reference rate, 4.50%; lombard rate, 6.00%; deposit rate, 3.00%; and rediscount rate, 4.75%.

For most of 2010, the three-month interbank rate (also known as the 3M WIBOR) was relatively stable, ranging from 3.80% to 3.87%, with sharp increases beginning in December 2010 and continuing throughout the first half of 2011, when it reached the level of 4.69% in June 2011.

Margins

High levels of competition for deposits during the financial crisis, when liquidity was relatively scarce and expensive, resulted in negative deposit margins in 2009. Banks needed to subsidize interest paid to depositors, as deposit rates were higher than the relevant interbank market rates. Household and corporate deposit margins were positive in 2011.

	<u>December 2011</u>	<u>June 2011</u>	<u>December 2010</u>	<u>June 2010</u>	<u>December 2009</u>	<u>June 2009</u>	<u>December 2008</u>
					%		
Average interest on new corporate deposits in zlotys	4.3	4.0	3.1	3.1	3.0	3.3	5.6
Average interest on new household deposits in zlotys ...	4.7	4.1	3.6	3.7	4.0	4.4	6.5
3M WIBID	4.8	4.5	3.8	3.7	4.1	4.2	5.7

Source: NBP, Reuters

Margins on household loans have decreased to the lowest levels since the first half of 2010 as banks seek to employ excess liquidity. Corporate loan margins have also decreased and are now below financial crisis levels.

	<u>December 2011</u>	<u>June 2011</u>	<u>December 2010</u>	<u>June 2010</u>	<u>December 2009</u>	<u>June 2009</u>	<u>December 2008</u>
					%		
Average interest on new corporate loans in zlotys	6.6	6.6	5.9	6.2	6.5	7.0	8.3
Average interest on new household loans in zlotys.....	11.0	10.8	10.0	11.1	12.5	13.4	13.6
3M WIBOR	5.0	4.7	4.0	3.9	4.3	4.4	5.9

Source: NBP, Reuters

BANKING REGULATIONS IN POLAND

Regulatory Environment

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 requirements, capital adequacy requirements and consumer protection-related regulations. In particular, a further tightening of consumer protection rights might have a significant influence on the operations of banks in Poland.

Banking Regulations in Poland

The conducting of banking activity in Poland requires a permit and is subject to a range of regulatory requirements. Banks also enjoy several privileges related to the conducting of their business.

Banking Supervision

Banking supervision in Poland is exercised by the PFSA. It 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,
 - amendments to its statute, and
 - appointment of two members to a bank's management board, including the president;
- issuing an objection to the purchase of or subscription for shares or rights to shares or becoming a domestic bank's parent company in case of exceeding or reaching certain percentage thresholds of total voting rights;
- supervision of banks as far as compliance with the law (including, in particular, with banking regulations) and the regulations stated in the banks' statutes;
- monitoring the financial condition of banks and the establishment of liquidity ratios and other standards of permitted risk in the banks' operations which are binding on the banks;
- issuance of recommendations concerning the best practices in terms of the prudent and stable management of banks;
- issuance of guidelines to the banks concerning taking or refraining from 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 Authorities which Exercise Material Supervision over the Activities of the 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 the processing 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 counteracting money laundering and the financing of terrorism.

Special Requirements for Banks

Banking operations are highly restricted. Banks are also required to protect banking secrets (information concerning any banking operations performed by a bank) and observe the provisions on counteracting money laundering and the financing of terrorism.

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

Capital Adequacy and Risk Management Requirements

Banks must comply with a number of regulatory requirements related to their operations. The crucial ones include the requirement for banks to manage their finances in a strictly regulated fashion and all the requirements concerning equity, capital adequacy ratio, concentration of exposures, liquidity and risk management systems.

Polish Law Requirements

All the resolutions, decrees and recommendations issued by the PFSA are also of material importance for the banks.

Moreover, in February 2010 the PFSA issued Recommendation T, which is intended to improve risk management at the banks, including preventing retail borrowers from becoming excessively in debt. The PFSA stated that the maximum ratio of debt servicing expense to the average income generated by the debtors should not be greater than 50% for retail customers with income lower than or equal to the average remuneration in the industry and for other customers not greater than 65% of their remuneration.

In particular, banks offering mortgage loans must specifically consider Recommendation S issued in January 2011 with two implementation deadlines, by 25 July 2011 and by 31 December 2011. The amendments introduced in that regulation will influence restrictions regarding mortgage loans and loans denominated in foreign currencies, specifically through the maximum ratio of debt servicing expenses to the borrowers' average net income established for retail exposures at 42% and a maximum loan term of 25 years established for the evaluation of credit capacity.

In June 2011 the PFSA increased the risk weighting of retail and mortgage loans denominated in foreign currencies from 75% to 100% (Resolution 76/2010). Risk weighting applies to the calculation of the value of risk-weighted assets which are the basis for the calculation of banks' capital adequacy ratios. Increasing the risk weighting of a given type of asset increases the regulatory capital requirement for banks holding assets of such type. The change will come into force on 30 June 2012.

European Law Requirements

On 24 November 2010, Directive 2010/76/EU of the European Parliament and of the Council amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for trading book and for re-securitizations, and the supervisory review of remuneration policies was adopted. With regard to capital adequacy regulations, CRD 3 increased capital requirements for certain assets that banks hold in trading books and for re-securitization instruments. It also increased disclosure obligations in several areas, such as securitization exposures in the trading book and sponsorship of off-balance-sheet vehicles. CRD 3 imposed a requirement that the remuneration policies be consistent with sound and effective risk management and therefore subject to supervisory oversight. As a result, supervisory authorities have to monitor the implications of remuneration policies for the risk management of financial institutions. Member States were required to implement CRD 3 between 1 January 2011 and 31 December 2011.

On 16 December 2010, the Basel Committee on Banking Supervision published two documents proposing fundamental reforms to the regulatory capital framework, titled "*Basel III: A global regulatory framework for more resilient banks and banking systems*", containing reforms related to capital requirements, and "*Basel III: International framework for liquidity risk measurement, standards and monitoring*", containing reforms relating to liquidity requirements (together, "**Basel III**"). The implementation of the Basel III reforms will begin on 1 January 2013. However, the requirements will be phased in over a period of time, to be fully effective by 2019.

In February 2010, the European Commission launched a public consultation with regard to further possible changes to the capital requirements directives aimed at strengthening the resilience of the banking sector and the financial system as a whole – "**CRD 4**". The draft of CRD 4 was presented by the European Commission on 20 July 2011.

The changes proposed under Basel III and CRD 4 include, among others: (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. The Bank believes that these changes should not have an adverse effect on its market position due to: the diversification of its exposures (loan portfolio and inter-bank exposures); the fact that it has a significant share of assets with high risk weights (corporate loans, consumer loans) and that it rarely applies CRM techniques which could decrease capital requirements; and the Bank's share of Tier 1 capital in the Bank's own funds being significant.

In addition, the Ministry of Finance was working on legislation imposing an obligation on financial institutions (including banks) operating in Poland to make contributions to a dedicated fund which could be used to prevent or limit the effects of any potential future crisis on the financial markets in Poland (in effect, a banking tax). As

of the date of the Base Prospectus, no details of the proposed legislation have been published. However, it is anticipated that as with similar legislation in effect in other Member States, the contribution made by each financial institution under any proposed legislation will depend on the value of its equity or its balance sheet total. In March 2012, the Polish Minister of Finance announced that it is his intention to introduce such banking tax sometime in 2012.

Bank Guarantee Fund

The cash deposited in individual Polish bank accounts and any cash due under receivables confirmed by documents issued by banks in favor of specific persons is covered by a guarantee system, the Bank Guarantee Fund. The banks pay mandatory annual fees to the Bank Guarantee Fund. If a bank becomes insolvent, the means of the Bank Guarantee Fund are used to cover the claims of the banks' clients, if any. On 17 November 2010 the Bank Guarantee Fund materially increased the level of the mandatory annual fees (which are calculated as a fraction of a bank's regulatory capital requirement multiplied by 12.5 and adjusted in accordance with the Act dated 14 December 1994 on the Bank Guarantee Fund) from 0.045% to 0.099%. The new fee applies to contributions starting from 1 January 2011.

Bank Privileges

Polish banks benefit from certain privileges related to their business. In particular, the law provides for simplified procedures for taking security interests and enforcing payment of a bank's claims. These include the elimination of requirements of a specific form of establishing collateral. Additionally, banks have the right to transfer their receivables to another entity, which may issue securities collateralized by the transferred receivables (securitization of bank receivables). Banks are authorized to apply simplified procedures for prosecuting claims through the issuance of bank enforcement titles (*bankowy tytuł wykonawczy*). Moreover, documents issued by banks have, in general, the same status as documents issued by public officials. In this respect, however, the 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 incompatible with the constitutional principles of equality and justice and the principle of consumer protection, because it guarantees the statutory superiority of a professional entity (the bank) over the consumer.

Consumer Protection

The Consumer Credit Act dated 12 May 2011 (the purpose of which is to implement the Directive 2008/48/EC of the European Parliament and of the Council on credit agreements for consumers of 23 April 2008), the Civil Code regulations and other consumer protection laws impose on the banks several obligations related to agreements signed with natural persons who perform actions which are not directly related to their business or professional activities (consumers). The most important of those are the requirements to inform the consumer about the cost of extended credit and loans in certain circumstances and the prohibition from including specific clauses which are unfavorable 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 to all consumer loans of less than PLN 255,550 and generally applies to mortgage loans. The Consumer Credit Act applies to all institutions granting consumer loans and not just to banks, as well as to all intermediaries. Where a decision to reject an application for credit is based on the consultation of a database, the creditor is required to inform the consumer of this fact.

Since 26 August 2011, under the amendments to the Consumer Credit Act, the banks in Poland are required to accept, in the case of mortgage loans denominated in foreign currencies, the payment of both principal and interest in such foreign currencies and not to restrict a consumer's right to obtain foreign currencies from any sources (for example, from other banks or foreign exchange points).

Changes in the "Rodzina na swoim" Program

In July 2011 the law amending the terms for the implementation of the program of preferential housing loans "*Rodzina na swoim*" was adopted and entered into force on 31 August 2011, whereunder a new definition of preferential loan was made to exclusively include loans taken to satisfy the personal housing requirements of the target borrower who benefits from the financial support. The subsidies for the credit facilities will apply if a borrower files a request no later than by the end of the calendar year in which such borrower turns 35. The state aid in the repayment of a loan taken to purchase an apartment will be available not only to married couples and to persons who bring up at least one child as a single parent, but also to persons who are not married or those who do not have children. The ratio applicable to the price of one square meter of the usable floor area of real estate was decreased which constitutes an element of the attempts that have been made to discontinue this credit

incentive and to decrease the State budget expense by limiting the group of apartments that would satisfy the statutory requirements, as well as decreasing the number of preferential loans covered by the application of the subsidies to their interest. Applications for preferential loans under the “*Rodzina na swoim*” program will be accepted until 31 December 2012, provided that all acquired rights will be duly observed.

Class Action Lawsuits

The possibility of bringing class action lawsuits was introduced into Polish law in July 2010. Class action 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 summaries. Class action suits 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. 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). In December 2010 a group of customers filed the ever first class action suit in Poland against one Polish bank.

Personal Data Protection

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

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 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 Commercial Companies Code, the 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, dematerialized and registered in the depository and settlement system maintained by the NDS in 2004, but they were not included in a motion for admission and introduction to trading on the regulated market maintained by the WSE. In 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 those shares into bearer shares. On 22 November 2011 the management board of the Polish National Depository 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. 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 dematerialized 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 30 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 (such as Inteligo).

The chart below presents the structure of the Group and the Bank's subordinated companies as of the date of the Base Prospectus:

PKO Bank Polski SA



- 1 The acquisition of the company by the Bank was entered in the Ukrainian State Register of Business Entities on 16 January 2012.
- 2 The second shareholder of the company is Qualia Development Sp. z o.o.
- 3 Centrum Finansowe Puławska Sp. z o.o. w likwidacji is undergoing liquidation proceedings; see "Description of the Group – Significant Tangible Fixed Assets – The Bank's Properties" and "The Bank's Principal Subsidiaries – Centrum Finansowe Puławska Sp. z o.o. in liquidation"
- 4 The company has been a member of the PKO Bank Polski SA Group since 29 November 2011, and was a direct subsidiary of the Bank until 26 February 2012.
- 5 The Bank holds one share in the company.
- 6 The company was entered in the National Court Register on 4 January 2012.
- 7 The company was entered in the National Court Register on 14 February 2012.
- 8 The company was entered in the National Court Register on 15 March 2012.
- 9 The company was entered in the National Court Register on 27 March 2012.
- 10 The company is held for sale and is disclosed in the books of the Bank within assets held for sale.

Legend:

	% of capital*
	% of votes

* % contributions in case of limited partnerships

The Bank's Principal Subsidiaries

General information on the Bank's principal subsidiaries is presented below.

Kredobank S.A.

The Bank holds 99.57% of the shares in the share capital of Kredobank, which entitles it to exercise 99.57% of the votes at the general meeting of shareholders.

Name and legal form:..... Public Joint Stock Company "Kredobank"

Registered office: Sacharowa 78A, 79026 Lviv, Ukraine

Share capital:..... UAH 1,918,969,469.16

Principal object of the company:..... Banking activity.

PKO Towarzystwo Funduszy Inwestycyjnych S.A.

The Bank holds 100% of the shares in the share capital of PKO TFI, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO Towarzystwo Funduszy Inwestycyjnych S.A.

Registered office: Puławska 15, 02-515 Warsaw, Poland

Share capital:..... PLN 18,000,000

Principal object of the company:..... Creation and management of investment funds.

PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne S.A.

The Bank holds 100% of the shares in the share capital of PTE BANKOWY, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... PKO BP BANKOWY Powszechnie Towarzystwo Emerytalne S.A.

Registered office: Puławska 15, 02-515 Warsaw, Poland

Share capital:..... PLN 260,000,000

Principal object of the company:..... Management of an open-end pension fund.

Bankowy Fundusz Leasingowy S.A.

The Bank holds 100% of the shares in the share capital of Bankowy Fundusz Leasingowy S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... Bankowy Fundusz Leasingowy S.A.

Registered office: Al. Marszałka Edwarda Śmigłego-Rydza 20, 93-281 Łódź, Poland

Share capital:..... PLN 70,000,000

Principal object of the company:..... Operational and financial leasing of tangible and real estate assets; the special services provided by Bankowy Fundusz Leasingowy are: BanCar Leasing (leasing of cars), BanMasz Leasing (leasing of construction equipment and building machinery) and Bankowy Wynajem (long-term lease of cars and car fleet management).

Bankowe Towarzystwo Kapitałowe S.A.

The Bank holds 100% of the shares in the share capital of Bankowe Towarzystwo Kapitałowe S.A., which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... Bankowe Towarzystwo Kapitałowe S.A.

Registered office: Bitwy Warszawskiej 1920 r. 7, 02-366 Warsaw, Poland

Share capital:..... PLN 24,243,900

Principal object of the company:..... Rendering services in favor of other Group entities, including payroll, human resources and accounting services; factoring services through its subsidiary, PKO BP Faktoring S.A.

Inteligo Financial Services S.A.

The Bank holds 100% of the shares in the share capital of Inteligo, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... Inteligo Financial Services S.A.

Registered office: Al. Armii Ludowej 26, 00-609 Warsaw, Poland

Share capital:..... PLN 99,528,069

Principal object of the company:..... Electronic banking services; the company creates a platform for the development of PKO Bank Polski's e-services, including the service of bank accounts and the sale of other products via interactive communication channels.

Centrum Elektronicznych Usług Płatniczych eService S.A.

The Bank holds 100% of the shares in the share capital of CEUP eService, which entitles it to exercise 100% of the votes at the general meeting of shareholders.

Name and legal form:..... Centrum Elektronicznych Usług Płatniczych eService S.A.

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.

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: Mokotowska 1, 00-640 Warsaw, Poland

Share capital:..... PLN 4,500,000

Principal object of the company:..... Construction and real estate development activity.

Fort Mokotów Inwestycje Sp. z o.o.

The Bank holds 99.99% of the shares in the share capital of Fort Mokotów Inwestycje Sp. z o.o., which entitles it to exercise 99.99% of the votes at the meeting of shareholders. The remaining shares in Fort Mokotów Inwestycje Sp. z o.o. are held by Qualia Development Sp. z o.o.

Name and legal form:..... Fort Mokotów Inwestycje Sp. z o.o.

Registered office: Mokotowska 1, 00-640 Warsaw, Poland

Share capital:..... PLN 43,551,000

Principal object of the company:..... Development of mixed residential and office projects in city centre of Warsaw.

Centrum Finansowe Puławska Sp. z o.o. in liquidation

The Bank holds 100% of the shares in the share capital of Centrum Finansowe Puławska, which entitles it to exercise 100% of the votes at the meeting of shareholders. On 1 July 2011 the Bank, acting as the sole shareholder of Centrum Finansowe Puławska, adopted a resolution on its dissolution and liquidation. The reason

behind the liquidation of Centrum Finansowe Puławska is to reduce costs and streamline the structure of the Group.

As of the date of this Base Prospectus, Centrum Finansowe Puławska is undergoing liquidation proceedings. The Bank, as the sole shareholder of Centrum Finansowe Puławska, acquired all of the assets and liabilities of such company. Centrum Finansowe Puławska is preparing a report from the liquidation proceeding which is to be filed with the register of business entities of the Polish National Court Register. This would be the final step towards the dissolution of the company and its deletion from the register.

Name and legal form:..... Centrum Finansowe Puławska Sp. z o.o.

Registered office: Puławska 15, 02-515 Warsaw, Poland

Share capital:..... PLN 117,808,000

Principal object of the company:..... Management of the building “Centrum Finansowe Puławska” at Puławska 15 in Warsaw.

PKO Finance AB (publ)

The Bank holds 100% of the shares in the share capital of PKO Finance AB (publ), which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:..... PKO Finance AB (publ)

Registered office: c/o AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden

Share capital:..... EUR 55,474 (until 31 December 2010: SEK 500,000)

Principal object of the company:..... Special purpose vehicle established in order to raise funds for Bank deriving from the issue of notes. The first tranche of the notes (in EUR) under the Programme was issued on 12 October 2010. The second tranche of the notes (in CHF) under the Programme was issued on 7 July 2011.

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 9,461,000

Principal object of the company:..... Transfer agent services

Inter-Risk Ukraina additional liability company

The Bank holds 100% of the shares in the share capital of Inter-Risk Ukraina additional liability company, which entitles it to exercise 100% of the votes at the meeting of the shareholders.

Name and legal form:..... Inter-Risk Ukraina additional liability company

Registered office: Artema 52A Office 147, 04053 Kiev, Ukraine

Share capital:..... UAH 43,275,000

Principal object of the company:..... Debt collection of the impaired loans portfolio of Kredobank and the impaired loans portfolio purchased by Finansowa Kompania “Prywatne Inwestycje” Sp. z o.o.

Significant affiliates of the Bank

General information on the Bank’s significant affiliate – Bank Pocztowy S.A. – is presented below.

The Bank holds 25% plus one share in the share capital of Bank Pocztowy S.A., which entitles it to exercise 25% plus one vote at the general meeting.

Name and legal form:..... Bank Pocztowy S.A.

Registered office: Jagiellońska 17, 85-959 Bydgoszcz, Poland

Share capital:..... PLN 97,290,400

Principal object of the company:..... Banking activity.

MANAGEMENT AND CORPORATE GOVERNANCE

In accordance with the Commercial Companies Code and the 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 Commercial Companies Code, the Banking Law, the Bank's Statute and the By-Laws of the Management Board and Supervisory Board as of the date of the Base Prospectus.

Management Board

The governing body of the Bank is the Management Board.

Composition

Pursuant to the Bank's Statute, the Management Board consists of three to nine members, including the president of the Management Board, the vice-president of the Management Board and other members.

Members of the Management Board are appointed for a joint three-year term. The Supervisory Board appoints and dismisses, by secret vote, the president of the Management Board, and at the request of the president of the Management Board, the vice-presidents of the Management Board and other members of the Management Board. A member of the Management Board may be dismissed only for an important reason. The appointment of two members of the Management Board, including the president of the Management Board, requires the consent of the PFSA. The Supervisory Board applies to the PFSA for consent for the appointment of the two members, including the president of the Management Board. Furthermore, the Supervisory Board notifies the PFSA about the composition of the Management Board and any changes thereto immediately after an appointment or change to its composition. The Supervisory Board also informs the PFSA which members of the Management Board are specifically responsible for the management of credit risk and the internal audit unit. Currently, the consent of the PFSA for the performance of the functions of the Management Board has been granted to the president of the Management Board, Zbigniew Jagiełło and the vice president of the Management Board responsible for risk management and debt recovery, Andrzej Kołatkowski.

The Supervisory Board has the right to suspend, for important reasons, either all or selected members of the Management Board from the performance of their duties, and may delegate authority, for up to three months, to the members of the Supervisory Board to temporarily perform the duties of the members of the Management Board who were dismissed, have resigned or are unable for other reasons to perform their duties.

A member of the Management Board may also be dismissed or suspended from his duties by virtue of a resolution of the General Meeting.

Powers of the Management Board

The Management Board manages the Bank's affairs and represents the Bank. The authority of the Management Board include all matters not reserved by the provisions of law or the Bank's Statute for the authority of other governing bodies of the Bank.

Resolutions of the Management Board shall be required for all matters that go beyond the scope of the ordinary activities of the Bank. The Management Board shall adopt resolutions, in particular to: (i) define the strategy of the Bank, taking into consideration the risk involved in the activities of the Bank as well as the principles of prudential and stable management of the Bank; (ii) define the annual financial plans, including the conditions of their implementation; (iii) adopt organizational 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 organizations, 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 organizational units of the Bank in Poland and abroad.

The Commercial Companies Code prohibits the General Meeting and the Supervisory Board from issuing binding instructions to the Management Board as to the conduct of the Bank's affairs. Furthermore, Management and Supervisory Board members are liable to the Bank for damage caused through negligence or an action which is against the law or in breach of the Bank's Statute.

Powers of the President of the Management Board

The powers of the president of the Management Board include, specifically: (i) managing the work of the Management Board; (ii) convening and presiding over meetings of the Management Board; (iii) presenting the position of the Management Board to the governing bodies of the Bank and in external relations; (iv) determining the assignment of the individual areas of the Bank's operations to the members of the Management Board; (v) ensuring implementation of the resolutions of the Management Board; (vi) issuing instructions; (vii) presenting motions to the Supervisory Board for the appointment and dismissal of the vice-presidents and other members of the Management Board; and (viii) making decisions concerning the staffing of the positions reserved for his competence.

In particular the president of the Management Board is responsible for the matters related to supervision over the functions supporting the operation of the Bank's governing bodies and the matters related to supervision over the functions supporting the operation of the standing committees of the Bank and the matters related to internal audits, communication and promotion and legal matters.

During the absence of the president of the Management Board, his duties will be fulfilled by a member of the Management Board appointed by the president of the Management Board.

Functioning

The Management Board operates under its by-laws adopted by its resolution and approved by the Supervisory Board.

The Management Board makes decisions by way of resolutions. Resolutions of the Management Board are passed by an absolute majority of votes cast by those present at the meeting of the Management Board, except for a resolution on appointing a commercial proxy, which requires all members of the Management Board to vote in favor of the resolution. In case of a tie, the president of the Management Board casts the deciding vote.

Representations on behalf of the Bank are made by: (i) the president of the Management Board acting individually; (ii) two members of the Management Board acting jointly, or one member of the Management Board acting jointly with a commercial proxy; or (iii) attorneys acting individually or jointly, to the extent of the power of attorney granted.

Members of the Management Board

As of the date of the Base Prospectus, the Management Board consists of seven members.

The table below presents a list of the members of the Management Board, their age, position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date the current term began	Expiration of term of office
Zbigniew Jagiełło	47	President of the Management Board	30 June 2011	30 June 2014
Piotr Alicki	47	Vice-President of the Management Board in charge of IT and Services	30 June 2011	30 June 2014
Bartosz Drabikowski	41	Vice-President of the Management Board in charge of Finance and Accounting	30 June 2011	30 June 2014
Andrzej Kołatkowski	54	Vice-President of the Management Board in charge of Risk and Debt Recovery	30 June 2011	30 June 2014
Jarosław Myjak	56	Vice-President of the Management Board in charge of Corporate Banking	30 June 2011	30 June 2014
Jacek Obłąkowski	46	Vice-President of the Management Board in charge of Retail Banking	30 June 2011	30 June 2014
Jakub Papierski	39	Vice-President of the Management Board in charge of Investment Banking	30 June 2011	30 June 2014

A brief description of the qualifications and professional experience of the members of the Management Board is presented below.

Zbigniew Jagiełło

Zbigniew Jagiełło graduated from the Faculty of Information Technology and Management of Wrocław University of Technology and completed post-graduate studies organized by *Gdańska Fundacja Kształcenia Menedżerów* (Gdańsk Foundation for Education of Managers) and the University of Gdańsk where he obtained an Executive MBA title certified by the Rotterdam School of Management, Erasmus University. From 1995 he was engaged with Pioneer Pierwsze Polskie Towarzystwo Funduszy Inwestycyjnych S.A. and was subsequently one of the co-founders of PKO/Credit Suisse TFI S.A. In July 2000 he took the position of the president of the management board of Pioneer Pekao TFI S.A. Since 2005 he held the position of the president of the management board of Pioneer Pekao Investment Management S.A. In the years 1991-1994, he served as director general and president of the management board of Reventia Sp. z o.o. In the global structure of Pioneer Investments, he had the function of the Head of Distribution in CEE. He headed the Board of the Chamber of Funds and Assets Managers. Zbigniew Jagiełło has also been awarded by the President of the Republic of Poland with a Bachelor's Cross of the Order of the Revival of Poland and awarded with a Social Solidarity Medal for promoting the idea of corporate social responsibility.

Piotr Alicki

Piotr Alicki is a graduate of the Mathematics and Physics Faculty of Adam Mickiewicz University in Poznań. He has a many years experience in IT projects management in the banking area. In 1990-1998, he worked for Pomorski Bank Kredytowy S.A. in Szczecin in the Information Science Department – since 1997 as its Director, where he was responsible for the design, development, implementation and operation of the bank's transaction systems. In 1999-2010, he worked for Pekao S.A. – at first as the vice-director and then the director of the IT Systems Maintenance and Development Department, and during the last five years he managed the Information Technology Department. He was responsible, among others, for the execution of the IT merger of four banks (Pekao S.A., PBKS S.A., BDK S.A. and PBG S.A.), he implemented the Integrated Information System and managed the IT business analyses area in Pekao S.A. He also managed the IT integration and migration from BPH S.A. systems to Pekao S.A. systems and participated in the work of the team responsible for the preparation of the entire integration process. In 1999-2010, Piotr Alicki participated in the works of the Polish Banks Association: in its Steering Committee for the Development of Bank Infrastructure, the Payments System Committee, the Problem Committee for Banking and the Bank Financial Services and the Electronic Banking Council. Since 2000 he has been a member of the Supervisory Council of Krajowa Izba Rozliczeniowa S.A. (National Clearing Chamber), and since 2005 to 2010 he has been its President. In the years 2002-2010, he represented Pekao S.A. in the Payments System Council operating under the auspices of the National Bank of Poland (NBP). He also served on the Supervisory Boards of companies belonging to the Bank Pekao S.A. Group. He was awarded a distinction by the Chairman of NBP "For Services for the Banking System of the Republic of Poland" and he is the winner of the "IT Leader 1997" competition.

Bartosz Drabikowski

Bartosz Drabikowski graduated from the Technical University of Łódź, the Polish National School of Public Administration, the Warsaw School of Economics, the Polish Institute of International Affairs and the Executive MBA Program at the University of Illinois at Urbana – Champaign. He attended numerous academic training programs, including at Deutsche Bundesbank, Deutsche Börse AG, Deutsche Ausgleichsbank, Rheinische Hypothekbank, the European Commission and the International Monetary Fund.

He received a scholarship from the German Marshall Fund of the United States. In 1998 he started his professional career at the Ministry of Finance, where (until 2005) he held the positions of advisor to the Minister, deputy director and director of the Financial Institutions Department, respectively. In the years 2006-2008, he served as a Member of the Management Board of the National Clearing House. Moreover, he served as a member of the Commission for Banking Supervision (2004-2005), member of the Polish Securities and Exchange Commission (2004-2005), deputy member of the Payment System Board at the National Bank of Poland S.A. (2002-2005), member of the supervisory board of the National Depository for Securities S.A. (2002-2004), member of the Board of the Bank Guarantee Fund (2004-2007) and member of the Supervisory Board of the Polish Security Printing Works (1998-2006). In the years 2003-2005 he also served as a member of some institutions of the European Union, including the Financial Services Committee, the European Banking Committee and the European Securities Committee.

Andrzej Kołatkowski

Andrzej Kołatkowski graduated with an overall very good grade from the Faculty of Finance and Statistics of the Main School of Planning and Statistics (current name: the Warsaw School of Economics), where he specialized in econometrics. From 1988 to 1989 Andrzej Kołatkowski worked in the Planning Committee at the Council of Ministers. Between 1980 and 1988 he worked in the Chemical Industry Economics Institute (*Instytut Ekonomiki Przemysłu Chemicznego*) and the National Economy Institute (*Instytut Gospodarki Narodowej*). Between 1989 and 1992 he worked as a director of the Financial Policy Department in the Ministry of Finance. During this

period he co-organized the first issues of the treasury securities. Between 1992 and 1998 he was a member of the management board of Bank Handlowy w Warszawie S.A. Between 1998 and 2001 Andrzej Kołatkowski served as president of the management board of Towarzystwo Funduszy Inwestycyjnych Banku Handlowego S.A. (the investment funds association of Bank Handlowy S.A.). During this period Andrzej Kołatkowski also held the position of president of the Polish Association of Investment Funds (*Stowarzyszenie Towarzystw Funduszy Inwestycyjnych w Polsce*). Between 2002 and 2003 Andrzej Kołatkowski served as president of the management board of Bank Współpracy Europejskiej S.A. Since 2003 he has been working in the Bank as the director of the Credit Risk Assessment Department, and from 2009 to 2011 he worked as the managing director of the Banking Risk Division and served as the managing director of the Restructuring and Debt Recovery Division.

Jarosław Myjak

Jarosław Myjak graduated from the Faculty of American Studies (1978) and from the Faculty of Law and Administration (1981) at Adam Mickiewicz University in Poznań. He also studied Economics at the University of Toronto. Jarosław Myjak has also completed post-graduate management programs: C.E.D.E.P./General Management Program (1998-1999), Fontainebleau (1997-1999), Leadership for the Future at Columbia Business School, the University of Columbia, New York (2002-2003). He worked as a legal adviser for the law offices of Altheimer & Gray and Dewey & LeBoeuf and is a member of the Warsaw Bar Council and the Warsaw Chamber of Legal Advisers. He was responsible for establishing and developing the Commercial Union Group in Poland and Lithuania. He served in the following capacities in the Commercial Union Poland Group: in the years 1994-1998 as member of the management board, vice-president of the management board, first vice-president of the management board and, finally, president of the management board of Commercial Union Polska Towarzystwo Ubezpieczeń na Życie SA. In the years 1996-2000 he served as a member of the management board and as first vice-president of the management board of Commercial Union Polska Spółka z o.o. In the years 1997-1998 Jarosław Myjak served as first vice-president of the management board, and in the years 2001-2004 as president of the Management Board. Simultaneously, in the years 1998-2004, he served as a member and chairman of the supervisory boards of companies from the Commercial Union Group in Poland and Lithuania, such as CU PTE, CU TFI, Asset Management, Transfer Agent and CU Lithuania. Moreover, he served as a member of the supervisory board and the Strategic Committee of Bank Handlowy w Warszawie S.A., the supervisory board of BGŻ S.A. and was the chairman of the supervisory board of PKO BP Finat Sp. z o.o., as well as the vice-chairman of the supervisory board of PZU Życie S.A. (which is a counterparty to the Bank). Currently, he is the chairman of the supervisory board of Bankowy Fundusz Leasingowy and of PKO BP Faktoring S.A. In 2006 and since 2008 he has been the Vice-President of the Management Board in charge of corporate banking. He was a member of the Polish Business Roundtable and Vice-President of PIU and PKPP "Lewiatan". He was also the "Manager of the Year 2002" and was awarded the "Golden Cross of Merit of the Republic of Poland".

Jacek Obłękowski

Jacek Obłękowski graduated from the Higher School of Pedagogy (Wyższa Szkoła Pedagogiczna) in Olsztyn, specializing in history and diplomacy. He completed a brokerage course and also graduated from the University of Navara – AMP. He started his professional career at Powszechny Bank Gospodarczy S.A. in 1991 and worked there until 1998, initially as a trainee and, following several promotions, as a director of the network management department. In the years 1998-2007 he worked at the Bank as the director of the Retail Banking Division, director of the Marketing and Sales Department, acting director of the Office for Servicing Compensation Payments and most recently as managing director of the Network Division. Between December 2000 and June 2002 he acted as the director responsible for supervision of the business aspects of implementing the central IT platform at the Bank. Until 2004, Jacek Obłękowski was the President of the supervisory board of Kredobank. Between 2002 and 2007, he was a Vice-President of the Management Board responsible for the retail market area and marketing. He was also the Chairman of the Bank's Credit Committee, a member of the council of directors of VISA EUROPE and was responsible for the acquisition of Inteligo by the Bank. From 2007, Jacek Obłękowski was the President of the management board of Dominet Bank S.A. and between 2009 and 2011, following the merger, in BNP Paribas/Fortis Bank Polska S.A. he was the Vice-President of the management board responsible for the division of servicing small enterprises and individual clients.

Jakub Papierski

Jakub Papierski is a graduate of the Warsaw School of Economics and a holder of a Chartered Financial Analyst (CFA) license. He commenced his professional career in 1993 in Pro-Invest International, a consulting company. In 1995-1996, 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 CEE. From November 2001 to September 2003, he worked for Bank Pekao S.A. as executive director of the Financial Division directly supervising the financial and fiscal policy of the bank, the managerial information systems, as well as the treasury and management of investment portfolios; moreover, he was a member of the Asset and Liability Management Committee in the Bank. He accepted the position of the

president of the management board of Centralny Dom Maklerski Pekao S.A. in October 2003. In September 2006, he also took the position of deputy chairman of the supervisory board of Pioneer Pekao TFI S.A. Since May 2009 Jakub Papierski served as acting president of the management board of Allianz Bank Polska S.A. and in October 2009 was appointed the president of the management board of Allianz Bank Polska S.A. From 2005 to 2009, Jakub Papierski was chairman of the Program Council of the Capital Market Leaders Academy (Akademia Liderów Rynku Kapitałowego) established at the Lesław Paga Foundation; at present, he is a member of the Academy's Program Council.

The business address of all the Management Board members is: Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, ul. Puławska 15, 02-515 Warszawa, Poland.

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.

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 Supervisory Board may elect a Secretary from among its members.

Powers

The Supervisory Board exercises regular supervision over the Bank's operations in all areas of its activity. The responsibilities of the Supervisory Board include an assessment of the Management Board report on the operations of the Bank and an assessment of the financial statements of the Bank for the previous financial year with regard to their compliance with the books of account and other documents, as well as their actual status. The Supervisory Board is also responsible for an assessment of the Management Board motions on the distribution of profit or coverage of loss and the submission to the General Meeting of an annual written report on the results of such assessment. The Supervisory Board represents the Bank in agreements and disputes with members of the Management Board, unless these powers are entrusted to an attorney-in-fact appointed by a resolution of the General Meeting.

Pursuant to the Bank's Statute, the powers of the Supervisory Board also include, in addition to the powers and duties provided for in the applicable laws and the provisions of the Bank's Statute, the adoption of resolutions related in particular to the following matters: (i) approving the strategy of the Bank adopted by the Management Board; (ii) approving the Bank's general risk level; (iii) approving the annual financial plan adopted by the Management Board; (iv) appointing an entity to audit or review the consolidated and individual financial statements of the Bank; (v) adopting the Rules and Regulations of the Supervisory Board; (vi) adopting the regulations that set out the principles of granting credit facilities, loans, bank guarantees and sureties to members of the Management Board or the Supervisory Board and persons holding managerial positions at the Bank, as well as to entities linked by participation or control with members of the Management Board or the Supervisory Board and persons holding managerial positions at the Bank, in accordance with Article 79a of the Banking Law; (vii) adopting the by-laws concerning the use of the reserves; (viii) appointing and dismissing the president of the Management Board by secret vote; (ix) appointing and dismissing by secret vote the vice-presidents and other members of the Management Board upon a motion of the president of the Management Board; (x) suspending, for important reasons, all of or selected members of the Management Board in the performance of their duties, and delegating members of the Supervisory Board, for up to three months, to temporarily perform the duties of the members of the Management Board who were dismissed, resigned or are unable, for other reasons, to perform their duties; (xi) granting consent to opening or closing branches abroad; (xii) approving the rules and regulations adopted by the Management Board and concerning the Management Board, the management of special funds created from net profits, and the organization of the Bank, as well as resolutions concerning the principles of information policy regarding capital adequacy, the principles of compliance risk management policy, the principles of operational risk management, estimates of the internal capital, management and capital planning and the principles of functioning of the internal audit system; (xiii) approving the periodical reports of the Management Board on risk management, capital adequacy and the internal audit system; and (xiv)

applying to the PFSA for its consent to appoint two members of the Management Board, including the president of the Management Board.

In addition, the Supervisory Board grants its consent to: (i) the acquisition and disposal of fixed assets with a value exceeding one-tenth of the equity of the Bank, excluding real property and rights of perpetual usufruct; (ii) except for the acts referred to in § 9 section 1.5 of the Bank's Statute, the acquisition and disposal of real property, an interest in real property or the right of perpetual usufruct, or their encumbrance with a limited property right or making it available for use by a third party, if the value of the real property or the right that is the subject of such act exceeds one-fiftieth of the share capital of the Bank; such consent is not required if the acquisition of real property, an interest in real property or a right of perpetual usufruct takes place as a part of enforcement, bankruptcy or arrangement proceedings or any other agreement with a debtor of the Bank, as well as in the event of legal transactions concerning the real property or rights acquired by the Bank in the manner described above; in such cases the Management Board shall only be required to notify the Supervisory Board of the performed act; (iii) the establishment of a company, the subscription for or the acquisition of shares, bonds convertible into shares or other instruments entitling it to acquire or subscribe for shares if the financial commitment of the Bank resulting from such act exceeds one-tenth of the equity of the Bank; (iv) any transaction to be entered into between the Bank and an affiliated entity if the value of such transaction exceeds one-tenth of the share capital, except for typical and routine transactions concluded on an arm's length basis between affiliated entities when the nature and terms of such transactions are determined by the current operations of the Bank; (v) the performance of any act by the Bank as a result of which the sum of receivables of the Bank and the off-balance sheet commitments exposed to the risk of a state-owned legal person or a company with the State Treasury as the majority shareholder and entities linked by participation or control with such legal person or company would exceed 5% of the equity of the Bank.

Functioning

The Supervisory Board operates under the Rules and Regulations of the Supervisory Board which have been approved by the General Meeting.

Meetings are convened when necessary, however at least once a quarter. The Supervisory Board shall adopt resolutions in an open vote. A secret vote shall be ordered in personnel matters and at the request of at least one member of the Supervisory Board. The Supervisory Board takes resolutions by an absolute majority of votes when at least half of the members of the Supervisory Board are present, including the Chairman or the Deputy Chairman of the Supervisory Board, except for resolutions on the matters referred to in § 15 section 1 items 1-3, 5, 7-9 and 12 of the Bank's Statute, for which, except for the above quorum, a qualified majority of votes of two thirds is required. The members of the Supervisory Board who are concerned by the matter that is subject to the vote shall be excluded from the vote.

Committees of the Supervisory Board

In accordance with the Bank's Statute, the Supervisory Board establishes the Supervisory Board Audit Committee and may establish other permanent committees, the members of which shall perform their functions as members of the Supervisory Board delegated to perform the specific supervisory functions at the Bank. The detailed scope of activity of the given committee shall be set forth in the rules adopted by the Supervisory Board. In accordance with the Rules and Regulations of the Supervisory Board, the Supervisory Board may in particular establish the remuneration committee.

Ordinary committee meetings are convened by the chairman of a given committee either on his own initiative or at the request of a committee member or the Chairman of the Supervisory Board. Extraordinary committee meetings are convened by the Chairman of the Supervisory Board either on his own initiative or at the request of a member of the Supervisory Board or a member of the Management Board.

As of the date of the Base Prospectus, the Supervisory Board Audit Committee operated within the scope of the Supervisory Board.

The Supervisory Board Audit Committee was established on 30 November 2006 under resolutions of the Supervisory Board in order to perform regular supervision over the financial audit of the Bank and the Group. The duties of this committee include, in particular:

- monitoring the process of financial reporting, including the review of interim and annual financial statements of the Bank and the Group (stand-alone and consolidated);
- monitoring the efficiency of the systems of internal control, internal audit and risk management, in particular:
 - assessment of the Bank's activities related to the implementation of the management system, including risk management and internal control and assessment of its adequacy and efficiency, among others, by means of:

- opining on resolutions of the Management Board of the Bank to be approved by the Supervisory Board on the prudent and stable management of the Bank and on the acceptable level of risk in particular areas of the Bank's operations;
- opining on resolutions of the Management Board of the Bank to be approved by the Supervisory Board on risk management, capital adequacy and the internal control system;
- opining on periodic reports on risk management, capital adequacy and the internal control system submitted to the Supervisory Board;
- assessing the Bank's activities aimed at risk mitigation through property insurance and civil liability insurance for members of the Bank's governing bodies and its proxies;
- cooperation with an internal auditor, including:
 - opining on plans related to internal audits in the Bank and the internal regulations of the Internal Audit Department;
 - performing a periodic review of the execution of the internal audit plan, ad-hoc audits and evaluating activities of the Internal Audit Department in light of the resources at its disposal;
 - opining, for the benefit of the Supervisory Board, on motions for the appointment and dismissal of the head of the Internal Audit Department;
- monitoring the execution of financial audit activities, in particular by means of:
 - recommending to the Supervisory Board a registered audit company to perform a financial audit of the Bank, proposing the remuneration for such audit company, and supervising and evaluating the work performed by the audit company;
 - examining written information submitted by the registered audit company concerning relevant issues regarding the financial audit, including, in particular, information concerning material irregularities in the Bank's internal control system as regards financial reporting;
- monitoring the independence of a registered auditor and a registered audit company with respect to the services referred to in par. 48, clause 2 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (the "Auditors Act"), in particular through obtaining:
 - statements confirming the independence of a registered audit company and the independence of the registered auditors conducting the financial audit activities; and
 - information on the services referred to in par. 48, clause 2 of the Auditors Act provided to the Bank.

As of the date of the Base Prospectus the composition of the Supervisory Board Audit Committee was as follows: Mirosław Czekaj (Chairman of the Committee), Jan Bossak (Vice-Chairman of the Committee) and Ewa Miklaszewska (member of the Committee).

As of the date of the Base Prospectus, there are three members of the Supervisory Board Audit Committee, all of whom satisfy the requirements set forth in Article 86, section 4 of the Auditors Act. The Chairman of the Audit Committee, Mirosław Czekaj, in accordance with the relevant declaration, also holds qualifications in accounting and auditing.

Members of the Supervisory Board

As of the date of the Base Prospectus, the Supervisory Board consists of nine members.

The current term of office of the Supervisory Board members commenced on 30 June 2011. 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 2013.

The table below presents a list of the current members of the Supervisory Board, their age and position, the date their current term began and the expiration date of their current term of office.

Name	Age	Position	Date the current term began	Expiration of term of office
Cezary Banasiński	57	Chairman of the Supervisory Board	30 June 2011	30 June 2014
Tomasz Zganiacz	46	Deputy Chairman of the Supervisory Board	30 June 2011	30 June 2014

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Date the current term began</u>	<u>Expiration of term of office</u>
Jan Bossak	65	Member of the Supervisory Board	30 June 2011	30 June 2014
Mirosław Czekaj	48	Secretary of the Supervisory Board	30 June 2011 (the Secretary from 6 July 2011)	30 June 2014
Krzysztof Kilian	52	Member of the Supervisory Board	30 June 2011	30 June 2014
Piotr Marczak	46	Member of the Supervisory Board	30 June 2011	30 June 2014
Ewa Miklaszewska	55	Member of the Supervisory Board	30 June 2011	30 June 2014
Marek Mroczkowski	55	Member of the Supervisory Board	30 June 2011	30 June 2014
Ryszard Wierzbą	69	Member of the Supervisory Board	30 June 2011	30 June 2014

A brief description of the qualifications and professional experience of the current members of the Supervisory Board is presented below.

Cezary Banasiński

Cezary Banasiński graduated from the University of Warsaw from the Faculty of Management in 1977 and the Faculty of Law and Administration in 1980 and earned a Magister degree in Management & Organization and in Law. Moreover, in 1987 he was awarded a PhD by the University of Warsaw, the Faculty of Law and Administration, where he has been a member of the academic staff since 1980. In the years 1999-2001, he held the position of the undersecretary of state at the Office of the Committee for European Integration and from 2001 to 2006 he was the president of the Office of Competition and Consumer Protection. Moreover, from 2005 to 2006 he was a member of the Securities and Exchange Commission of Coordination Committee for Financial Conglomerates and of the Insurance and Pension Fund Supervisory Commission.

The business address of Cezary Banasiński is Uniwersytet Warszawski, ul. Krakowskie Przedmieście 26/28, 00-927 Warsaw, Poland.

Tomasz Zganiacz

Tomasz Zganiacz graduated from the Warsaw University of Technology, the Faculty of Automotive and Construction Machinery Engineering (earning in 1989 a Magister degree in Mechanical Engineering) and the Mechanical Faculty of Technology and Automation (in 1991 earning a Magister degree in Engineering of Industrial Organization). Moreover, in 1993 he obtained a Master of Science in Business (equivalent to an MBA) degree from the Business School (joint venture of the Warsaw University of Technology, London Business School, HEC School of Management Paris and the Norwegian School of Economics and Business Administration).

From 1991 to 1998, he was a member of the academic and teaching staff of the Institute of Production Systems Organization at the Warsaw University of Technology. He also worked as an assistant of the President of the Management Board of Mesat S.A. (1991-1992), Chief Executive Officer at Aster City S.A. (1994), Manager of the Loans Department in Société Générale Succursale de Varsovie (1995-1996) and assistant of the President of the Management Board in Eurofund Management Polska Sp. z o.o. From 1999 to 2006, he worked for 7bulls.com S.A. and held the following positions: Research & Development Director (1999), Chief Financial Officer (2001-2002) and Financial Advisor of the Management Board (2002-2006). From 1999, he worked for Pekpol S.A. where he held the position of Chief Financial Officer (1999-2002), Vice-President of the Management Board – Chief Financial Officer (2002-2003) and liquidator – Chief Financial Officer of Pekpol S.A. in liquidation (2003). From 2004 to 2006 he was a Member of the Management Board of Arksteel S.A. (until 31 December 2003 – Pekpol S.A.). From 2003 to 2006 he was also a liquidator of Pekpol-bis S.A. (on 8 June 2006 the general meeting of Pekpol-bis S.A. adopted a resolution on reversing the decision on the liquidation of the company) and from 2006 to 2009 he was the President of the Management Board of Triton Development S.A. (formerly 7bulls.com S.A.). Since 2009, he has worked for the Ministry of the State Treasury, currently as the Head of the Capital Markets Department.

The business address of Tomasz Zganiacz is Ministerstwo Skarbu Państwa, ul. Krucza 36/Wspólna 6, 00-522 Warsaw, Poland.

Jan Bossak

Jan Bossak graduated from the Faculty of Foreign Trade at the Main School of Planning and Statistics in Warsaw (now the Warsaw School of Economics), earning a Magister degree in Economics in 1968. He was awarded a scholarship from the government of Japan and took his Ph.D. course at the University of Osaka in the

years 1972-1974. In 1975, he was awarded a PhD in International Economic Relations, and in 1984 he obtained a habilitation at the Faculty of Foreign Trade at the Main School of Planning and Statistics. In order to improve his occupational qualifications he has taken part in numerous finance and management training programs. In 1992, Jan Bossak started work as Professor of Economics at the Warsaw School of Economics. In 1991-1992, he acted as Chairman of the Polish-American Enterprise Fund. Moreover, from 1994 to 1996 he was Chairman of Hevelius Management International Sp. z o.o. and from 1995 to 1997 he acted as President of the Second National Investment Fund S.A. From 1999 to 2003, he acted as President of Erste Securities Polska S.A. (investment bank). From 1997 to 1999, he also acted as an advisor for Petrochemia Płock S.A. and he served as Chairman of the Supervisory Boards of companies such as Stilon S.A., FAMUR S.A. and Tarbud S.A. Moreover, he cooperated with the International Monetary Fund and the World Bank and organized international economics conferences. He has conducted lectures on international economic relations at many foreign universities, among others in Japan, United Kingdom and the USA.

The business address of Jan Bossak is Szkoła Główna Handlowa, Katedra Międzynarodowych Studiów Porównawczych, Al. Niepodległości 162, 02-554 Warsaw, Poland.

Mirosław Czekaj

Mirosław Czekaj began his professional career in 1988 in BISP Co-operative Work Agency in Grudziądz where he served as the chief accountant until 1990. Between 1990 and 1992, he served as the deputy director for economic and commercial relations in the Military Armament Works in Grudziądz, and from 1992 to 2004 he was the city treasurer of the Szczecin City Hall. Mirosław Czekaj also served as vice-president of the management board of BGK (2004-2006) and president of the management board of Euro Fund Advisors Sp. z o.o., a company from the BG S.A. Group (2006-2007). Euro Fund Advisors Sp. z o.o. underwent liquidation after the end of Mirosław Czekaj's term of office. The liquidation was connected with a change of the organizational structure within the BGŻ S.A. group. Mirosław Czekaj does not know any details of the liquidation as the procedure took place after the end of his term of office at that company. From 2005 to 2008, he was a member of the council of FIRE Fundacji Rozwoju Innowacji. Since 2007, he has served as the city treasurer in the Warsaw City Hall. Furthermore, Mirosław Czekaj is a member of the management board and the treasurer of the Union of Polish Metropolises.

Mirosław Czekaj graduated from the Nicolaus Copernicus University in Toruń, where he earned a Magister degree in Economics in 1988. In 1992, he completed a training program for auditors organized by the Accountants Association in Poland. In 1998, Mirosław Czekaj received the title of Doctor of Economics from the University of Szczecin. Furthermore, since 2007 he has attended training courses for auditors organized annually by the Accountants Association in Poland.

The business address of Mirosław Czekaj is Urząd Miasta st. Warszawy, ul. Kredytowa 3, 00-056 Warsaw, Poland.

Krzysztof Kilian

Krzysztof Kilian graduated from the Gdansk University of Technology where he obtained a higher technical education and a master's degree in mechanics. He started his professional career in the "Wisła" Shipyard in Gdansk. In 1991 he held the position of the head of the Minister's Office in the Ministry of Privatization, and later he held the post of director at the Office of the Prime Minister and the Minister of Telecommunications. Krzysztof Kilian then served as an advisor to the chairman at Bank Handlowy w Warszawie S.A. and as a senior advisor at Morgan Stanley (in London). Between 1999 and 2008 he worked for his own consulting company cooperating with TDA Capital, Prokom Software and Asseco. Since 2008 Krzysztof Kilian has been working as the first executive vice-president and the chief marketing officer at Polkomtel S.A. He has experience in the activities of supervisory bodies – he has served as a member of the supervisory boards of: PL 2012 S.A., PKO BP S.A., TFI PZU S.A., PGF S.A., Poczta Polska S.A., the Foundation for Banking Education (*Fundacja Edukacji Bankowej*), the Privatization Fund at the Ministry of Privatization, KGHM S.A., and BPH S.A. Since March 2012, Krzysztof Kilian has been the president of the management board of Polska Grupa Energetyczna S.A.

The business address of Krzysztof Kilian is PGE Polska Grupa Energetyczna SA, ul. Mysia 2, 00-496 Warsaw, Poland.

Piotr Marczak

Piotr Marczak graduated from the Warsaw School of Economics (formerly the Main School of Planning and Statistics). Since 1992, he has been involved with the Ministry of Finance where he started his career in the Financial Politics and Analyses Department. At present, he is the Head of the Public Debt Department responsible, among others, for the preparation and execution of the strategy of public debt management, the State Treasury's risk and debt management, consolidation of the management of public sector liquidity and management of the State Treasury's currency liquidity. He is an author of dozens of working papers and articles

on public debt and the Treasury securities market in Poland. He was a lecturer in Banking School in Lower Silesia (*Dolnośląska Szkoła Bankowa*) and a member of the supervisory board of BGK.

The business address of Piotr Marczak is Ministerstwo Finansów, ul. Świętokrzyska 12, 00-916 Warsaw, Poland.

Ewa Miklaszewska

Ewa Miklaszewska holds the title of dr hab. (Ph.D.) and is a professor at the Cracow University of Economics, from which she graduated in 1980. She also completed studies at Johns Hopkins University (in 1986), where she obtained an M.A. in International Affairs at the School of Advanced International Studies (Bologna Center). In 1989 Ewa Miklaszewska completed her Ph.D. in economics, and in 2004 she received habilitation from the Cracow University of Economics. She started her professional career in 1980 at the Pedagogical University of Cracow, where she worked until 1983. Between 1983 and 2000 she was a research fellow at Jagiellonian University (Faculty of Law, Institute of Economics). In 1994 Ewa Miklaszewska worked for the Financial Institutions Department at the Ministry of Finance as an advisor to the minister, and in 1995 for the National Bank of Poland in the Department of Research and Analysis. Currently, she is the head of the banking unit at the Department of Finance at the Faculty of Finance at the Cracow University of Economics and also works for the Institute of Economics and Management at Jagiellonian University. Ewa Miklaszewska is the author of numerous academic papers and has participated in several international traineeships. Her academic interests are centered around the problems associated with Polish and global market development, in particular with regard to the strategies employed by financial institutions and regulatory policies.

The business address of Ewa Miklaszewska is Uniwersytet Ekonomiczny w Krakowie, Wydział Finansów, ul. Rakowicka 27, 31-510, Kraków, Poland.

Marek Mroczkowski

Marek Mroczkowski graduated from the Warsaw School of Economics (formerly the Main School of Planning and Statistics) and completed postgraduate studies at the Faculty of Law and Administration of the University of Wrocław as well as postgraduate studies at the Advanced Management Program in INSEAD Fontainebleau in France. Since 2009 he has been providing services in the field of consultancy and management at MRM Finance. Between 2007 and 2009 he was the president of the management board and general director of MAŽEIKIU NAFTA AB in Lithuania. Between 2005 and 2006 Marek Mroczkowski was the vice-president of the management board as well as the financial director of UNIPETROL A.S. in the Czech Republic (from September 2005 to April 2006 he was also the president of the management board and the general director). Between 2003 and 2004 he was the president of the management board and the general director of ELANA S.A. in Toruń, Poland. Between 2001 and 2002 he was the president of the management board and the general director of Polkomtel S.A., and from 1994 to 2001 he was the vice-president of the management board and the financial director of PKN Orlen S.A. Marek Mroczkowski also served as a member of the management board and as the financial director of Eda Poniatowa S.A. (between 1986 and 1994). Marek Mroczkowski has experience in the field of supervisory body activities – he was a member of the supervisory boards of the following companies: Impexmetal S.A., Energomontaż Północ S.A., Polkomtel S.A., Anwil S.A., and Mostostal Kraków S.A. He currently serves as the Chairman of the Supervisory Board of ZCH Police S.A.

The business address of Marek Mroczkowski is “Marek Mroczkowski MRM Finance”, ul. Bielawska 6/40, 02-511 Warsaw, Poland.

Ryszard Wierzba

Ryszard Wierzba holds the title of dr hab. (Ph.D.) and graduated from the Faculty of Finance and Statistics at the Warsaw School of Economics (formerly the Main School of Planning and Statistics). In 1973 Ryszard Wierzba obtained his Ph.D. in economics from the Department of Production Economics at the University of Gdańsk, and in 1981 he received a habilitation in economics from the Faculty of Finance and Statistics at the Warsaw School of Economics. In 1991 he became a professor of economics. He started his professional career in 1966 in Bank Inwestycyjny (Branch in Gdańsk), where he worked until 1969 as an inspector. In the years 1970–1972 he pursued doctoral studies at the University of Gdańsk, and since 1972 he has been working as a research fellow at the university, where he completed consecutive stages of his academic career: first as a senior assistant in the years 1972–1973, then as an adjunct in the years 1973–1982, a docent (academic appointment below that of a professor) in the years 1982–1991, an associate professor in the years 1991–1999, and finally as a full professor and the head of Department of Finance from 1999 to the present. Moreover, since 1993 he has been a deputy director of the Gdańsk Academy of Banking at the Institute of Market Economy Research in Gdańsk. He is an author of more than 180 academic publications, a member of several academic organizations, and has also completed numerous international traineeships. Since 1991 he has been a member of the supervisory boards of several large companies, including Bank Gdański S.A. (1991–1996), Bank Handlowy w Warszawie S.A. (1998–2002), Polskie Sieci Elektro- Energetyczne S.A. in Warsaw (2005–2007), and PKO Bank Polski S.A. (2008–2009).

The business address of Ryszard Wierzba is Uniwersytet Gdański, ul. Armii Krajowej 101, 81-824 Sopot, Poland.

Shares or Stock Options Owned by Members of the Management Board and the Supervisory Board

As of the date of the Base Prospectus, from among the members of the Management Board or the Supervisory Board, Shares are held by Zbigniew Jagiełło, who holds 9,000 Shares, Piotr Alicki, who holds 2,627 Shares, Jacek Obłąkowski, who holds 512 Shares, and Jakub Papierski, who holds 3,000 Shares. As of 7 July 2011, Ryszard Wierzba, held 2,570 Shares. On 7 July 2011 Ryszard Wierzba instructed a brokerage house to manage his financial instruments portfolio in a manner that excluded any interference on his part with regard to investment decisions. Consequently, it is not possible to establish the number of Shares held by Ryszard Wierzba as of the date of the Base Prospectus.

Except for Zbigniew Jagiełło, Piotr Alicki, Jacek Obłąkowski, Jakub Papierski and Ryszard Wierzba, no other member of the Management Board or the Supervisory Board owns 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 Shares held by members of the Management Board and the Supervisory Board.

Conflicts of Interest

There are no conflicts of interest between the duties of the members of the Management Board and Supervisory Board to the Bank and their private interests or other duties.

DESCRIPTION OF THE ISSUER

Establishment, Duration and Domicile

The Issuer's legal and commercial name is PKO Finance AB (publ). The Issuer changed its name from Aktiebolaget Grundstenen 108756 to PKO Finance AB (publ) on 17 July 2008.

The Issuer was incorporated in the Kingdom of Sweden as a public limited liability company registered in the Swedish Companies Register under number 556693-7461 on 14 December 2005 for indefinite time. The Issuer was registered, pursuant to the Act on notification regarding certain financial activities (*Sw: Lag (1996:1006) om anmälningsplikt avseende viss finansiell verksamhet*), with the Swedish Financial Supervisory Authority (*Sw: Finansinspektionen*) on 5 December 2008.

Business of the Issuer

The Issuer's registered office is c/o AB 1909 Corporate Services, Norrlandsgatan 18, 111 43 Stockholm, Sweden and the telephone number of its registered office is +46-8-545 322 70.

The main object of the Issuer is to carry out, directly or indirectly either on its own account or for the account of third parties or in agreement with third parties, the activity of financing for the purposes of the development, and the needs, of the Bank and the Group in accordance with applicable laws. Consequently, the Issuer is a special purpose vehicle existing for the sole purpose of issuing the Notes and other notes provided that such other notes are issued in compliance with the relevant limitations as provided in the Terms and Conditions of the Notes. The Issuer has no subsidiaries and no employees.

The Issuer has been dormant since its incorporation and has not engaged in any material activities except for issuing EUR 800,000,000 3.733 per cent. Notes due 2015 under the Programme in October 2010 and CHF 250,000,000 3.538 per cent. Notes due 2016 under the Programme in July 2011.

The Issuer has produced financial statements for the financial years ended 31 December 2008, 2009, 2010 and 2011 and these financial statements were audited by Öhrlings PricewaterhouseCoopers AB. Susanne Sundvall, a registered auditor qualified to practice in the Kingdom of Sweden, is the responsible auditor.

Recent Events

All shares in the Issuer were bought by the Bank from Svenska Standardbolag AB on 27 June 2008.

There has been no material adverse change in the financial position or prospects of the Issuer since the date of its last financial statements, that is, 31 December 2011. In addition, there has been no significant change in the capitalisation of the Issuer since its incorporation nor has it incurred any indebtedness in the nature of borrowings, guarantees or contingent liabilities since the date of its incorporation.

Management of the Issuer

The Issuer has a board of directors consisting of three directors:

Name	Position	Date on which the current term began	Expiration of the term of office
Artur Osytek	Chairman of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders in 2011)	On the date of the annual general meeting of the shareholders in 2012 (unless re-elected)
Magnus Sundström	Member of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders in 2011)	On the date of the annual general meeting of the shareholders in 2012 (unless re-elected)
Iwona Jankowska	Member of the Board of Directors	27 June 2008 (re-elected at the annual general meeting of the shareholders in 2012)	On the date of the annual general meeting of the shareholders in 2012 (unless re-elected)

Source: The Swedish Companies Registration Office

The business address for all the members of the board of directors is c/o AB Corporate Services, Norrlandsgatan 18, 111 43 Stockholm, Sweden.

There are no conflicts of interest between the duties of the persons listed above to the Issuer and their private interests or other duties.

Share Capital and Shareholders Structure

The Issuer has fully paid up share capital of EUR 55,473.58 made up of 5,000 shares, each with a quota of EUR 11,0947 per one share.

All shares are owned by the Bank. As a sole shareholder, the Bank may exercise control over the Issuer, in particular, to adopt resolutions as to the appointment of the members of the board of directors of the Issuer.

SENIOR FACILITY AGREEMENT

The following is the text of the Senior Facility Agreement

THIS SENIOR FACILITY AGREEMENT originally made on 31 July 2008 and amended and restated on 23 April 2010 between:

- (1) **POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA**, a company established under the laws of the Republic of Poland whose registered office is at Puławska 15, Warsaw, Poland (the “**Borrower**”); and
- (2) **PKO FINANCE AB (PUBL)**, a public company with limited liability incorporated in Sweden whose registered office is at c/o, AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden (the “**Lender**”).

WHEREAS:

- (A) The Lender and the Borrower entered into a Senior Facility Agreement dated 31 July 2008 (the “**Original Senior Facility Agreement**”). The Lender and the Borrower wish to amend and restate the Original Senior Facility Agreement on the terms of this Agreement.
- (B) The Lender has, at the request of the Borrower, agreed to make available to the Borrower senior and subordinated loan facilities in the maximum amount of the Programme Limit (as defined below). The senior loan facility is to be made available on the terms and subject to the conditions of this Agreement, as amended and supplemented in relation to each Senior Loan (as defined below) by a senior loan supplement dated the relevant Closing Date substantially in the form set out in Schedule 1 hereto (each, a “**Senior Loan Supplement**”).
- (C) It is intended that, concurrently with the extension of any Senior Loan under this senior loan facility, the Lender will issue certain loan participation notes in the same nominal amount and bearing the same rate of interest as such Senior Loan.

Now it is hereby agreed as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), the following terms shall have the meanings indicated:

“**Account**” means an account in the name of the Lender with the Principal Paying Agent as specified in the relevant Senior Loan Supplement;

“**Account Bank Agreement**” means the amended and restated account bank agreement dated 23 April 2010 relating to the Programme as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Trustee and the account bank named therein;

“**Agency**” means any agency, authority, central bank, department, government, legislature, minister, official or public statutory person (whether autonomous or not) of, or of the government of, any state or supra-national body;

“**Agency Agreement**” means the amended and restated paying agency agreement dated 23 April 2010 relating to the Programme as may be amended, modified, supplemented and/or restated from time to time between the Lender, the Borrower, the Trustee and the agents named therein;

“**Agreement**” means this Agreement as originally executed or as it may be amended from time to time;

“**Auditors**” means the auditors of the Borrower’s IFRS financial statements (consolidated if the same are then prepared) or, if they are unable or unwilling to carry out any action requested of them under this Agreement, such other internationally recognised firm of accountants as may be nominated by the Borrower;

“**Base Prospectus**” means (unless otherwise specified) the most recently published Base Prospectus as approved by the Luxembourg *Commission de Surveillance du Secteur Financier* prepared in connection with the Programme;

“**Borrower Account**” means an account in the name of the Borrower as specified in the relevant Senior Loan Supplement for receipt of Senior Loan funds;

“**Borrower Agreements**” means this Agreement, the Subordinated Facility Agreement, the Agency Agreement, the Account Bank Agreement and the Dealer Agreement and, in relation to each Senior Loan, the foregoing agreements together with the relevant Subscription Agreement and Senior Loan Supplement;

“**Business Day**” means (save in relation to Clause 4 (*Interest*)) a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and either (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, a day on which foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency or (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating;

“**Calculation Agent**” means, in relation to a Senior Loan, Citibank, N.A., or any person named as such in the relevant Senior Loan Supplement or any successor thereto;

“**Call Option**”, if applicable, means the call option granted to the Borrower pursuant to the relevant Senior Loan Supplement and the Conditions of the relevant Series of Notes;

“**Call Option Commencement Date**”, if applicable, has the meaning given to it in the relevant Senior Loan Supplement;

“**Closing Date**” means the date specified as such in the relevant Senior Loan Supplement;

“**Conditions**” has the meaning ascribed to it in the Trust Deed;

“**Day Count Fraction**” has the meaning specified as such in the relevant Senior Loan Supplement;

“**Dealer Agreement**” means the amended and restated dealer agreement relating to the Programme dated 23 April 2011 as may be amended, modified, supplement and/or restated from time to time between the Lender, the Borrower, the Arranger and the other dealers appointed pursuant to it;

“**Definitive Notes**” means the definitive notes in fully registered form representing the Notes to be issued in limited circumstances pursuant to the Trust Deed;

“**Dollars**”, “**\$**”, “**US dollars**” and “**US\$**” means the lawful currency of the United States of America;

“**Early Redemption Amount**” has the meaning ascribed to it in the relevant Senior Loan Supplement;

“**euro**” or “**€**” means the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended;

“**Event of Default**” has the meaning assigned to such term in Clause 10.1 (*Events of Default*) hereof;

“**Fee Side Letter**” has the meaning assigned to such term in Clause 13.2 (*Payment of Ongoing Expenses*) hereof;

“**Fiscal Period**” means any fiscal period for which the Borrower or the Group (if consolidated accounts are prepared) has produced financial statements in accordance with IFRS which have either been audited or reviewed by the Auditors;

“**Fixed Rate Senior Loan**” means a Senior Loan specified as such in the relevant Senior Loan Supplement;

“**Floating Rate Senior Loan**” means a Senior Loan specified as such in the relevant Senior Loan Supplement;

“**GAAP**” means generally accepted accounting principles in the Kingdom of Sweden (as amended, supplemented or re-issued from time to time);

“**Global Notes**” has the meaning assigned to it in the Trust Deed;

“**Group**” means the Borrower and its Subsidiaries taken as a whole at any given time;

“**Guarantee**” means any financial obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Indebtedness or other obligation of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep- well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise) or (b) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness or other obligation of the

payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however, that* the term “**Guarantee**” will not include endorsements for collection or deposit in the ordinary course of business. The term “**Guarantee**” used as a verb has a corresponding meaning;

“**IFRS**” means International Financial Reporting Standards as adopted by the European Union (as amended, supplemented or re-issued from time to time);

“**Incur**” means issue, assume, guarantee, incur or otherwise become liable for; *provided, however, that* any Indebtedness or Capital Stock of a person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) or is merged into a Subsidiary will be deemed to be incurred or issued by such Subsidiary at the time it becomes or is so merged into a Subsidiary;

“**Indebtedness**” means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; and
- (e) amounts raised under any other transaction (including, without limitation, any Repo, forward sale or purchase agreement) having the commercial effect of a borrowing;

“**Interest Payment Date**” means the date(s) specified as such in the relevant Senior Loan Supplement, or, in the event of a prepayment in whole (but not in part) in accordance with Clauses 5.2 (*Prepayment in the event of Taxes or Increased Costs*) or 5.3 (*Prepayment in the event of Illegality*), the date set for such redemption in respect of the Senior Loan;

“**Interest Period**” means each period beginning on (and including) an Interest Payment Date or, in the case of the first Interest Period, the Interest Commencement Date, and ending on (but excluding) the next Interest Payment Date;

“**Arranger**” means Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna or any successor appointed pursuant to the terms of the Dealer Agreement from time to time;

“**Lead Manager(s)**” means the Relevant Dealer(s) specified as such in the relevant Subscription Agreement;

“**Lender Agreements**” means the Dealer Agreement, this Agreement, the Subordinated Facility Agreement, the Agency Agreement, the Account Bank Agreement, the Principal Trust Deed and together with, in relation to each Senior Loan, the relevant Subscription Agreement, Senior Loan Supplement and Supplemental Trust Deed;

“**Material Adverse Effect**” means a material adverse effect on (a) the condition (financial or otherwise), prospects or general affairs of the Borrower or the Group; or (b) the Borrower’s ability to perform or comply with its obligations under the Borrower Agreements; or (c) the validity or enforceability of the Borrower Agreements or the rights or remedies of the Lender thereunder;

“**Material Subsidiary**” means, at any given time, a Subsidiary of the Borrower, which:

- (a) has gross income representing 10 per cent. or more of the consolidated gross income of the Group for the most recent Fiscal Period; or
- (b) has total assets representing 10 per cent. or more of the consolidated total assets of the Group, in each case calculated on a consolidated basis in accordance with IFRS, as consistently applied;

Compliance with the conditions set out in paragraphs (a) and (b) above shall be determined by reference to the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of that Subsidiary and the latest audited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group, but if a Subsidiary has been acquired since the date as at which the latest audited consolidated financial statements of the Group were prepared, the financial statements shall be adjusted in order to take into account the

acquisition of that Subsidiary (that adjustment being certified by the Group's auditors as representing an accurate reflection of the revised consolidated gross income or consolidated total assets (as the case may be) of the Group), *provided, however, that* if there is a dispute, unresolved for a period of at least 30 days, as to whether or not a member of the Group is a Material Subsidiary, a certificate of the Auditors as to whether a Subsidiary is or is not a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"Noteholder" means, in relation to a Note, the person in whose name such Note is registered from time to time in the register of the noteholders (or in the case of joint holders, the first named holder thereof);

"Notes" means the loan participation notes that may be issued from time to time by the Lender under the Programme in Series, each Series corresponding to a Senior Loan or a Subordinated Loan and, in relation to a Senior Loan, as defined in the relevant Senior Loan Supplement and, in relation to a Subordinated Loan, as defined in the relevant Subordinated Loan Supplement;

"Officers' Certificate" means a certificate signed on behalf of the Borrower by two officers of the Borrower at least one of whom shall be the principal executive officer, principal accounting officer or principal financial officer of the Borrower substantially, in the form set out in Schedule 2 hereto;

"Opinion of Counsel" means a written opinion from international legal counsel who is reasonably acceptable to the Lender;

"Permitted Security Interest" means:

(a) any Security Interest created by the Lender, either in favour of the Trustee for the benefit of the Noteholders pursuant to a Supplemental Trust Deed or in connection with any limited recourse financing arrangements that are permitted pursuant to clause 14.20.1(ii) of the Principal Trust Deed;

(b) any Security Interest created by any other Subsidiary to secure Securities Indebtedness, provided that (i) any such Securities Indebtedness is incurred on a limited recourse basis for the sole purpose of financing loans to the Borrower or any other member of the Group pursuant to a loan participation notes arrangement or programme, the related prospectus or other offering document for which has been approved by a competent authority or by, or on behalf of, a stock exchange (as the case may be); (ii) the business activities of such other Subsidiary are contractually limited to incurring Indebtedness for the sole purpose of financing on-lending to the Borrower or any other member of the Group (and matters incidental thereto); and (iii) such Security Interest is created only over the relevant Subsidiary's benefit of the related on-lending arrangements and any bank accounts established specifically for the purposes of that incurrence of Securities Indebtedness or the related on-loan;

(c) any Security Interest upon, or with respect to, any securitisation of property or assets or similar financing structure in relation to property or assets where the primary source of payment of any obligations secured by property or assets is linked to the proceeds of such property or assets (or where payment of such obligations is otherwise supported by such property or assets), but may make provision for rights of recourse on an unsecured basis (apart from the property or assets subject to the securitisation or financing structure) which may arise upon any failure to perform or default by the obligors in relation to such property or assets; provided that the aggregate outstanding amount of such obligations secured, does not, at any time, exceed 10 per cent. of the total consolidated assets of the Group, as determined at any time by reference to the most recent consolidated statement of financial position of the Group prepared in accordance with IFRS; and

(d) any other Security Interests securing Relevant Indebtedness (not falling within any of paragraphs (a) to (c) above), provided that the aggregate amount of Relevant Indebtedness secured by all such Security Interests does not exceed five per cent. of the value of the consolidated total assets of the Group as calculated on a consolidated basis from the latest audited or unaudited consolidated annual or, as the case may be, audited or unaudited consolidated interim financial statements of the Group prepared in accordance with IFRS consistently applied, as delivered by the Borrower in accordance with this Agreement;

"Person" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, company, firm, trust, organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;

"PLN" denotes Polish Zloty, the lawful currency of the Republic of Poland;

“**Polish National Bank**” means Narodowy Bank Polski;

“**Potential Event of Default**” means any event which is, or after notice or passage of time or after making any determinations under this Agreement (or any combination of the foregoing) would be, an Event of Default;

“**Principal Trust Deed**” means the amended and restated principal trust deed dated 23 April 2011 as may be amended, modified, supplemented and/or restated from time to time between the Lender and the Trustee;

“**Programme**” means the programme for the issuance of loan participation notes of the Lender;

“**Programme Limit**” means €3,000,000,000 or its equivalent in other currencies, being the maximum aggregate principal amount of Notes that may be issued and outstanding at any time under the Programme as may be increased in accordance with the Dealer Agreement;

“**Put Option**”, if applicable, means the put option granted to the Borrower pursuant to the relevant Senior Loan Supplement and the Conditions of the relevant Series of Notes;

“**Put Option Commencement Date**”, if applicable, has the meaning given to it in the relevant Senior Loan Supplement;

“**Rate of Interest**” has the meaning assigned to such term in the relevant Senior Loan Supplement;

“**Registrar**” has the meaning assigned to it in the Trust Deed;

“**Relevant Event**” has the meaning assigned to it in the Trust Deed;

“**Relevant Indebtedness**” means any present or future Indebtedness, having an original maturity of more than one year, in the form of or represented by:

- (a) bonds, notes, debentures, loan stock or other securities that are for the time being, or are capable of being, quoted, listed or ordinarily dealt in or on any stock exchange, over-the-counter or other securities market, whether issued by private placement or otherwise (collectively, “**Securities Indebtedness**”); or
- (b) any other Indebtedness that is funded or financed by Securities Indebtedness or which is intended to be the principal source of payment for any principal or interest payable in respect of any Securities Indebtedness;

“**Relevant Time**” means, in relation to a payment in a Specified Currency, the time in the principal financial centre of such Specified Currency and, in relation to a payment in euro, Brussels time;

“**Repayment Date**” has the meaning assigned to such term in the relevant Senior Loan Supplement;

“**Repo**” means a securities repurchase or resale agreement or reverse repurchase or resale agreement, a securities lending or rental agreement or any agreement relating to securities which is similar in effect to any of the foregoing and for the purposes of this definition, the term “**securities**” means any capital stock, share, debenture or other debt or equity instrument, or derivative thereof, whether issued by any public or private company, any government or Agency or instrumentality thereof or any supranational, international or multinational organisation;

“**Reserved Rights**” has the meaning assigned to such term in the Trust Deed;

“**Same-Day Funds**” means such funds for payment in the Specified Currency as the Lender may at any time determine to be customary for the settlement of international transactions in the principal financial centre of the country of the Specified Currency or, as the case may be, euro funds settled through the TARGET System or such other funds for payment in euro as the Lender may at any time reasonably determine to be customary for the settlement of international transactions in Brussels of the type contemplated hereby;

“**Securities Act**” means the US Securities Act of 1933;

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“**SEK**” denotes Swedish Kroner, the lawful currency of the Kingdom of Sweden;

“**Senior Loan**” means each senior loan to be made pursuant to, and on the terms specified in, this Agreement and the relevant Senior Loan Supplement, and includes each Fixed Rate Senior Loan and Floating Rate Senior Loan;

“**Senior Loan Agreement**” means this Agreement and (unless the context requires otherwise), in relation to a Senior Loan, means this Agreement as amended and supplemented by the relevant Senior Loan Supplement;

“**Series**” means a series of Notes that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

“**Specified Currency**” means the currency specified as such in the relevant Senior Loan Supplement;

“**Subordinated Facility Agreement**” means the subordinated facility agreement relating to the Programme to be dated on or before the Issue Date (as defined in the Dealer Agreement) of a relevant Series of Notes between the Lender and the Borrower, as may be amended or supplemented from time to time;

“**Subordinated Loan**” means each subordinated loan to be made pursuant to, and on the terms specified in, the Subordinated Facility Agreement and the relevant subordinated loan supplement;

“**Subscription Agreement**” means the agreement specified as such in the relevant Senior Loan Supplement;

“**Subsidiary**” means, in relation to any Person (the “**first person**”) at any particular time, any other person (the “**second person**”):

- (a) whose affairs and policies the first person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person;

“**Supplemental Trust Deed**” means a supplemental trust deed in respect of a Series of Notes which constitutes and secures, *inter alia*, such Series dated the relevant Closing Date and made between the Lender and the Trustee (substantially in the form set out in Schedule 10 of the Principal Trust Deed);

“**Tangible Net Worth**” means, as of any date, the sum of the aggregate of the amounts paid up or credited as paid up on the issued ordinary share capital of the Lender, the aggregate amount of the reserves of the Lender and any balance standing to the credit of the profit and loss account of the Lender, less any debit balance on the profit and loss account of the Lender, any amount shown in respect of goodwill or other intangible assets of the Lender, any amount set aside for taxation, deferred taxation or bad debts and any amount in respect of any dividend or distribution declared, recommended or made by the Lender to the extent payable to a person who is not a member of the Group and to such extent such distribution is not provided for in the most recent financial statements, all amounts determined in accordance with GAAP;

“**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

“**TARGET System**” means TARGET2 or any successor thereof;

“**Taxes**” means any present or future taxes, levies, duties, assessments or other governmental charges of whatever nature (including interest and penalties or addition thereon), no matter how they are levied or determined, and the terms “**Tax**” and “**taxation**” shall be construed accordingly;

“**Taxing Authority**” means any body having authority to levy Taxes;

“**Trust Deed**” means the Principal Trust Deed as supplemented by the relevant Supplemental Trust Deed and specified as such in the relevant Senior Loan Supplement;

“**Trustee**” means Citicorp Trustee Company Limited, as trustee under the Trust Deed and any other trustee or trustees thereunder; and

“**Warranty Date**” means the date hereof, the date of each Senior Loan Supplement, each Closing Date, each date on which the Base Prospectus is amended, supplemented or replaced, each date any of the Lender Agreements are amended or supplemented and each date on which the Programme Limit is increased.

1.2 Other Definitions

Unless the context otherwise requires, terms used in this Agreement which are not defined in this Agreement but which are defined in the Principal Trust Deed, the relevant Notes, the Agency Agreement, the Dealer Agreement or the relevant Senior Loan Supplement shall have the meanings assigned to such terms therein.

1.3 Interpretation

Unless the context or the express provisions of this Agreement otherwise require, the following shall govern the interpretation of this Agreement:

1.3.1 all references to a “**Clause**” or “**sub-clause**” are references to a Clause or sub-clause of this Agreement;

1.3.2 save as provided in the definition of “**Base Prospectus**” above, all references in this Agreement to an agreement, instrument or other document shall be construed as a reference to that agreement, instrument or other document as the same may be amended, supplemented, replaced or novated from time to time.

1.3.3 the terms “**hereof**”, “**herein**” and “**hereunder**” and other words of similar import shall mean the relevant Senior Loan Agreement as a whole and not any particular part hereof;

1.3.4 words importing the singular number include the plural and vice versa;

1.3.5 the table of contents and the headings are for convenience only and shall not affect the construction hereof; and

1.3.6 any reference in this Agreement to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such statute, provision, statutory instrument, order or regulation as the same may have been, or may from time to time be, amended or re enacted.

1.4 Amendment and Restatement

The Original Senior Facility Agreement shall be amended and restated on the terms of this Agreement *provided that* such amendment and restatement shall not take effect in relation to or for any purposes of any Notes issued prior to the date of this Agreement. Any Senior Loan made available on or after the date of this Agreement shall be issued pursuant to this Agreement. Subject to such amendment and restatement, the Original Senior Facility Agreement shall continue in full force and effect.

2. SENIOR LOANS

2.1 Senior Loans

On the terms and subject to the conditions set forth herein and, as the case may be, in each Senior Loan Supplement, the Lender hereby agrees to make available to the Borrower Senior Loans up to, together with any Subordinated Loans the Lender agrees to make available to the Borrower under the Subordinated Facility Agreement, a total aggregate amount equal to the Programme Limit.

2.2 Purpose

The proceeds of each Senior Loan will be used to fund the Borrower’s lending activities and for general banking purposes (unless otherwise specified in the relevant Senior Loan Supplement) and, accordingly, the Borrower shall apply all amounts raised by it hereunder to fund such activities and purposes, but the Lender shall not be concerned with the application thereof.

2.3 Separate Senior Loans

It is agreed that, with respect to each Senior Loan, all the provisions of this Agreement and the Senior Loan Supplement shall apply *mutatis mutandis* separately and independently to each such Senior Loan and the expressions “**Account**”, “**Arrangement Fee**”, “**Closing Date**”, “**Day Count Fraction**”, “**Interest Payment Date**”, “**Senior Loan Agreement**”, “**Notes**”, “**Rate of Interest**”, “**Repayment Date**”, “**Specified Currency**”, “**Subscription Agreement**” and “**Trust Deed**”, together with all other terms that relate to such a Senior Loan shall be construed as referring to those of the particular Senior Loan in question and not of all Senior Loans unless expressly so provided, so that each such Senior Loan shall be made pursuant to this Agreement and the relevant Senior Loan Supplement, together comprising the Senior Loan Agreement in respect of such Senior Loan, and that events affecting one Senior Loan shall not affect any other.

3. **DRAWDOWN**

3.1 **Drawdown**

On the terms and subject to the conditions set forth herein and, as the case may be, in each Senior Loan Supplement, on the Closing Date thereof the Lender shall make a Senior Loan to the Borrower and the Borrower shall make a single drawing in the full amount of such Senior Loan.

3.2 **Senior Loan Arrangement Fee**

In consideration of the Lender's undertaking to make a Senior Loan available to the Borrower, the Borrower hereby agrees that it shall, no later than one Business Day before each Closing Date, pay to or to the order of the Lender, in Same-Day Funds by 10 a.m. (Relevant Time) an Arrangement Fee (as defined in the relevant Senior Loan Supplement) in connection with the financing of such Senior Loan. The total amount of the Arrangement Fee will be as specified in the relevant Senior Loan Supplement.

3.3 **Disbursement**

Subject to the conditions set forth herein and, as the case may be, in each Senior Loan Supplement, on each Closing Date the Lender shall transfer the full amount of the relevant Senior Loan to the Borrower Account specified in the relevant Senior Loan Supplement.

3.4 **Ongoing Fees and Expenses**

In consideration of the Lender establishing and maintaining the Programme and agreeing to make Senior Loans to the Borrower, the Borrower shall pay on demand to the Lender as and when such payments are due an amount or amounts to reimburse the Lender for its expenses relating to its management and operation in servicing the Senior Loans as set forth to the Borrower in an invoice from the Lender (including, for the avoidance of doubt and without limitation, the fees and expenses of the Lender's counsel, auditors, corporate services providers, trustees and agents and any other expenses of the Lender).

4. **INTEREST**

4.1 **Rate of Interest for Fixed Rate Senior Loans**

Each Fixed Rate Senior Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date at the rate(s) per annum (expressed as a percentage) equal to the applicable Rate of Interest.

If a Fixed Amount or a Broken Amount is specified in the relevant Senior Loan Supplement, the amount of interest payable on each Interest Payment Date will amount to the Fixed Amount or, if applicable, the Broken Amount so specified and in the case of the Broken Amount will be payable on the particular Interest Payment Date(s) specified in the relevant Senior Loan Supplement.

4.2 **Payment of Interest for Fixed Rate Senior Loans**

Interest at the Rate of Interest shall accrue on each Fixed Rate Senior Loan from day to day, starting from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date and shall be paid in arrear by the Borrower to the Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date.

4.3 **Interest for Floating Rate Senior Loans**

4.3.1 *Interest Payment Dates:* Each Floating Rate Senior Loan bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the applicable Rate of Interest, which interest shall be paid in arrear by the Borrower to the relevant Account not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date. Such Interest Payment Date(s) is/are either shown in the relevant Senior Loan Supplement as Specified Interest Payment Date(s) or, if no Specified Interest Payment Date(s) is/are shown in the relevant Senior Loan Supplement, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Senior Loan Supplement as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

4.3.2 *Business Day Convention:* If any date referred to in the relevant Senior Loan Supplement that is specified to be subject to adjustment in accordance with a Business Day Convention would

otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

4.3.3 *Rate of Interest for Floating Rate Senior Loans*: The Rate of Interest in respect of Floating Rate Senior Loans for each Interest Accrual Period shall be determined in the manner specified in the relevant Senior Loan Supplement and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the relevant Senior Loan Supplement.

(a) *ISDA Determination for Floating Rate Senior Loans*

Where ISDA Determination is specified in the relevant Senior Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (i), “**ISDA Rate**” for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (i) the Floating Rate Option is as specified in the relevant Senior Loan Supplement;
- (ii) the Designated Maturity is a period specified in the relevant Senior Loan Supplement; and
- (iii) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the relevant Senior Loan Supplement.

For the purposes of this sub-paragraph (a), “**Floating Rate**”, “**Calculation Agent**”, “**Floating Rate Option**”, “**Designated Maturity**”, “**Reset Date**” and “**Swap Transaction**” have the meanings given to those terms in the ISDA Definitions.

(b) *Screen Rate Determination for Floating Rate Senior Loans*

Where Screen Rate Determination is specified in the relevant Senior Loan Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent at or about the Relevant Time on the Interest Determination Date in respect of such Interest Accrual Period in accordance with the following:

- (i) if the Primary Source for Floating Rate is a Page, subject as provided below, the Rate of Interest shall be:
 - (1) the Relevant Rate (where such Relevant Rate on such Page is a composite quotation or is customarily supplied by one entity); or
 - (2) the arithmetic mean of the Relevant Rates of the persons whose Relevant Rates appear on that Page,in each case appearing on such Page at the Relevant Time on the Interest Determination Date;
- (ii) if the Primary Source for the Floating Rate is Reference Banks or if sub-paragraph 4.3.3(b)(i)(1) above applies and no Relevant Rate appears on the Page at the Relevant Time on the Interest Determination Date or if sub-paragraph 4.3.3(b)(i)(2) above applies and fewer than two Relevant Rates appear on the Page at the Relevant Time on the Interest Determination Date, subject as provided below, the Rate of Interest shall be the

arithmetic mean of the Relevant Rates that each of the Reference Banks is quoting to leading banks in the Relevant Financial Centre at the Relevant Time on the Interest Determination Date, as determined by the Calculation Agent; and

- (iii) if paragraph 4.3.3(b)(ii) above applies and the Calculation Agent determines that fewer than two Reference Banks are so quoting Relevant Rates, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) that the Calculation Agent determines to be the rates (being the nearest equivalent to the Benchmark) in respect of a Representative Amount of the Specified Currency that at least two out of five leading banks selected by the Calculation Agent in the Relevant Financial Centre of the country of the Specified Currency or, if the Specified Currency is euro, in Europe as selected by the Calculation Agent are quoting at or about the Relevant Time on the date on which such banks would customarily quote such rates for a period commencing on the Effective Date for a period equivalent to the Specified Duration (I) to leading banks carrying on business in Europe, or (if the Calculation Agent determines that fewer than two of such banks are so quoting to leading banks in Europe) (II) to leading banks carrying on business in the Relevant Financial Centre; except that, if fewer than two of such banks are so quoting to leading banks in the Relevant Financial Centre, the Rate of Interest shall be the Rate of Interest determined on the previous Interest Determination Date (after readjustment for any difference between any Margin, Rate Multiplier or Maximum or Minimum Rate of Interest applicable to the preceding Interest Accrual Period and to the relevant Interest Accrual Period).

4.4 Accrual of Interest

Interest shall cease to accrue on each Senior Loan on the due date for repayment unless payment is improperly withheld or refused, in which event interest shall continue to accrue (before or after any judgment) at the applicable Rate of Interest to, but excluding, the date on which payment in full of the principal thereof is made.

4.5 Margin, Maximum/Minimum Rates of Interest, Rate Multipliers and Rounding

4.5.1 If any Margin or Rate Multiplier is specified in the relevant Senior Loan Supplement (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Clause 4.3 (*Interest for Floating Rate Senior Loans*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin or multiplying by such Rate Multiplier, subject always to the next paragraph.

4.5.2 If any Maximum or Minimum Rate of Interest is specified in the relevant Senior Loan Supplement, then any Rate of Interest shall be subject to such maximum or minimum, as the case may be.

4.5.3 For the purposes of any calculations required pursuant to a Senior Loan Agreement (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes “unit” means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

4.6 Calculations

The amount of interest payable in respect of any Senior Loan for any period shall be calculated by applying the Rate of Interest for such Interest Accrual Period to the Calculation Amount and multiplying the product by the Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Senior Loan divided by the Calculation Amount. For this purpose, a “sub-unit” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent, provided that if an Interest Amount (or a formula for its calculation) is specified in

the relevant Senior Loan Supplement in respect of such period, the amount of interest payable in respect of such Senior Loan for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.7 **Determination and Notification of Rates of Interest and Interest Amounts**

As soon as practicable after the Relevant Time on each Interest Determination Date or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation in accordance with the Senior Loan Agreement, it shall determine such rate and calculate the Interest Amounts in respect of such Floating Rate Senior Loan for the relevant Interest Accrual Period, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date to be notified to the Borrower, the Trustee, the Lender, each of the Paying Agents and any other Calculation Agent appointed in respect of such Floating Rate Senior Loan that is to make a further calculation upon receipt of such information. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to sub-clause 4.3.2 of Clause 4.3 (*Interest for Floating Rate Senior Loans*), the Interest Amounts and the Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made with the consent of the Borrower and the Lender by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If such Floating Rate Senior Loan becomes due and payable under Clause 10.3 (*Default Remedies*), the accrued interest and the Rate of Interest payable in respect of such Floating Rate Senior Loan shall nevertheless continue to be calculated as previously in accordance with this Clause. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

4.8 **Determination or Calculation by Trustee**

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount in relation to a Floating Rate Senior Loan, the Lender requests that such determination or calculation may be made by or at the direction of the Trustee. The Trustee shall incur no liability to any person in respect of any such determination or calculation it chooses (in its absolute discretion) to make.

4.9 **Definitions**

In this Clause 4 (*Interest*), unless the context otherwise requires, the following defined terms shall have the meanings set out below:

“**Benchmark**” has the meaning specified in the relevant Senior Loan Supplement;

“**Business Day**” means:

- (a) in the case of a Specified Currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such Specified Currency; and/or
- (b) in the case of euro, a day on which the TARGET System is operating (a “**TARGET Business Day**”); and/or
- (c) in the case of a Specified Currency and/or one or more Business Centres a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres;

“**Calculation Amount**” has the meaning specified in the relevant Senior Loan Supplement;

“**Day Count Fraction**” means, in respect of the calculation of an amount of interest on any Senior Loan for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the “**Calculation Period**”);

- (a) if “Actual/Actual – ISDA” is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the

Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

- (b) if “Actual/365 (Fixed)” is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 365;
- (c) if “Actual/360” is specified in the relevant Senior Loan Supplement, the actual number of days in the Calculation Period divided by 360;
- (d) if “30/360”, “360/360” or “Bond Basis” is so specified in the Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

- “Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;
 - “Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;
 - “M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;
 - “M₂” is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;
 - “D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and
 - “D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;
- (e) if “**30E/360**” or “**Eurobond Basis**” is specified in the relevant Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

- “Y₁” is the year, expressed as a number, in which the first day of the Calculation Period falls;
 - “Y₂” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;
 - “M₁” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;
 - “M₂” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;
 - “D₁” is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and
 - “D₂” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30; and
- (f) if “**30E/360 (ISDA)**” is specified in the Senior Loan Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

- “**Y₁**” is the year, expressed as a number, in which the first day of the Calculation Period falls;
- “**Y₂**” is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;
- “**M₁**” is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;
- “**M₂**” is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;
- “**D₁**” is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₂ will be 30; and
- “**D₂**” is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30; and
- (g) if “**Actual/Actual-ICMA**” is specified in the relevant Senior Loan Supplement:
- (a) If the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
- (b) if the Calculation Period is longer than one Determination Period, the sum of:
- (i) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
- (ii) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

“**Determination Period**” means the period from and including a Determination Date in any year to but excluding the next Determination Date;

“**Determination Date**” means the date specified in the relevant Senior Loan Supplement or, if none is so specified, the Interest Payment Date;

“**Effective Date**” means, with respect to any Floating Rate to be determined on an Interest Determination Date, the date specified as such in the relevant Senior Loan Supplement or, if none is so specified, the first day of the Interest Accrual Period to which such Interest Determination Date relates;

“**Interest Accrual Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

“**Interest Amount**” means the amount of interest payable, and in the case of Fixed Rate Senior Loans, means the Fixed Amount or Broken Amount, as the case may be;

“**Interest Commencement Date**” means the Closing Date or such other date as may be specified in the relevant Senior Loan Supplement;

“**Interest Determination Date**” means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Senior Loan Supplement or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London and for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro;

“**Interest Period**” means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning

on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

“**Interest Period Date**” means each Interest Payment Date unless otherwise specified herein;

“**ISDA Definitions**” means the 2006 ISDA Definitions (as amended and updated as at the date of the first Senior Loan Supplement), as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Senior Loan Supplement;

“**Page**” means such page, section, caption, column or other part of a particular information service (including, but not limited to, the Reuters service (“**Reuters**”)) as may be specified for the purpose of providing a Relevant Rate, or such other page, section, caption, column or other part as may replace it on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to that Relevant Rate;

“**Reference Banks**” means the institutions specified as such in the relevant Senior Loan Supplement or, if none, four major banks selected by the Calculation Agent in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that are most closely connected with the Benchmark (which, if EURIBOR is the relevant Benchmark, shall be Europe);

“**Relevant Financial Centre**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the financial centre as may be specified as such in the relevant Senior Loan Supplement or, if none is so specified, the financial centre with which the relevant Benchmark is most closely connected (which, in the case of EURIBOR, shall be Europe) or, if none is so connected, London;

“**Relevant Rate**” means the Benchmark for a Representative Amount of the Specified Currency for a period (if applicable or appropriate to the Benchmark) equal to the Specified Duration commencing on the Effective Date;

“**Relevant Time**” means, with respect to any Interest Determination Date or Repayment Date, the local time in the Relevant Financial Centre specified in the relevant Senior Loan Supplement or, if no time is specified, the local time in the Relevant Financial Centre at which it is customary to determine bid and offered rates in respect of deposits in the Specified Currency in the interbank market in the Relevant Financial Centre and for this purpose “**local time**” means, with respect to Europe as a Relevant Financial Centre, 11.00 hours, Brussels time;

“**Representative Amount**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the amount specified as such in the relevant Senior Loan Supplement or, if none is specified, an amount that is representative for a single transaction in the relevant market at the time;

“**Specified Denomination**” has the meaning given in the relevant Senior Loan Supplement; and

“**Specified Duration**” means, with respect to any Floating Rate to be determined in accordance with a Screen Rate Determination on an Interest Determination Date, the duration specified in the relevant Senior Loan Supplement or, if none is specified, a period of time equal to the relevant Interest Accrual Period, ignoring any adjustment pursuant to sub-clause 4.3.2 of Clause 4.3 (*Interest for Floating Rate Senior Loans*).

4.10 Calculation Agent and Reference Banks

The Lender shall procure that there shall at all times be specified no less than four Reference Banks (or such other number as may be required) with offices in the Relevant Financial Centre and appointed one or more Calculation Agents if provision is made for them in a Senior Loan Supplement and for so long as any amount remains outstanding under a Senior Loan Agreement. If any Reference Bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank, then the Lender shall (with the prior approval of the Borrower) appoint another Reference Bank with an office in the Relevant Financial Centre to act as such in its place. Where more than one Calculation Agent is appointed in respect of a Senior Loan, references in the relevant Senior Loan Agreement to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the relevant Senior Loan Agreement. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Period or Interest Accrual Period or to calculate any Interest Amount, or to comply with any other requirement pursuant to the Senior Loan Agreement, the

Lender shall (with the prior approval of the Borrower) appoint a leading bank or investment banking firm engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. The Lender agrees that such successor Calculation Agent will be appointed on the terms of the Agency Agreement in relation to the relevant Senior Loan Agreement.

4.11 Dual Currency Provisions

This Clause 4.11 is applicable only if the Dual Currency Provisions are specified in the relevant Senior Loan Supplement as being applicable. If the rate or amount of interest applicable to any Senior Loan falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Senior Loan Supplement.

5. REPAYMENT AND PREPAYMENT

5.1 Repayment

Except as otherwise provided herein and in the applicable Senior Loan Supplement, the Borrower shall repay each Senior Loan not later than 10.00 a.m. (Relevant Time) one Business Day prior to the Repayment Date therefor.

5.2 Prepayment in the event of Taxes or Increased Costs

If, (a) as a result of the application of or any amendments or clarification of a decision by a court of competent jurisdiction, or change (including a change in interpretation or application) in the double tax treaty between the Republic of Poland and the Kingdom of Sweden or the laws or regulations of the Republic of Poland or the Kingdom of Sweden or of any political sub-division thereof or any Taxing Authority therein, or (b) the enforcement of the security provided for in any Trust Deed, the Borrower would thereby be required to make or increase any payment due pursuant to a Senior Loan Agreement as provided in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross Up*) or 6.3 (*Withholding on Notes*) and, in any such case, such obligation cannot be avoided by the Borrower taking reasonable measures available to it, then the Borrower may (without premium or penalty), upon not less than 30 days' notice to the Lender (which notice shall be irrevocable), prepay the Senior Loan relating to such Senior Loan Agreement in whole (but not in part) on any Interest Payment Date, in the case of a Floating Rate Senior Loan, or at any time, in the case of a Fixed Rate Senior Loan.

No such notice of prepayment shall be given earlier than 90 days prior to the earliest date on which the Borrower would be obliged to pay such additional amounts or increase such payment if a payment in respect of the Senior Loan were then due.

Prior to giving any such notice in the event of an increase in payment pursuant to Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), the Borrower shall deliver to the Lender (copied to the Trustee) an Officers' Certificate confirming that it would be required to increase the amount payable and that the obligation to make such payment cannot be avoided by the Borrower taking reasonable measures available to it, supported by an opinion of an independent tax adviser addressed to the Lender (copied to the Trustee).

5.3 Prepayment in the event of Illegality

If, at any time after the date of the relevant Senior Loan Supplement, by reason of the introduction of, or any change in, any applicable law or regulation or regulatory requirement or directive of any Agency, the Lender reasonably determines (such determination being accompanied by an Opinion of Counsel with the cost of such Opinion of Counsel being borne solely by the Borrower) that it is or would be unlawful or contrary to any applicable law, regulation, regulatory requirement or directive of any Agency of any state or otherwise for the Lender to make, fund or allow all or part of the Senior Loan relating to such Senior Loan Supplement or the corresponding Series of Notes to remain outstanding or for the Lender to maintain or give effect to any of its obligations in connection with the relevant Senior Loan Agreement and/or to charge or receive or to be paid interest at the rate then applicable to such Senior Loan (an "**Event of Illegality**"), then the Lender shall, after becoming aware of the same, deliver to the Borrower (with a copy to the Trustee) a written notice, setting out in reasonable detail the nature and extent of the relevant circumstances, to that effect and:

5.3.1 if any amount of such Senior Loan has not then been made, the Lender shall not thereafter be obliged to make such amount of such Senior Loan; and

5.3.2 if such Senior Loan is then outstanding, then upon notice by the Lender to the Borrower in writing, the Borrower and the Lender shall consult in good faith as to a basis that eliminates the application of such Event of Illegality. If a basis has not been agreed between the Borrower and the Lender by the earlier of the latest date permitted by the relevant law or 30 days after the date on which the Lender notified the Borrower of such illegality, then upon written notice by the Lender to the Borrower and the Trustee, the Borrower shall prepay (without premium or penalty) such Senior Loan in whole (but not in part), on the next Interest Payment Date therefor, in the case of a Floating Rate Senior Loan, or in the case of a Fixed Note Senior Loan, on the next Interest Payment Date or on such earlier date as the Lender shall (acting reasonably) certify to be necessary to comply with such requirements.

5.4 Optional Prepayment under Call Option

If a Call Option is specified in the relevant Senior Loan Supplement, the Borrower may, at its option at any time from the Call Option Commencement Date but prior to the Repayment Date, on giving not less than 30 nor more than 60 days' irrevocable notice to the Lender, prepay the Senior Loan at the Early Redemption Amount. The notice to be given shall specify the date for repayment of the relevant Senior Loan. The Senior Loan shall be repaid on the date specified in such notice. Immediately on receipt of such notice, the Lender shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. The date for the redemption of the Notes (the "**Call Redemption Date**") shall be the next following Business Day after the date for repayment of the relevant Senior Loan.

5.5 Optional Prepayment under Put Option

If a Put Option is specified in the relevant Senior Loan Supplement, following notification from the Issuer, the Borrower shall prepay the Senior Loan (without premium or penalty), to the extent of the aggregate principal amount of the Notes to be properly redeemed in accordance with Condition 5 of the Conditions of the Notes, two Business Days prior to the Put Settlement Date (as defined in the relevant Senior Loan Supplement).

5.6 Reduction of a Senior Loan Upon Cancellation of Corresponding Notes

The Borrower may from time to time deliver to the Lender Definitive Notes or Individual Note Certificates (as the case may be) held by it, having an aggregate principal value of at least €1,000,000 (or its equivalent in a Specified Currency), together with a request for the Lender to present such Definitive Notes or Individual Note Certificates (as the case may be) to the Principal Paying Agent or the Registrar for cancellation, and may also from time to time procure the delivery to the Registrar of the relevant Global Notes with instructions to cancel a specified aggregate principal amount of Notes (being at least €1,000,000 or its equivalent in a Specified Currency) represented thereby (which instructions shall be accompanied by evidence satisfactory to the Registrar that the Borrower is entitled to give such instructions), whereupon the Lender shall, pursuant to clause 8.1 of the Agency Agreement, request the Registrar to cancel such Notes (or specified aggregate principal amount of Notes represented by the relevant Global Notes). Upon any such cancellation by or on behalf of the Registrar, the principal amount of the Senior Loan corresponding to the principal amount of such Notes together with accrued interest and other amounts (if any) thereon shall be extinguished for all purposes as of the date of such cancellation.

5.7 Payment of Other Amounts

If a Senior Loan is to be prepaid by the Borrower pursuant to any of the provisions of Clauses 5.2 (*Prepayment in the event of Taxes or Increased Costs*), 5.3 (*Prepayment in the event of Illegality*) or pursuant to the terms of the relevant Senior Loan Agreement, the Borrower shall, simultaneously with such prepayment, pay to the Lender accrued interest thereon to the date of actual payment and all other sums payable by the Borrower pursuant to the relevant Senior Loan Agreement. For the avoidance of doubt, if the principal amount of such Senior Loan is reduced pursuant to the provisions of Clause 5.4 (*Reduction of a Senior Loan Upon Cancellation of Corresponding Notes*), then no interest shall accrue or be payable during the Interest Period in which such reduction takes place in respect of the amount by which such Senior Loan is so reduced and the Borrower shall not be entitled to any interest in respect of the cancelled Notes. The Borrower shall indemnify the Lender on demand against any costs and expenses reasonably incurred and properly documented by the Lender on account of any prepayment made in accordance with this Clause 5 (*Repayment and Prepayment*).

5.8 Provisions Exclusive

The Borrower shall not prepay or repay all or any part of any Senior Loan except at the times and in the manner expressly provided for in accordance with the relevant Senior Loan Agreement. Any amount prepaid or repaid may not be reborrowed under such Senior Loan Agreement.

6. PAYMENTS

6.1 Making of Payments

All payments of principal, interest and additional amounts (other than those in respect of Reserved Rights) to be made by the Borrower under each Senior Loan Agreement shall be made unconditionally by credit transfer to the Lender not later than 10.00 a.m. (Relevant Time) one Business Day prior to each Interest Payment Date, the Repayment Date or on the relevant prepayment date (as the case may be) in Same-Day Funds to the relevant Account or as the Trustee may otherwise direct following the occurrence of a Relevant Event. The Borrower shall, before 10.00 a.m. (Relevant Time) on the second Business Day prior to each Interest Payment Date, the Repayment Date or on the relevant prepayment date or (as the case may be), procure that the bank effecting such payments on its behalf confirms to the Principal Paying Agent by tested telex or authenticated SWIFT the payment instructions relating to such payment.

The Lender agrees with the Borrower that it will not deposit any other monies into such Account and that no withdrawals shall be made from such Account other than as provided for and in accordance with the relevant Trust Deed, the Account Bank Agreement and the Agency Agreement.

6.2 No Set-Off, Counterclaim or Withholding; Gross-Up

All payments to be made by the Borrower under each Senior Loan Agreement shall be made in full without set-off or counterclaim and (except to the extent required by law) free and clear of and without deduction for or on account of any Taxes imposed by any Taxing Authority. If the Borrower shall be required by applicable law to make any deduction or withholding from any payment under a Senior Loan Agreement for or on account of any such Taxes, it shall, on the due date for such payment, increase any payment of principal, interest or any other payment due under such Senior Loan Agreement to such amount as may be necessary to ensure that the Lender receives and retains (free from any liability in respect of such deduction, withholding or additional amount received) a net amount in the Specified Currency equal to the full amount which it would have received had payment not been made subject to such Taxes. The Borrower shall promptly account to the relevant authorities for the relevant amount of such Taxes so withheld or deducted within the time allowed for such payment under the applicable law and shall deliver to the Lender without undue delay evidence reasonably satisfactory to the Lender of such deduction or withholding and of the accounting therefor to the relevant Taxing Authority. If the Lender pays any amount in respect of such Taxes, the Borrower shall reimburse the Lender in the Specified Currency for such payment on demand, subject to the receipt of relevant supporting documentation.

6.3 Withholding on Notes

Without prejudice to the provisions of Clause 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), if the Lender notifies the Borrower that it has become obliged to make any withholding or deduction for or on account of any Taxes of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland, the Kingdom of Sweden or any political subdivision or any authority thereof or therein having the power to tax from any payment which it is obliged to make under or in respect of a Series of Notes, the Borrower agrees to pay to the Lender, not later than 10.00 a.m. (Relevant Time) one Business Day prior to the date on which payment is due to the Noteholders of such Series, in Same-Day Funds to the relevant Account, such additional amounts as are equal to the additional amounts which the Lender would be required to pay in order that the net amounts received by the Noteholders, after such withholding or deduction, will equal the respective amounts which would have been received by the Noteholders in the absence of such withholding or deduction; *provided, however, that* the Lender shall procure that immediately upon receipt from any Paying Agent of any reimbursement of the sums paid pursuant to this provision, to the extent that any Noteholders of such Series, as the case may be, are not entitled to such additional amounts pursuant to the Conditions of such Series of Notes, pay such amounts received by way of such reimbursement to the Borrower (it being understood that neither the Lender, the Trustee, nor the Principal Paying Agent nor any Paying Agent shall have any obligation to determine whether any Noteholder of such Series or such other Party is entitled to any such additional amount).

Any notification by the Lender to the Borrower in connection with this Clause 6.3 (*Withholding on Notes*) shall be given as soon as reasonably practicable after the Lender becomes aware of any obligation on it to make any such withholding or deduction.

6.4 Mitigation

If at any time either party hereto becomes aware of circumstances which would or might, then or thereafter, give rise to an obligation on the part of the Borrower or the Lender to make any deduction, withholding or payment as described in Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*) or 6.3 (*Withholding on Notes*), then, without in any way limiting, reducing or otherwise qualifying the Lender's rights, or the Borrower's obligations, under such Clauses, such party shall, upon becoming aware of the same, notify the other party thereof and, in consultation with the Borrower and to the extent it can lawfully do so and without prejudice to its own position, the Lender shall take all reasonable steps to remove such circumstances or mitigate the effects of such circumstances; *provided that* the Lender shall be under no obligation to take any such action if, in its reasonable opinion, to do so might reasonably be expected to have any adverse effect upon its business, operations or financial condition or might be in breach of any provision of the Trust Deed, the Agency Agreement or the Notes.

6.5 Tax Treaty Relief

The Lender shall, provided that in each case a corresponding request from the Borrower is received by the Lender no earlier than 65 Business Days but no later than 30 Business Days prior to the first Interest Payment Date or, as applicable, the beginning of each calendar year, and at the Borrower's cost, to the extent it is able to do so under applicable law including, without limitation, Polish laws, use commercially reasonable efforts to obtain and to deliver to the Borrower no later than 10 Business Days before the first Interest Payment Date or, as applicable, the beginning of each calendar year a certificate issued and certified (as applicable) by the competent Taxing Authority in the Kingdom of Sweden confirming that the Lender is tax resident in the Kingdom of Sweden in the calendar year of such Interest Payment Date and such other information or forms (including application forms) as may need to be duly completed and delivered by the Lender to enable the Borrower to apply to obtain relief from deduction or withholding of Polish Taxes after the date of this Agreement or, as the case may be, to apply to obtain a tax refund if a relief from deduction or withholding of Polish Taxes has not been obtained.

The certificate or such other information or forms referred to in this Clause 6.5 (*Tax Treaty Relief*) shall be duly signed by the Lender (if applicable), stamped or otherwise approved by the competent Taxing Authority in the Kingdom of Sweden and apostilled or legalised (as applicable) with a notarised Polish translation attached thereto (an "**Authenticated Certificate**").

If a relief from deduction or withholding of Polish taxes under this Clause 6.5 (*Tax Treaty Relief*) has not been obtained and further to an application of the Borrower to the relevant Polish taxing authorities the latter requests the Lender's PLN bank account details, the Lender shall at the request of the Borrower (a) use its commercially reasonable efforts, at the Borrower's cost, to procure that such PLN bank account of the Lender is duly opened and maintained, and (b) thereafter furnish the Borrower with the details of such PLN bank account.

7. CONDITIONS PRECEDENT

The obligation of the Lender to make each Senior Loan shall be subject to the further conditions precedent that as of the relevant Closing Date (a) the representations and warranties made and given by the Borrower in Clause 8 (*Representations and Warranties*) shall be true and accurate as if made and given on the relevant Closing Date with respect to the facts and circumstances then existing, (b) there shall be no Event of Default or Potential Event of Default, (c) the Borrower shall not be in breach of any of the terms, conditions and provisions of the relevant Senior Loan Agreement, (d) the relevant Subscription Agreement, Trust Deed, Fee Side Letter and the Agency Agreement shall have been executed and delivered, and the Lender shall have received the full amount of the proceeds of the issue of the corresponding Series of Notes pursuant to such Subscription Agreement and (e) the Lender shall have received in full the amount referred to in Clause 3.2 (*Senior Loan Arrangement Fee*), if due and payable, above, as specified in the relevant Senior Loan Supplement.

8. REPRESENTATIONS AND WARRANTIES

8.1 The Borrower's Representations and Warranties

The Borrower does, and on each Warranty Date shall be deemed to, represent and warrant to the Lender, with the intent that such shall form the basis of each Senior Loan Agreement, that:

- 8.1.1 the Borrower is duly organised and incorporated and validly existing under the laws of the Republic of Poland, is not in liquidation or receivership and has the power and legal right to own its property, to conduct its business as currently conducted and to enter into and to

perform its obligations under each Senior Loan Agreement and to borrow Senior Loans; the Borrower has (or, where applicable, will have prior to the date of the relevant Senior Loan Supplement) taken all necessary corporate, legal and other action required to authorise the borrowing of Senior Loans on the terms and subject to the conditions of each Senior Loan Agreement and to authorise the execution and delivery of each Senior Loan Agreement and all other documents to be executed and/or delivered by it in connection with each Senior Loan Agreement, and the performance of each Senior Loan Agreement in accordance with its respective terms;

- 8.1.2 the Senior Loan Agreement, including each Senior Loan Supplement in relation thereto, has been (or, where applicable, will have been prior to the date of the relevant Senior Loan Supplement) duly executed by the Borrower and constitutes (or, where applicable, will upon execution constitute) a legal, valid and binding obligation of the Borrower enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium and similar laws affecting creditors' rights generally, and subject, as to enforceability, (i) to general principles of equity, and (ii) with respect to the enforceability of a judgment, to the laws of the relevant jurisdiction where such judgment must be enforced and whether there is a treaty in force relating to the mutual recognition of foreign judgments;
- 8.1.3 the execution and performance of each Senior Loan Agreement, including each Senior Loan Supplement in relation thereto, by the Borrower will not conflict with or result in any breach or violation of (i) any law or regulation or any order of any governmental, judicial, arbitral or public body or authority in the Republic of Poland, (ii) the constitutive documents, rules and regulations of the Borrower or the terms of the general banking licence granted to the Borrower by the Polish National Bank or (iii) any agreement or other undertaking or instrument to which the Borrower is a party or which is binding upon the Borrower or any of its respective assets, nor result in the creation or imposition of any Security Interests on any of its assets pursuant to the provisions of any such agreement or other undertaking or instrument;
- 8.1.4 all consents, licences, notifications, authorisations or approvals of, or filings with, any governmental, judicial or public bodies or authorities of the Republic of Poland (including, without limitation, the Polish National Bank), if any, required in order to ensure (i) the due execution, delivery and performance by the Borrower of each Senior Loan Agreement and (ii) the legality, validity, enforceability, and admissibility in evidence of each Senior Loan Agreement have been obtained or effected and are and shall remain in full force and effect;
- 8.1.5 (i) no Potential Event of Default or Event of Default has occurred and is continuing; (ii) no default under any agreement or instrument evidencing any Indebtedness of the Borrower which might have a Material Adverse Effect has occurred and is continuing; and (iii) no such Potential Event of Default, Event of Default or default under any agreement or instrument evidencing any Indebtedness of the Borrower will occur upon the making of the relevant Senior Loan;
- 8.1.6 there are no judicial, arbitral or administrative actions, proceedings or claims (including, but without limitation to, with respect to Taxes) which have been commenced or are pending or, to the knowledge of the Borrower, threatened, against the Borrower or any of its Subsidiaries, the adverse determination of which would have a Material Adverse Effect;
- 8.1.7 except for Security Interests of the types referred to in the definition of Permitted Security Interests in Clause 1.1 (Definitions), the Borrower's obligations under the Senior Loan Agreement will rank at least pari passu with all its other unsecured and unsubordinated Indebtedness except as otherwise provided by mandatory provisions of applicable law;
- 8.1.8 the latest audited consolidated IFRS financial statements and unaudited interim consolidated financial statements of the Borrower:
 - (a) were prepared in accordance with IFRS, as consistently applied;
 - (b) unless not required by IFRS, as consistently applied, disclose all liabilities (contingent or otherwise) and all unrealised or anticipated losses of the Group; and

- (c) save as disclosed therein, present fairly in all material respects the assets and liabilities of the Group as at that date and the results of operations of the Group during the relevant financial year or financial period covered by such financial statements;
- 8.1.9 there has been no material adverse change since the date of the latest audited consolidated IFRS financial statements of the Borrower in the condition (financial or otherwise), results of business, operations or immediate prospects of the Group or on the Borrower's ability to perform its obligations under any Senior Loan Agreement;
- 8.1.10 the execution, delivery and enforceability of each Senior Loan Agreement is not subject to any tax, duty, fee or other charge of a material amount, including, but without limitation to, any registration or transfer tax, stamp duty or similar levy, imposed by or within the Republic of Poland or any political subdivision or taxing authority thereof or therein;
- 8.1.11 neither the Borrower nor its property has any right of immunity from suit, execution, attachment or other legal process on the grounds of sovereignty or otherwise in respect of any action or proceeding relating in any way to each Senior Loan Agreement;
- 8.1.12 the Borrower and its Subsidiaries are in compliance in all respects with all applicable provisions of law and all applicable rules, regulations and guidelines of the Polish National Bank, except where the failure to be in so compliance would not have a Material Adverse Effect;
- 8.1.13 neither the Borrower, nor any of its Material Subsidiaries, has taken any corporate action nor, have any other steps been taken or legal proceedings been started or threatened in writing against the Borrower or any of its Material Subsidiaries, for its or their bankruptcy, winding-up, dissolution, external administration or reorganisation (whether by voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of its or of any or all of its assets or revenues;
- 8.1.14 there are no strikes or other employment disputes against the Borrower which have been started or are pending or, to its knowledge, threatened which would have a Material Adverse Effect;
- 8.1.15 save as disclosed in the Base Prospectus, in any proceedings taken in the Republic of Poland in relation to each Senior Loan Agreement, the choice of English law as the governing law of each Senior Loan Agreement and any judgement obtained in England in relation to each Senior Loan Agreement will be recognised and enforced in the Republic of Poland after compliance with the applicable procedures and rules and all other legal requirements in Republic of Poland;
- 8.1.16 no withholding in respect of any Taxes is required to be made from any payment by the Borrower under each Senior Loan Agreement;
- 8.1.17 except where the absence of which or (as the case may be), the non-compliance with which, would not be likely to have a Material Adverse Effect, each of the Borrower and its Subsidiaries has all licences, consents, examinations, clearances, filings, registrations and authorisations which are or may be necessary to enable each of the them, respectively, to own its assets and carry on its business, which are in full force and effect, and the Borrower is conducting such business in accordance with such licences, consents, examinations, clearances, filings registrations and authorisations; and
- 8.1.18 the Borrower has no overdue tax liabilities, other than those that would not have a Material Adverse Effect.

8.2 Lender's Representations and Warranties

The Lender represents and warrants to the Borrower as follows:

- 8.2.1 the Lender is duly incorporated under the laws of the Kingdom of Sweden and has full power and capacity to execute the Lender Agreements and to undertake and perform the obligations expressed to be assumed by it herein and therein and the Lender has taken all necessary action to approve and authorise the same;

- 8.2.2 the execution of the Lender Agreements and the undertaking and performance by the Lender of the obligations expressed to be assumed by it herein and therein will not conflict with, or result in a breach of or default under, the laws of the Kingdom of Sweden or any agreement or instrument to which it is a party or by which it is bound or in respect of indebtedness in relation to which it is a surety;
- 8.2.3 the Lender Agreements have been duly executed by and constitute legal, valid and binding obligations of the Lender enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, liquidation, administration, moratorium, re-organisation and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity;
- 8.2.4 all authorisations, consents and approvals required by the Lender for or in connection with the execution of the Lender Agreements, the performance by the Lender of the obligations expressed to be undertaken by it herein and therein have been obtained and are in full force and effect; and
- 8.2.5 the Lender is a resident of the Kingdom of Sweden for taxation purposes. The Lender will be liable for Swedish Taxes on its Swedish source income as well as on its foreign source income. The Lender may also benefit from tax treaties signed by the Kingdom of Sweden, including the double tax treaty concluded on 19 November 2004 between the Kingdom of Sweden and the Republic of Poland. At the date hereof, the Lender reasonably believes that it does not have a permanent establishment in the Republic of Poland save for that which may be created solely as a result of the Lender entering into this Agreement.

9. COVENANTS

So long as any amount remains outstanding under a Senior Loan Agreement:

9.1 Negative Pledge

The Borrower shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Security Interests, other than Permitted Security Interests, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Relevant Indebtedness or any Guarantee or indemnity in respect of any Relevant Indebtedness, unless, at the same time or prior thereto, the Borrower's obligations hereunder are to the satisfaction of the Trustee (i) secured equally and rateably with such other Relevant Indebtedness or (ii) have the benefit of such other security or other arrangement which is equivalent in all material respects to any such Security Interest and which is approved by the Trustee.

9.2 Keep-well agreement

The Borrower shall cause the Lender to have a positive Tangible Net Worth of at least SEK 500,000 at all times and, if at any time the Lender requires funds to meet its obligations from time to time as they fall due, the Borrower shall provide to the Lender, on a timely basis, the funds required by the Lender in order to meet such obligations.

9.3 Maintenance of Authorisations

The Borrower shall, and shall procure that each of its Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things reasonably necessary, in the opinion of the Borrower or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business and the Borrower shall take all necessary action to obtain, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Poland for the execution, delivery or performance of the Senior Loan Agreements or for the validity or enforceability thereof, *provided that*, in any case if the Borrower and/or the relevant Material Subsidiary, as the case may be, can remedy any failure to comply with this Clause 9.3 (*Maintenance of Authorisations*) within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

9.4 Withholding Tax Exemption

The Borrower shall give to the Lender all the assistance it reasonably requires to ensure that, prior to the first interest payment and at the beginning of each calendar year the Lender can provide the Borrower with

the documents required under Polish laws for the relief of the Lender from Polish withholding tax in respect of payments hereunder.

9.5 Financial Information

9.5.1 The Borrower shall, within 10 days of their being made available to the Warsaw Stock Exchange, deliver to the Lender and the Trustee the consolidated financial statements of the Group for such financial year, audited by the Auditors and accompanied by a report thereon of the Auditors.

9.5.2 The Borrower shall, within 10 days as their being made available to the Warsaw Stock Exchange, deliver to the Lender and the Trustee, unaudited consolidated financial statements of the Group for such period.

9.5.3 The Borrower shall, so long as any amount remains outstanding under any Senior Loan Agreement, deliver to the Lender and the Trustee, without undue delay, such additional information regarding the financial position or the business of the Borrower and its Subsidiaries as the Lender may reasonably request including providing certification to the Trustee pursuant to the Trust Deed.

9.5.4 The Borrower shall ensure that each set of consolidated financial statements of the Group delivered by it pursuant to this Clause 9.5 (*Financial Information*) is:

- (a) prepared in accordance with IFRS and consistently applied; and
- (b) in the case of the statements provided pursuant to sub-clause 9.5.2, certified by an Authorised Signatory of the Borrower as giving a true and fair view, in all material respects, of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of its or, as the case may be, the Group's operations during such period.

9.6 Ranking of Claims

The Borrower shall ensure that at all times the claims of the Lender against it under each Senior Loan Agreement rank at least *pari passu* with the claims of all its other unsecured and unsubordinated creditors, save those whose claims are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application.

9.7 Officers' Certificates

At the time of the despatch to the Trustee of the consolidated financial statements of the Group pursuant to sub-clauses 9.5.1 and 9.5.2, or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender and the Trustee, written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default has occurred and, if it has occurred, what action the Borrower is taking or proposes to take with respect thereto.

At the time of the despatch to the Trustee of the consolidated financial statements of the Group pursuant to sub-clauses 9.5.1 and 9.5.2, or promptly upon request by the Lender or the Trustee (and in any event within 10 Business Days after such request), the Borrower shall deliver to the Lender and the Trustee written notice in the form of an Officers' Certificate listing its Material Subsidiaries, accompanied by a report by the Auditors addressed to the directors of the Borrower as to the proper extraction of the figures used in the Officers' Certificate, as described in the definition of "Officers' Certificate" in Clause 1.1 (*Definitions*).

9.8 Notes Held by the Borrower

Upon being so requested in writing by the Lender or the Trustee, the Borrower shall deliver to the Lender and the Trustee an Officers' Certificate of the Borrower setting out the total number of Notes which, at the date of such certificate, are held by the Borrower (or any Subsidiary of the Borrower) and have not been cancelled and are retained by it for its own account or for the account of any other company.

10. EVENTS OF DEFAULT

10.1 Events of Default

If one or more of the following events of default (each an "**Event of Default**") shall occur, the Lender shall be entitled to the remedies set forth in Clause 10.3 (*Default Remedies*).

- 10.1.1 The Borrower fails to pay any amount payable under a Senior Loan Agreement as and when such amount becomes payable in the currency and in the manner specified herein, provided such failure to pay continues for more than five days in the case of principal and seven days in the case of interest.
- 10.1.2 The Borrower fails to perform or observe any of its obligations under a Senior Loan Agreement (other than as referred to in paragraph 10.1.1 above) and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may agree) next following service by the Trustee on the Borrower of notice requiring the same to be remedied.
- 10.1.3
- (a) Any present or future Indebtedness of the Borrower or any of its Subsidiaries is not paid when due (after the expiry of any applicable grace period); or
 - (b) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Borrower or (as the case may be) the relevant Subsidiary or (provided that no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or
 - (c) the Borrower or any of its Subsidiaries fails to pay when due any amount payable by it under any Guarantee of any Indebtedness,
provided that the amount of Indebtedness referred to in sub-paragraph (a) and/or sub-paragraph (b) above and/or the amount payable under any Guarantee referred to in sub-paragraph (c) above, individually or in the aggregate, exceeds €10,000,000 (or its equivalent amount in any other currency or currencies).
- 10.1.4 The occurrence of any of the following events: (i) any of the Borrower, or any of its Material Subsidiaries seeking or consenting to the introduction of proceedings for its liquidation; or (ii) the presentation or filing of a petition in respect of any of the Borrower or its Material Subsidiaries in any court or before any agency alleging, or for, the bankruptcy, insolvency, dissolution, liquidation (or any analogous proceedings) of any of the Borrower or its Material Subsidiaries, unless the petition is withdrawn or dismissed within 30 days of such presentation or filing; or (iii) the announcement by an appropriate court in the Republic of Poland of the insolvency (upadłość) of any of the Borrower or any of its Material Subsidiaries pursuant to the Polish Bankruptcy and Recovery Law dated 28 February 2003 or any other laws or regulations that may replace the above; and/or (iv) any declaration of liquidation of the Borrower or any of its Material Subsidiaries pursuant to the Polish Banking Law dated 29 August 1997, or any other laws or regulations which may replace the above.
- 10.1.5 (i) The Borrower or any of its Material Subsidiaries is unable or admits its inability to pay its debts as they fall due, generally suspends making payments on its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling a material part of its Indebtedness; (ii) the value of the assets of any of the Borrower or its Material Subsidiaries is less than its liabilities; and/or (iii) a moratorium is declared in respect of any Indebtedness of any of the Borrower or its Material Subsidiaries.
- 10.1.6 Any expropriation, attachment, sequestration, execution or distress is levied against, or an encumbrancer takes possession of or sells, the whole or any material part of, the undertaking, revenues or assets of the Borrower or any of its Material Subsidiaries unless the levy against such undertaking, revenues or assets is discharged or dismissed within 30 days.
- 10.1.7 Any governmental authorisation necessary for the performance of any obligation of the Borrower under the Senior Loan Agreement fails to be in full force and effect, if such failure is not remedied within 30 days of its occurrence.
- 10.1.8 All or a majority of the issued shares of any member of the Group or the whole or any part (the book value of which is 10 per cent. or more the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired, if, in the case of a member of the Group other than the Borrower or the Lender, such occurrence has a Material Adverse Effect.

- 10.1.9 The Borrower's general banking licence is revoked or the Borrower is prohibited from conducting any substantial part of its banking operations envisaged in its banking licence.
- 10.1.10 The aggregate amount of unsatisfied judgements, decrees or orders of courts or other appropriate law-enforcement bodies for the payment of money against the Borrower or any of its Subsidiaries exceeds €10,000,000 in aggregate, or the equivalent thereof in any other currency or currencies, and there is a period, being the later of, 60 days or such period as may be specified in the relevant judgment, decree or order following the entry thereof during which such judgment, decree or order is not appealed or within the period of time prescribed by Polish law, satisfied, discharged, waived or the execution thereof stayed and such default continues for 10 Business Days after the notice specified in Clause 10.2 (Notice of Default).
- 10.1.11 At any time it is or becomes unlawful for the Borrower to perform or comply with any or all of its obligations under the Senior Loan Agreement or any of such obligations (subject as provided in sub-clause 8.1.2 of Clause 8.1 (The Borrower's Representations and Warranties)) are not, or cease to be, legal, valid, binding and enforceable and such unlawfulness or cessation has a Material Adverse Effect.
- 10.1.12 The Borrower ceases to carry on the business of banking and deposit-taking in Poland.
- 10.1.13 The Borrower repudiates or communicates in writing to any other person an intention to repudiate any of the Borrower Agreements.
- 10.1.14 Any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing sub-clauses.

10.2 Notice of Default

The Borrower shall deliver to the Lender and the Trustee within (i) 10 days of any written request by the Lender or the Trustee, or (ii) within 30 days after the occurrence thereof, written notice in the form of an Officers' Certificate, substantially in the form set out in Schedule 2, stating whether any Potential Event of Default or Event of Default has occurred, its status and what action the Borrower is taking or proposes to take with respect thereto.

10.3 Default Remedies

If any Event of Default shall occur and be continuing, the Lender may, by notice in writing to the Borrower, (a) declare the obligations of the Lender under the relevant Senior Loan Agreement to be terminated, whereupon such obligations shall terminate, and (b) declare all amounts payable under such Senior Loan Agreement by the Borrower that would otherwise be due after the date of such termination to be immediately due and payable, whereupon all such amounts shall become immediately due and payable, all without diligence, presentment, demand of payment, protest or notice of any kind, which are expressly waived by the Borrower.

10.4 Right of Set-Off

If any amount payable by the Borrower hereunder is not paid as and when due, the Borrower authorises the Lender to proceed, to the fullest extent permitted by applicable law, without prior notice, by right of set-off, banker's lien, counterclaim or otherwise, against any assets of the Borrower in any currency that may at any time be in the possession of the Lender, at any branch or office, to the full extent of all amounts payable to the Lender hereunder.

10.5 Rights Not Exclusive

The rights provided for in the Senior Loan Agreement are cumulative and are not exclusive of any other rights, powers, privileges or remedies provided by law.

11. INDEMNITY

11.1 Indemnification

The Borrower undertakes to the Lender, that if the Lender, each director, officer, employee or agent of the Lender and each person controlling the Lender within the meaning of the United States securities laws (each an "indemnified party") incurs any loss, liability, cost, claim, charge, expense (including without limitation taxes, legal fees, costs and expenses), demand or damage (a "Loss") as a result of or in connection with the Senior Loan, the Senior Loan Agreement (or enforcement thereof), and/or the issue, constitution, sale, listing and/or enforcement of the Notes and/or the Notes corresponding to such Senior

Loan or Senior Loan Agreement being outstanding, the Borrower shall pay to the Lender on demand an amount equal to such Loss and all costs, charges and expenses which it or any indemnified party may pay or incur in connection with investigating, disputing or defending any such action or claim as such costs, charges and expenses are incurred unless such Loss was either caused by such indemnified party's negligence or wilful misconduct or arises out of a breach of the representations and warranties of the Lender contained herein or in the Dealer Agreement. The Lender shall not have any duty or obligation whether as fiduciary or trustee for any indemnified party or otherwise, to recover any such payment or to account to any other person for any amounts paid to it under this Clause.

11.2 Independent Obligation

Clause 11.1 (*Indemnification*) constitutes a separate and independent obligation of the Borrower from its other obligations under or in connection with each Senior Loan Agreement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender and shall not affect, or be construed to affect, any other provision of any Senior Loan Agreement or any such other obligations.

11.3 Evidence of Loss

If requested by the Borrower, the Lender shall use its reasonable endeavours to provide the Borrower with a certificate of the Lender setting forth the amount of losses, expenses and liabilities described in Clause 11.1 (*Indemnification*) and specifying in full detail the basis therefore. Any such certificate shall, in the absence of manifest error, be conclusive evidence of the amount of such losses, expenses and liabilities.

11.4 Currency Indemnity

To the fullest extent permitted by law, the obligation of the Borrower under this Agreement, each Senior Loan Supplement or any other obligations of the Borrower in connection with the issue of the Notes by the Lender, in respect of any amount due in the currency (the "**first currency**") in which the same is payable shall, notwithstanding any payment in any other currency (the "**second currency**") (whether pursuant to a judgment or otherwise), be discharged only to the extent of the amount in the first currency that the Lender may, acting reasonably and in accordance with normal banking procedures, purchase with the sum paid in the second currency (after any premium and costs of exchange) on the Business Day immediately following the day on which the Lender receives such payment. If the amount in the first currency that may be so purchased for any reason falls short of the amount originally due the Borrower hereby agrees to indemnify and hold harmless the Lender against any deficiency in the first currency. Any obligation of the Borrower not discharged by payment in the first currency shall, to the fullest extent permitted by applicable law, be due as a separate and independent obligation and, until discharged as provided in this Agreement and any Senior Loan Supplement, shall continue in full force and effect.

12. SURVIVAL

The obligations of the Borrower pursuant to Clauses 6.2 (*No Set-Off, Counterclaim or Withholding; Gross-Up*), 6.3 (*Withholding on Notes*), 11 (*Indemnity*), 14.2 (*Stamp Duties*) and 24 (*Limited Recourse and Non-Petition*) shall survive the execution and delivery of each Senior Loan Agreement and the drawdown and repayment of the relevant Senior Loan, in each case by the Borrower.

13. EXPENSES

13.1 Reimbursement of Front-end Expenses for the Extension of the Senior Loan by the Lender

The Borrower shall reimburse the Lender in the Specified Currency for all reasonable costs and expenses incurred by the Lender in connection with the negotiation, preparation and execution of each Senior Loan Agreement and all related documents and other expenses connected with the extension of each Senior Loan, including, without limitation, the reasonable fees and expense of its counsel.

13.2 Payment of Ongoing Expenses

In addition, the Borrower hereby agrees to pay to or to the order of the Lender on demand in the Specified Currency the upfront acceptance fee of the Trustee and all ongoing commissions, costs, fees and expenses and taxes (including, without limitation, enforcement costs), payable by the Lender under or in respect of the Lender Agreements and the letter entered into between the Borrower, the Lender, the Trustee, the Account Bank and the Agents dated 31 July 2008 in respect of the Programme (as amended, modified, supplemented and/or restated from time to time, the "**Fee Side Letter**"). The Borrower shall also pay the Lender for, or pay to the order of the Lender for, any indemnification or other payment obligations of the Lender under or in respect of the Agency Agreement, the Account Bank Agreement, Trust Deed and/or the Fee Side Letter (other than the obligation of the Lender to make payments of principal, interest or

additional amounts in respect of the corresponding Series of Notes). Payments to the Lender or to the order of the Lender referred to in this Clause 13.2 (*Payment of Ongoing Expenses*) shall be made by the Borrower at least one Business Day before the relevant payment is to be made or expense incurred.

13.3 Invoices

All payments, costs, commissions, fees and expenses to be paid or reimbursed by the Borrower or agreed to be paid by, or to the order of, the Lender, shall be paid or reimbursed upon receipt of an appropriate invoice (including value added taxes if applicable) submitted to the Borrower or to the Lender (as applicable).

14. GENERAL

14.1 Evidence of Debt

The entries made in the relevant Account shall, in the absence of manifest error, constitute prima facie evidence of the existence and amounts of the Borrower's obligations recorded therein.

14.2 Stamp Duties

14.2.1 The Borrower shall pay all stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Senior Loan Agreement and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to pay such Taxes or similar charges.

14.2.2 The Borrower agrees that if the Lender incurs a liability to pay any stamp, registration and documentary Taxes or similar charges (if any) which may be payable or determined to be payable in connection with the execution, delivery, performance, enforcement, or admissibility into evidence of any Senior Loan Agreement and any documents related thereto, the Borrower shall repay the Lender on demand an amount equal to such stamp or other documentary taxes or duties and shall indemnify the Lender against any and all costs and expenses which may be incurred or suffered by the Lender with respect to, or resulting from, delay or failure by the Borrower to procure the payment of such Taxes or similar charges.

14.3 Waivers

No failure to exercise and no delay in exercising, on the part of the Lender or the Borrower, any right, power to privilege under any Senior Loan Agreement, and no course of dealing between the Borrower and the Lender shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege. The rights and remedies provided in each Senior Loan Agreement are cumulative and not exclusive of any rights, or remedies provided by applicable law.

14.4 Prescription

Subject to the Lender having received the principal amount thereof or interest thereon from the Borrower, the Lender shall forthwith repay to the Borrower the principal amount or the interest amount thereon, respectively, of any Series of Notes upon such Series of Notes becoming void pursuant to Condition 11 of such Notes.

15. NOTICES

All notices, requests, demands or other communications to or upon the respective parties to each Senior Loan Agreement shall be given or made in the English language by fax or otherwise in writing and shall be deemed to have been duly given or made at the time of delivery, if delivered by hand or courier or if sent by facsimile transmission or by airmail, to the party to which such notice, request, demand or other communication is required or permitted to be given or made under such Senior Loan Agreement addressed as follows:

15.1 if to the Borrower:

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

Tel: +48 22 521 81 41

Fax: +48 22 521 88 62

Attention: Ms Ilona Wolyniec, Managing Director – Investment Banking Division

15.2 if to the Lender:

PKO Finance AB (publ)
Stockholm
Sweden

Fax: +46 8611 34 34

Attention: The Directors – PKO Finance AB (publ)

15.3 if to the Trustee:

Citicorp Trustee Company Limited
Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Fax: +44 (0) 207 500 5877

Attention: Agency and Trust

or to such other address or fax number as any party may hereafter specify in writing to the other.

16. **ASSIGNMENT**

16.1 **General**

Each Senior Loan Agreement shall inure to the benefit of and be binding upon the parties, their respective successors and any permitted assignee or transferee of some or all of a party's rights or obligations under such Senior Loan Agreement. Any reference in a Senior Loan Agreement to any party shall be construed accordingly and, in particular, references to the exercise of rights and discretions by the Lender, following the enforcement of the security and/or assignment referred to in Clause 16.3 (*By the Lender*) below, shall be references to the exercise of such rights or discretions by the Trustee (as Trustee).

16.2 **By the Borrower**

The Borrower shall not be entitled to assign, charge, transfer, declare a trust over or otherwise encumber or dispose of all or any part of its rights or obligations hereunder to any other person.

16.3 **By the Lender**

Subject to clause 23 of the Trust Deed, the Lender may not assign, charge, transfer, declare a trust over or otherwise encumber or dispose of, in whole or in part, any of its rights and benefits or obligations under any Senior Loan Agreement (other than the Reserved Rights) except (i) the charge by way of first fixed charge granted by the Lender in favour of the Trustee (as Trustee) of certain of the Lender's rights and benefits under each Senior Loan Agreement and (ii) the absolute assignment by the Lender to the Trustee of certain rights, interests and benefits under each Senior Loan Agreement, in each case, pursuant to clause 6.2 of the relevant Supplemental Trust Deed.

17. **LAW AND JURISDICTION**

17.1 **Governing Law**

Each Senior Loan Agreement and any non-contractual obligations arising out of or in connection with each Senior Loan Agreement are governed by English law.

17.2 **Jurisdiction**

The courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with any Senior Loan Agreement (including a dispute relating to the existence, validity or termination of any Senior Loan Agreement or any non-contractual obligation arising out of or in connection with any Senior Loan Agreement) or the consequences of its nullity.

17.3 **Appropriate Forum**

The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes between them and, accordingly, that they will not argue to the contrary.

17.4 Right of Lender to Take Proceedings Outside England

Clause 17.2 (*Jurisdiction*) is for the benefit of the Lender only. As a result, nothing in Clause 17.2 (*Jurisdiction*) prevents the Lender from taking Proceedings in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent Proceedings in any number of jurisdictions.

17.5 Lender's and Borrower's Process Agent

Each of the Lender and the Borrower irrevocably appoints the Borrower at its London branch, being at the date of this Agreement at Shaftesbury House, 151 Shaftesbury Avenue, London WC2H 8AL, United Kingdom to receive, for it and on its behalf, service of process in any Proceedings in England. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Lender). If such person is not or ceases to be effectively appointed to accept service of process on the Lender's behalf, the Lender shall, on the written demand of the Borrower, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Borrower shall be entitled to appoint such a person by written notice to the Lender, at the Borrower's cost. Nothing in this Clause shall affect the right of the Borrower to serve process in any other manner permitted by law.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Other than the Trustee, a person who is not a party to a Senior Loan Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of such Senior Loan Agreement.

19. COUNTERPARTS

Each Senior Loan Agreement may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same agreement.

20. LANGUAGE

The language which governs the interpretation of each Senior Loan Agreement is the English language.

21. AMENDMENTS

Except as otherwise provided by its terms, each Senior Loan Agreement may not be varied except by an agreement in writing signed by the parties hereto.

22. PARTIAL INVALIDITY

The illegality, invalidity or unenforceability to any extent of any provision of each Senior Loan Agreement under the law of any jurisdiction shall affect its legality, validity or enforceability in such jurisdiction to such extent only and shall not affect its legality, validity or enforceability under the law of any other jurisdiction, nor the legality, validity or enforceability of any other provision.

23. SEVERABILITY

In case any provision in or obligation under any Senior Loan Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

24. LIMITED RECOURSE AND NON PETITION

Neither the Borrower nor any other person acting on its behalf shall be entitled at any time to institute against the Lender, or join in any institution against the Lender of, any bankruptcy, administration, moratorium, reorganisation, controlled management, arrangement, insolvency, examinership, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Lender under this Agreement, save for lodging a claim in the liquidation of the Lender which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Lender.

The Borrower hereby agrees that it shall have recourse in respect of any claim against the Lender only to sums in respect of principal, interest or other amounts (if any), as the case may be, received and retained by or for the account of the Lender pursuant to this Loan Agreement (the "**Lender Assets**"), subject always (1) to the Security Interests (as defined in the Trust Deed) and (2) to the fact that any claims of the

Dealers (as defined in the Dealer Agreement) pursuant to the Dealer Agreement shall rank in priority to any claims of the Borrower hereunder, any such claim by any and all such Dealers or the Borrower shall be reduced pro rata so that the total of all such claims does not exceed the aggregate value of the Lender Assets after meeting claims secured on them. The Trustee having realised the same, neither the Borrower nor any person acting on its behalf shall be entitled to take any further steps against the Lender to recover any further sums and no debt shall be owed by the Lender to such person in respect of any such further sum. In particular, the Borrower shall not be entitled to institute, or join with any other person in bringing, instituting or joining, insolvency proceedings (whether court based or otherwise) in relation to the Lender.

IN WITNESS WHEREOF, the parties hereto have caused this Senior Facility Agreement to be executed on the date first written above.

For and on behalf of

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA

By:

Title:

By:

Title:

Signed by duly authorised signatories of

PKO FINANCE AB (PUBL)

By:

Title:

By:

Title:

**SCHEDULE 1
FORM OF SENIOR LOAN SUPPLEMENT**

[DATE]

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA

and

PKO FINANCE AB (PUBL)

SENIOR LOAN SUPPLEMENT

to be read in conjunction with a Senior Facility Agreement (as defined herein)

in respect of
a Senior Loan of [●]
Series [●]

THIS SENIOR LOAN SUPPLEMENT is made on [SIGNING DATE],
BETWEEN:

- (1) **PKO FINANCE AB (PUBL)** a public company with limited liability incorporated in the Kingdom of Sweden whose registered office is at c/o, AB 1909 Corporate Services, Norrlandsgatan 18, 11143 Stockholm, Sweden (the “**Lender**”); and
- (3) **POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA**, a company established under the laws of the Republic of Poland whose registered office is at Puławska 15, Warsaw, Poland (the “**Borrower**”).

WHEREAS:

- (A) The Borrower has entered into an amended and restated senior facility agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the “**Senior Facility Agreement**”) with the Lender in respect of the Lender’s €3,000,000,000 Programme for the Issuance of Loan Participation Notes (the “**Programme**”).
- (B) the Borrower proposes to borrow [●] (the “**Senior Loan**”) and the Lender wishes to make such Senior Loan on the terms set out in the Senior Facility Agreement and this Senior Loan Supplement.

IT IS AGREED as follows:

1. **Definitions**

Capitalised terms used but not defined in this Senior Loan Supplement shall have the meaning given to them in the Senior Facility Agreement save to the extent supplemented or modified herein.

2. **Additional Definitions**

For the purpose of this Senior Loan Supplement, the following expressions used in the Senior Facility Agreement shall have the following meanings:

“**Account**” means the account in the name of the Lender with the Account Bank (account number [●], [●]) or such other account as may from time to time be agreed between the Lender and the Trustee pursuant to the Trust Deed and notified to the Borrower in writing at least 5 Business Days in advance of such change;

“**Borrower Account**” means the account in the name of the Borrower (account number [●][*insert further details*]);

“**Calculation Agent**” means Citibank, N.A.;

“**Closing Date**” means [●];

[“**Early Redemption Amount**” means [●] per [●] amount of the Senior Loan, plus accrued interest, if any, to the Call Redemption Date;] [*include if Call Option is applicable, otherwise delete*]

“**Notes**” means [●] [[●] per cent.][Floating Rate] Loan Participation Notes due [●] issued by the Lender as Series [●] under the Programme;

[“**Put Settlement Date**” means [●];] [*include if Put Option is applicable, otherwise delete*]

“**Repayment Date**” means [●] [*amend as required for Floating Rate Notes*];

“**Senior Loan Agreement**” means the Senior Facility Agreement as amended and supplemented by this Senior Loan Supplement;

“**Specified Currency**” means [●];

“**Subscription Agreement**” means an agreement between the Lender, the Borrower and [*insert names of managers*] dated [●] relating to the Notes; and

“**Trust Deed**” means the Principal Trust Deed dated 23 April 2010 as amended, modified, supplemented and/or restated from time to time between the Lender and the Trustee as amended and supplemented by a Supplemental Trust Deed dated [●] constituting and securing the Notes.

3. **Incorporation by Reference**

Except as otherwise provided, the terms of the Senior Facility Agreement shall apply to this Senior Loan Supplement as if they were set out herein and the Senior Facility Agreement shall be read and construed, only in relation to the Senior Loan constituted hereby, as one document with this Senior Loan Supplement.

4. The Senior Loan

4.1 Drawdown

Subject to the terms and conditions of the Senior Loan Agreement, the Lender agrees to make the Senior Loan on the Closing Date to the Borrower and the Borrower shall make a single drawing in the full amount of the Senior Loan[, which Senior Loan shall be used to fund [the Borrower's lending activities/for general banking purposes/[*other specific purposes*]]].

4.2 Interest

The Senior Loan is a [Fixed Rate][Floating Rate] Senior Loan. Interest shall be calculated, and the following terms used in the Senior Facility Agreement shall have the meanings, as set out below:

- 4.2.1 **Fixed Rate Senior Loan Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Commencement Date: [●]
 - (ii) Rate(s) of Interest: [●] per cent. per annum [payable [annually/semi-annually] in arrear]
 - (iii) 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]
 - (iv) Calculation Amount: [●]
 - (v) Specified Denomination: [●]
 - (vi) Fixed Amount(s): [●] per Calculation Amount
 - (vii) Broken Amount: [●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Amount [(s)] and the Interest Payment Date(s) to which they relate]
 - (viii) Day Count Fraction (Clause 4.9 (Definitions)): [●]
(Day count fraction should be Actual/Actual-ICMA for all fixed rate senior loans other than those denominated in US dollars, unless specified)
 - (ix) Determination Date(s) (Clause 4.9 (Definitions)): [●] 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 interest period]*
[Only to be completed for a Senior Loan where Day Count Fraction is Actual/Actual-ICMA.]
 - (x) Other terms relating to the method of calculating interest for Fixed Rate Senior Loans: [Not Applicable/give details]
- 4.2.2 **Floating Rate Senior Loan Provisions** [Applicable/Not Applicable] *(If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Interest Commencement Date: [●]
 - (ii) Interest Period(s): [●]
 - (iii) Specified Interest Payment Dates: [●]
 - (iv) Business Day Convention: [Floating Rate Business Day Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
 - (v) Business Centre(s) (Clause 4.9 (Definitions)): [●]
 - (vi) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/other (give details)]
 - (b) Interest Period Date(s): [Not Applicable/specify dates]
 - (i) Party responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the Calculation [●]

- Agent):
- (ii) Screen Rate Determination (sub-clause 4.3.3 of Clause 4.3 (*Interest for Floating Rate Senior Loans*)):
- Relevant Time: [●]
 - Interest Determination Date: [[●] [TARGET] Business Days in [specify city] for [specify currency] prior to [the first day in each Interest Accrual Period/each Interest Payment Date]]
 - Primary Source for Floating Rate: [Specify relevant screen page and rate or “Reference Banks”]
- Reference Banks (if Primary Source [Specify four] is “Reference Banks”):
- Relevant Financial Centre: [The financial centre most closely connected to the Benchmark – specify if not London]
 - Benchmark: [LIBOR, LIBID, LIMEAN, EURIBOR or other benchmark]
 - Representative Amount: [Specify if screen or Reference Bank quotations are to be given in respect of a transaction of a specified notional amount]
 - Effective Date: [Specify if quotations are not to be obtained with effect from commencement of Interest Accrual Period]
 - Specified Duration: [Specify period for quotation if not duration of Interest Accrual Period]
- (iii) ISDA Determination (Clause 4.3 (*Interest for Floating Rate Senior Loans*)):
- Floating Rate Option: [●]
 - Designated Maturity: [●]
 - Reset Date: [●]
 - ISDA Definitions: (if different from those set out in the Conditions) [●]
- (iv) Margin(s): [+/-][●] per cent. per annum
- (v) Minimum Rate of Interest: [●] per cent. per annum
- (vi) Maximum Rate of Interest: [●] per cent. per annum
- (vii) Day Count Fraction (Clause 4.9 (*Definitions*)): [●]
- (viii) Rate Multiplier: [●]
- (ix) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Senior Loans, if different from those set out in the Senior Facility Agreement: [●]
- 4.2.3 **Dual Currency Provisions** [Applicable/Not Applicable] (If not applicable, delete the remaining sub paragraphs of this paragraph)
- (i) Rate of Exchange/ method of calculating Rate of Exchange: [Give details]
 - (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: []
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: []
 - (iv) Person at whose option Specified Currency(ies) is/are payable: []
- 4.2.4 **Put Option** [Applicable/Not Applicable]

4.2.5 **Call Option** [Applicable/Not Applicable]

(i) Call Option Commencement Date: [●]/[Not Applicable]

5. **Fees and Expenses**

Pursuant to Clause 3.2 (*Senior Loan Arrangement Fee*) of the Senior Facility Agreement and in consideration of the Lender making the Senior Loan to the Borrower, the Borrower hereby agrees that it shall, one Business Day before the Closing Date, pay to or to the order of the Lender, in Same-Day Funds, the total amount of [●], being the “**Arrangement Fee**” in respect of the Senior Loan as set forth in Clause [●] of the Subscription Agreement pursuant to an invoice submitted by, or at the request of, the Lender to the Borrower in the total amount.

6. **Governing Law**

This Senior Loan Supplement and any non-contractual matters arising out of or in connection with it are governed by English law.

This Senior Loan Supplement has been entered into on the date stated at the beginning.

POWSZECHNA KASA OSZCZĘDNOŚCI BANK POLSKI SPÓŁKA AKCYJNA

By:

By:

PKO FINANCE AB (PUBL)

By:

By:

**SCHEDULE 2
FORM OF OFFICERS' CERTIFICATE**

To:

Citicorp Trustee Company Limited
Canada Square
Canary Wharf
London E14 5LB

From: Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

Dated:

Dear Sirs

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna – Amended and Restated Senior Facility Agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the “Senior Facility Agreement”)

We refer to the Senior Facility Agreement. Terms defined therein shall mean the same herein. This is an Officers' Certificate for the purposes thereof:

For and on behalf of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna

Signed:

principal executive
officer/ principal
accounting officer/
principal financial
officer of Powszechna
Kasa Oszczędności
Bank Polski Spółka
Akcyjna

[officer]
of
Powszechna Kasa Oszczędności Bank Polski
Spółka Akcyjna

[encl:] *[Auditors' report as to extraction]*

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 (“**Euroclear**”) and/or Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) and/or any other relevant clearing system and each Global Note which is intended to be issued in NGN form, as specified in the relevant Final Terms, will be deposited on or around the issue date of the relevant Tranche of the Notes with a common safekeeper for Euroclear and/or Clearstream, Luxembourg.

On 13 June 2006 the European Central Bank (the “**ECB**”) announced that Notes in NGN form are in compliance with the “Standards for the use of EU securities settlement systems in ECB credit operations” of the central banking system for the euro (the “**Eurosystem**”), *provided that* certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Notes in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

In the case of each Tranche of Bearer Notes, the relevant Final Terms will also specify whether United States Treasury Regulation §1.163-5(c)(2)(i)(C) (the “**TEFRA C Rules**”) or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (the “**TEFRA D Rules**”) are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, that neither the TEFRA C Rules nor the TEFRA D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for a Permanent Global Note”, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

- (i) presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent; and
- (ii) receipt by the Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership, within 7 days of the bearer requesting such exchange.

The principal amount of the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; *provided, however, that* in no circumstances shall the principal amount of the Permanent Global Note exceed the initial principal amount of the Temporary Global Note.

Temporary Global Note exchangeable for Bearer Notes in definitive form (“Definitive Notes”)

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA C Rules are applicable or that neither the TEFRA C Rules or the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specifies the form of Notes as being “Temporary Global Note exchangeable for Definitive Notes” and also specifies that the TEFRA D Rules are applicable, then the Notes will initially be in

the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Permanent Global Note exchangeable for Definitive Notes

If the relevant Final Terms specifies the form of Notes as being “Permanent Global Note exchangeable for Definitive Notes”, then the Notes will initially be in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Permanent Global Note”, then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Enforcement*) in “*Terms and Conditions of the Notes*” occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Summary of Provisions Relating to the Notes while in Global Form*” below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

“Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.”

Registered Notes

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

If the relevant Final Terms specifies the form of Notes as being “Individual Note Certificates”, then the Notes will at all times be in the form of Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

If the relevant Final Terms specifies the form of Notes as being “Global Note Certificate exchangeable for Individual Note Certificates”, then the Notes will initially be in the form of a Global Note Certificate which will be exchangeable in whole, but not in part, for Individual Note Certificates:

- (i) on the expiry of such period of notice as may be specified in the relevant Final Terms; or
- (ii) at any time, if so specified in the relevant Final Terms; or
- (iii) if the relevant Final Terms specifies “in the limited circumstances described in the Global Registered Note”, then if (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 9 (*Enforcement*) in “*Terms and Conditions of the Notes*” occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person’s holding) against the surrender of the Global Note Certificate at the specified office of the Registrar.

Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under “*Terms and Conditions of the Notes*” below and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “*Summary of Provisions Relating to the Notes while in Global Form*” below.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes, which contain summaries of certain provisions of the Trust Deed, and which (subject to completion and amendment in accordance with the provisions of the relevant Final Terms) will be attached to the Notes in definitive form, if issued, and (subject to the provisions thereof) apply to the Global Notes representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the relevant Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such definitive Notes. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under “Summary of Provisions Relating to the Notes in Global Form” below. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed and the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to “Notes” are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are constituted by, are subject to, and have the benefit of, a supplemental trust deed dated the Issue Date specified in the relevant Final Terms (the “**Supplemental Trust Deed**”) supplemental to the amended and restated trust deed dated 15 April 2010 (as amended, modified, supplemented and/or restated as at the Issue Date, the “**Principal Trust Deed**”), each made between PKO Finance AB (publ) (the “**Issuer**”) and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include any trustee or trustees for the time being under the Trust Deed) as trustee for the holders of the Notes (the “**Noteholders**”). The Principal Trust Deed and the Supplemental Trust Deed as modified from time to time in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified, are together referred to as the “**Trust Deed**”.

The Issuer has authorised the creation, issue and sale of the Notes for the sole purpose of financing either:

- (a) a senior loan (the “**Senior Loan**”) to Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the “**Borrower**”) as specified in the relevant Final Terms on the terms of an amended and restated senior facility agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the “**Senior Facility Agreement**”), as supplemented on the Issue Date specified in the relevant Final Terms by a senior loan supplement (the “**Senior Loan Supplement**” and, together with the Senior Facility Agreement, the “**Senior Loan Agreement**”) each between the Issuer and the Borrower; or
- (b) a subordinated loan to the Borrower (the “**Subordinated Loan**”) as specified in the relevant Final Terms, on the terms of a subordinated facility agreement (as amended, modified, supplemented and/or restated from time to time, the “**Subordinated Facility Agreement**”) to be dated on or before the Issue Date of such Notes, as supplemented on the Issue Date specified in the relevant Final Terms by a subordinated loan supplement (the “**Subordinated Loan Supplement**” and, together with the Subordinated Facility Agreement, the “**Subordinated Loan Agreement**”) each between the Issuer and the Borrower.

If a Senior Loan is specified in the relevant Final Terms, all references in these Terms and Conditions (the “**Conditions**”) to the “**Loan**”, the “**Facility Agreement**”, the “**Loan Supplement**” and the “**Loan Agreement**” shall be construed as being references to the “**Senior Loan**”, the “**Senior Facility Agreement**”, the “**Senior Loan Supplement**” and the “**Senior Loan Agreement**”, respectively.

If a Subordinated Loan is specified in the relevant Final Terms, all references in these Conditions to the “**Loan**”, the “**Facility Agreement**”, the “**Loan Supplement**” and the “**Loan Agreement**” shall be construed as being references to the “**Subordinated Loan**”, the “**Subordinated Facility Agreement**”, the “**Subordinated Loan Supplement**” and the “**Subordinated Loan Agreement**”, respectively.

The Notes have the benefit of, and payments in respect of the Notes will be made (subject to the receipt of funds in relation to the Loan from the Borrower) pursuant to, an amended and restated paying agency agreement dated 23 April 2010 (as amended, modified, supplemented and/or restated from time to time, the “**Agency Agreement**”) and made between the Issuer, the Borrower, the Trustee, Citibank, N.A., London Branch and Banque Internationale à Luxembourg. Citibank, N.A., London Branch will act as principal paying agent (the “**Principal Paying Agent**”), transfer agent (the “**Transfer Agent**”), calculation agent (the “**Calculation Agent**”) and, in respect of the registered notes (if any), the registrar (the “**Registrar**”). Banque Internationale à Luxembourg will act as a paying agent (and together with the Principal Paying Agent, the “**Paying Agents**” and each a “**Paying Agent**”). Banque Internationale à Luxembourg will act as Luxembourg paying agent (the “**Luxembourg Paying Agent**”, and together with the Principal Paying Agent, the Paying Agents, the Transfer Agent, the Calculation Agent and the Registrar, the “**Agents**”).

Hard copies of the Trust Deed, the Loan Agreements, the Agency Agreement, the Account Bank Agreement and the Final Terms are available for inspection by Noteholders during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the principal office of the Trustee being, at the date hereof, at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the respective specified offices of the Principal Paying Agent and Luxembourg Paying Agent.

Certain provisions of these Conditions include summaries or restatements of, and are subject to, the detailed provisions of the Trust Deed, the Final Terms, the Loan Agreement (the form of which is scheduled to and incorporated in the Trust Deed) and the Agency Agreement. Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions thereof.

1. STATUS, SECURITY AND LIMITATION OF LIABILITY

1.1 *Status and Security*

The sole purpose of the issue of the Notes is to provide the funds for the Issuer to finance the Loan. The Notes constitute the obligation of the Issuer to apply the proceeds from the issue of the Notes solely for financing the Loan and to account to the Noteholders for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amount in respect of Reserved Rights.

Under the Trust Deed, the obligations of the Issuer in respect of the Notes constitute secured and limited recourse obligations of the Issuer and rank *pari passu* and rateably without any preference among themselves.

In the event that the payments under the Loan Agreement are made by the Borrower to, or to the order of, the Trustee or (subject to the provisions of the Trust Deed) the Principal Paying Agent, they will *pro tanto* satisfy the obligations of the Issuer in respect of the Notes.

In each case where amounts of principal, interest and additional amounts (if any) are stated herein or in the Trust Deed to be payable in respect of the Notes, the obligations of the Issuer to make any such payment shall constitute an obligation only to account to the Noteholders on each date upon which such amounts of principal, interest and additional amounts (if any) are due in respect of the Notes, for an amount equivalent to sums of principal, interest and additional amounts (if any) actually received by or for the account of the Issuer pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights (as defined below). Noteholders must therefore rely solely and exclusively on the Borrower's covenant to pay under the Loan Agreement and the credit and financial standing of the Borrower. Noteholders shall have no recourse (direct or indirect) to any other assets of the Issuer. None of the Noteholders, the Trustee or the other creditors (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the Issuer, or join in any institution against the Issuer of, any bankruptcy, administration, examinership, moratorium, reorganisation, controlled management, arrangement, insolvency, winding-up or liquidation proceedings or similar insolvency proceedings under any applicable bankruptcy or similar law in connection with any obligation of the Issuer relating to the Notes or otherwise owed to the creditors or the Trustee for so long as the Notes are outstanding, save for lodging a claim in a liquidation of the Issuer which is initiated by another party or taking proceedings to obtain a declaration or judgment as to the obligations of the Issuer.

The Issuer has charged by way of first fixed charge in favour of the Trustee for itself and on behalf of the Noteholders certain of its rights and interests as lender under the Loan Agreement (other than any rights and benefits constituting Reserved Rights) as security for its payment obligations in respect of the Notes and under the Trust Deed (the "**Charge**") and has assigned absolutely certain other rights under the Loan Agreement to the Trustee (together with the Charge, the "**Security Interests**"). "**Reserved Rights**" are the rights excluded from the Security Interests, being all and any rights, interests and benefits of the Issuer in respect of the obligations of the Borrower under Clause 3.4 (*Ongoing Fees and Expenses*), Clause 11 (*Indemnity*), Clause 12 (*Survival*) and Clause 14.2 (*Stamp Duties*) of the Senior Facility Agreement and the equivalent clauses in the Subordinated Facility Agreement, as the case may be, and in the case of the Senior Facility Agreement only, Clause 9.4 (*Withholding Tax Exemption*).

In certain circumstances, the Trustee shall (subject to it being indemnified and/or secured to its satisfaction) be required by Noteholders holding at least 25% of the principal amount of the Notes outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders to exercise certain of its powers under the Trust Deed (including those arising under the Series Security).

Save as otherwise expressly provided herein and in the Trust Deed, no proprietary or other direct interest in the Issuer's rights under or in respect of the Loan Agreement or the Loan exists for the benefit of the

Noteholders. Subject to the terms of the Trust Deed, no Noteholder will have any entitlement to enforce the Loan Agreement or direct recourse to the Borrower except through action by the Trustee pursuant to the relevant Series Security granted to the Trustee in the Trust Deed. The Trustee shall not be required to take enforcement proceedings under the Trust Deed, following the enforcement of the Series Security created in the Trust Deed, or the Loan Agreement unless it has been indemnified and/or secured by the Noteholders to its satisfaction.

The obligations of the Issuer under the Notes shall be solely to make payments of amounts in aggregate equivalent to each sum actually received by or for the account of the Issuer from the Borrower in respect of principal, interest or, as the case may be, other amounts relating to the Loan (less any amounts in respect of the Reserved Rights), the right to receive which will, *inter alia*, be assigned to the Trustee as security for the Issuer's payment obligations in respect of the Notes. Accordingly, all payments to be made by the Issuer under the Notes will be made only from and to the extent of such sums received or recovered by or on behalf of the Issuer or the Trustee. Noteholders shall look solely to such sums for payments to be made by the Issuer under the Notes, the obligation of the Issuer to make payments in respect of the Notes will be limited to such sums and Noteholders will have no further recourse to the Issuer or any of the Issuer's other assets (including the Issuer's rights with respect to any Loan relating to any other Series of Notes) in respect thereof. In the event that the amount due and payable by the Issuer under the Notes exceeds the sums so received or recovered, the right of any person to claim payment of any amount exceeding such sums shall be extinguished, and Noteholders may take no further action to recover such amounts.

1.2 *Limitation of Liability*

The Trust Deed provides that payments in respect of the Notes equivalent to the sums actually received by or for the account of the Issuer by way of principal, interest or additional amounts (if any) pursuant to the Loan Agreement, less any amounts in respect of the Reserved Rights and subject to Condition 8 (*Taxation*), will be made *pro rata* among all Noteholders, on the date of, and in the currency of, and subject to the conditions attaching to, the equivalent payment pursuant to the Loan Agreement. The Issuer shall not be liable to make any payment in respect of the Notes other than as expressly provided herein and in the Trust Deed. As provided therein, neither the Issuer nor the Trustee shall be under any obligation to exercise in favour of the Noteholders any rights of setoff or of banker's lien or to combine accounts or counterclaim that may arise out of other transactions between the Issuer and the Borrower.

Noteholders have notice of, and are deemed to have accepted, these Conditions, the Final Terms and the contents of the Trust Deed, the Agency Agreement, the Account Bank Agreement and the Loan Agreement. It is hereby expressly **provided that**, and Noteholders are deemed to have accepted that:

- 1.2.1 neither the Issuer nor the Trustee makes any representation or warranty in respect of, or shall at any time have any responsibility for, or, (in the case of only the Issuer) save as otherwise expressly provided in the Trust Deed, liability or obligation in respect of the performance and observance by the Borrower of its obligations under the Loan Agreement or the recoverability of any sum of principal or interest (or any additional amounts if any) due or to become due from the Borrower under the Loan Agreement;
- 1.2.2 the Trustee shall not at any time have any responsibility for, or liability or obligation in respect of, the performance and observance by the Agents of their respective obligations;
- 1.2.3 neither the Issuer nor the Trustee shall at any time have any responsibility for, or obligation or liability in respect of, the financial condition, creditworthiness, affairs, status or nature of the Borrower;
- 1.2.4 neither the Issuer nor the Trustee shall at any time be liable for any representation or warranty or any act, default or omission of the Borrower under or in respect of the Loan Agreement;
- 1.2.5 the financial servicing of the terms of the Notes depends solely and exclusively upon performance by the Borrower of its obligations under the Loan Agreement and its covenant to make payments under the Loan Agreement and its credit and financial standing;
- 1.2.6 the Issuer and the Trustee shall be entitled to rely on certificates of the Borrower (and, where applicable, certification by third parties) as a means of monitoring whether the Borrower is complying with its obligations under the Loan Agreement and shall not otherwise be responsible for investigating any aspect of the Borrower's performance in relation thereto and, subject as further provided in the Trust Deed, the Trustee will not be liable for any failure to make the usual or any investigations which might be made by a security holder in relation to

the property which is the subject of the Trust Deed and held by way of security for the Notes, and shall not be bound to enquire into or be liable for any defect or failure in the right or title of the Issuer to the assigned property which is subject to the Security Interests whether such defect or failure was known to the Trustee or might have been discovered upon examination or enquiry or whether capable of remedy or not, nor will it have any liability for the enforceability of the security created by the Security Interests whether as a result of any failure, omission or defect in registering or filing or otherwise protecting or perfecting such security and the Trustee has no responsibility for the value of such security.

The Trustee shall not at any time be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its obligations or duties or the exercise of any right, power, authority or discretion pursuant to these Conditions and/or the Trust Deed until it has received from the Borrower the funds that are necessary to cover the costs, expenses and all other liabilities in connection with such performance or exercise, or has been (in its sole discretion) sufficiently assured that it will receive such funds.

2. **FORM, DENOMINATION, TITLE AND TRANSFER**

2.1 ***Form and Denomination***

The Notes will be issued in bearer or registered form, and in the Specified Denomination(s) which shall, in the case of each Note to be offered to the public within a Member State of the European Economic Area or to be admitted to trading on a regulated market situated or operating within such a Member State, be not less than EUR 100,000 or its equivalent in other currencies, and which may include a minimum denomination and higher integral multiples of a smaller amount, without interest coupons, **provided that** Notes with a maturity of less than 365 days shall be held in amounts not less than £100,000 (or its equivalent in other currencies).

A Note issued under the Principal Trust Deed may be a Fixed Rate Note, a Floating Rate Note, a combination of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis specified in the relevant Final Terms.

2.2 ***Bearer Notes***

Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination.

2.3 ***Title to Bearer Notes***

Title to Bearer Notes and Coupons will pass by delivery. In the case of Bearer Notes, “**Holder**” means the holder of such Bearer Note and “**Noteholder**” and “**Couponholder**” shall be construed accordingly.

2.4 ***Registered Notes***

Registered Notes are issued in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Final Terms and higher integral multiples of a smaller amount specified in the relevant Final Terms.

2.5 ***Title to Registered Notes***

The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a “**Note Certificate**”) will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, “**Holder**” means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and “**Noteholder**” shall be construed accordingly.

2.6 ***Ownership***

The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

2.7 **Transfers of Registered Notes**

Subject to Condition 2.10 (*Closed periods*) and Condition 2.11 (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the specified office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

2.8 **Registration and delivery of Note Certificates**

Within five business days of the surrender of a Note Certificate in accordance with Condition 2.7 (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its specified office or (as the case may be) the specified office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this Condition 2.8 (*Registration and delivery of Note Certificates*), “**business day**” means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its specified office.

2.9 **No charge**

The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

2.10 **Closed periods**

Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.

2.11 **Regulations concerning transfers and registration**

All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. **RESTRICTIVE COVENANT**

As provided in the Trust Deed, so long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer will not, without the prior written consent of the Trustee or an Extraordinary Resolution (as defined in the Trust Deed), agree to any amendments to or any modification or waiver of, or authorise any breach or proposed breach of, the terms of the Loan Agreement and will act at all times in accordance with any instructions of the Trustee from time to time with respect to the Loan Agreement, except as otherwise expressly provided in the Trust Deed or the Loan Agreement. Any such amendment, modification, waiver or authorisation made with the consent of the Trustee shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such amendment or modification shall be notified by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*).

The Trust Deed provides that, save as provided above, so long as any Note remains outstanding, the Issuer, without the prior written consent of the Trustee, shall not, *inter alia*: (i) incur any Indebtedness (as defined in the Trust Deed) (other than issuing further Notes (which may be consolidated and form a single series with Notes of any Series) under the Programme and/or issuing securities in connection with other limited recourse financing arrangements permitted under the Trust Deed and/or creating or incurring further obligations relating to such Notes or such other limited recourse financing arrangements); (ii) engage in any business (other than entering into the Programme, issuing Notes thereunder from time to time for the sole purpose of financing Loans to the Borrower in accordance with the Senior Facility Agreement or the

Subordinated Facility Agreement, as the case may be, and each Loan Supplement, entering into a corporate services agreement for the administration of the Issuer and/or entering into other programmes or issuing securities in connection with other limited recourse financing arrangements permitted under the Trust Deed, entering into related agreements and transactions and performing any act incidental or necessary in connection with any of the foregoing); (iii) declare any dividends, have any subsidiaries or employees, purchase, own, lease or otherwise acquire any real property (including office premises or like facilities); (iv) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entity to any person (otherwise than as

contemplated in these Conditions and the Trust Deed); (v) issue any shares (other than such shares as are in issue at the date of the Principal Trust Deed); or (vi) give any guarantee or assume any other liability or petition for any voluntary winding up.

4. INTEREST

4.1 *Interest on Fixed Rate Notes*

Each Fixed Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate(s) per annum (expressed as a percentage) equal to the Rate(s) of Interest specified in the relevant Final Terms, which shall be equal to the rate per annum at which interest under the relevant Loan accrues. Accordingly, on each Interest Payment Date or as soon thereafter as the same is received, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the relevant Loan received by or for the account of the Issuer pursuant to the Loan Agreement.

If a Fixed Coupon Amount or a Broken Amount is specified in the relevant Final Terms, the amount of interest payable on each Interest Payment Date will be an amount equal to the Fixed Coupon Amount or, if applicable, the Broken Amount so specified, and in the case of the Broken Amount, will be payable on the particular Interest Payment Date(s) specified in the relevant Final Terms or as soon as thereafter as the same is received.

4.2 *Interest on Floating Rate Notes*

- (a) *Interest Payment Dates:* Each Floating Rate Note bears interest on its outstanding principal amount from (and including) the Interest Commencement Date and thereafter from (and including) each Interest Payment Date, to (but excluding) the next Interest Payment Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest specified in the relevant Final Terms, which shall be equal to the rate per annum at which interest under the Loan accrues, such interest being payable in arrears on each Interest Payment Date or as soon thereafter as the same is received. Such Interest Payment Date(s) is/are either shown in the relevant Final Terms as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the relevant Final Terms, Interest Payment Date shall mean each date which falls the number of months or other period shown in the relevant Final Terms as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. Accordingly, on each such date, the Issuer shall account to the Noteholders for an amount equivalent to amounts of interest under the Loan received by or for the account of the Issuer pursuant to the Loan Agreement.
- (b) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

- (c) *Rate of Interest for Floating Rate Notes*: The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period (as defined in the Loan Agreement) shall be determined in the manner specified in the relevant Final Terms and as set out in the Loan Agreement.

4.3 *Accrual of Interest*

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (as well after as before judgment) at the Rate of Interest in the manner provided in this Condition 4 (*Interest*) to the Relevant Date (as defined in Condition 8 (*Taxation*)).

4.4 *Calculations*

The amount of interest payable in respect of any Note for any period shall be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount and multiplying the product by the Day Count Fraction, as specified in the relevant Final Terms and in the Loan Agreement, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose, a “**sub-unit**” means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent, **provided that** if an Interest Amount (or a formula for its calculation) is specified in respect of such period, the amount of interest payable in respect of such Note for such period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period shall be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.

4.5 *Publication of Rates of Interest and Interest Amounts*

As soon as practicable after calculating or determining the Rate of Interest and the Interest Amounts for each Interest Period and the relevant Interest Payment Date as set out in the Loan Agreement, the Calculation Agent shall cause such Rate of Interest and Interest Amounts to be notified to the Trustee, the Issuer, the Borrower, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 4.2(b) (*Interest on Floating Rate Notes*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If a Loan becomes due and payable under (i) in the case of a Senior Loan, Clause 10 (*Events of Default*) of the Senior Facility Agreement, or in the case of a Subordinated Loan, under the relevant provisions in the Subordinated Loan Agreement relating to the repayment and prepayment of a Subordinated Loan, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

4.6 *Determination or Calculation by Trustee*

If the Calculation Agent does not at any time for any reason determine or calculate the Rate of Interest for an Interest Period or any Interest Amount pursuant to the Loan Agreement, the Trustee may do so (without any responsibility or liability to any person in relation thereto) (or may appoint an agent on its behalf to do so) and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition 4.6 (*Determination or Calculation by Trustee*), with any necessary consequential amendments, to the extent that, in its opinion, it

can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

4.7 *Step-Up Rate of Interest*

If a Step-Up Rate of Interest is specified in the relevant Final Terms, each Fixed Rate Note or Floating Rate Note, as applicable, will bear interest on its outstanding principal amount at the Initial Rate of Interest during the Initial Interest Term and at the Step-Up Rate of Interest during the Step-Up Interest Term, each as specified in the relevant Final Terms.

4.8 *Dual Currency Note Provisions*

- (a) *Application*: This Condition 4.8 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.
- (b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Final Terms.

5. **REDEMPTION AND PURCHASE**

5.1 *Scheduled redemption*

Unless the Loan is previously prepaid or repaid, the Borrower will be required to repay the Loan one Business Day (as defined in the Facility Agreement) before its Repayment Date (as defined in the Facility Agreement) and, subject to such repayment, as set forth in the Loan Agreement, all the Notes then remaining outstanding will be redeemed or repaid by the Issuer in the relevant Specified Currency on the Maturity Date specified in the relevant Final Terms at their Final Redemption Amount (which, unless otherwise specified in the relevant Final Terms, is 100% of the principal amount thereof).

5.2 *Mandatory redemption*

If the Loan should become repayable (and be repaid) or be prepaid pursuant to the Loan Agreement prior to its scheduled repayment date, all Notes then remaining outstanding will thereupon become due and redeemable or repayable at their principal amount, or at such other Early Redemption Amount specified in the relevant Final Terms (together with interest accrued to the date of redemption) and shall be redeemed by the Issuer. The Issuer shall provide not less than twenty five days' nor more than sixty days' notice thereof to the Trustee and the Noteholders in accordance with Condition 15 (*Notices*) which notice shall be irrevocable and shall specify a date for redemption.

To the extent that the Issuer receives amounts of principal, interest and/or additional amounts if any (other than amounts in respect of the Reserved Rights) following acceleration of the Loan pursuant to Clause 10 (*Events of Default*) of the Senior Loan Agreement or under the relevant provisions in the Subordinated Loan Agreement relating to prepayment and limited acceleration of the Subordinated Loan (as the case may be), the Issuer shall pay an amount equal to and in the same currency as such amounts on the Business Day following receipt of such amounts, subject as provided in Condition 6 (*Payments – Bearer Notes*) or Condition 7 (*Payments – Registered Notes*) (as the case may be).

5.3 *Call Option*

If Call Option is specified the relevant Final Terms, then pursuant to Clause 5.4 of the Senior Facility Agreement and the relevant Senior Loan Supplement, the Borrower may, at its option at any time from the Call Option Commencement Date (as specified in the relevant Final Terms) to the Repayment Date on giving not less than 30 nor more than 60 days' irrevocable notice to the Issuer, in whole or in part, prepay the Senior Loan at the Early Redemption Amount (as specified in the relevant Final Terms) (the "**Call Option Notice**"). The notice to be given (the "**Call Option**") shall specify the date for repayment of the relevant Senior Loan and the date for the redemption of the Notes (the "**Call Redemption Date**"), which shall be the next following Business Day after the date for repayment of the relevant Senior Loan. Immediately on receipt of the Call Option Notice, the Issuer shall forward it to the Noteholders, the Trustee and the Principal Paying Agent. If the relevant Senior Loan should become repayable following exercise of the Call Option by the Borrower (and be repaid) prior to the Repayment Date, the Notes will thereupon become due and repayable and the Issuer shall, subject to receipt of such amounts from the Borrower under the relevant Senior Loan, redeem the Notes on the Call Redemption Date. In the case of a partial redemption, the Notes shall be redeemed pro rata, subject to compliance with any applicable laws and stock exchange or other regulatory requirements. The Issuer's obligations in respect of this Condition

5.3 (*Call Option*) to redeem and make payment for the Notes shall constitute an obligation only to account to Noteholders on the Call Redemption Date for an amount equivalent to the sums received by or for the account of the Issuer pursuant to the relevant Senior Loan Agreement.

5.4 ***Put Option***

If a Put Option is specified in the relevant Final Terms, the Issuer shall, at the option of any Noteholder redeem such Note on the Put Settlement Date (as specified in the relevant Final Terms) (the “**Put Option**”) at its principal amount together with accrued interest. To exercise such option a Noteholder must deposit the Note or Notes to be redeemed with any Paying Agent together with a duly completed put option notice (“**Put Option Notice**”) in the form obtainable from any of the Paying Agents, not more than 60 but not less than 30 days prior to the Put Settlement Date. No Note so deposited may be withdrawn. Provided, however, that if, prior to the Put Settlement Date, a Relevant Event has occurred or, upon due presentation of any Note on the Put Settlement Date, payment of the redemption moneys is improperly withheld or refused, such Note shall, without prejudice to the exercise of the Put Option, be returned to the Noteholder by uninsured first class mail (airmail if overseas) at such address as may have been given by such Noteholder in the relevant Put Option Notice. The Issuer shall notify the Borrower, not more than three Business Days after receipt of notice thereof from the Paying Agent, of the amount of the Senior Loan to be prepaid as a consequence of the exercise of the Put Option. Subject to timely receipt of the relevant amounts from the Borrower under the Senior Loan Agreement, the Issuer shall redeem the Notes in accordance with this Condition 5.4 (*Put Option*) on the Put Settlement Date, subject as provided in Condition 6 (*Payments – Bearer Notes*) and Condition 7 (*Payments – Registered Notes*).

5.5 ***Purchase of Notes***

The Issuer or any of its subsidiaries or the Borrower or any of its subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes so purchased, whilst held by or on behalf of the Issuer or the Borrower or, in either case, any of its subsidiaries, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding, including, without limitation, for the purpose of calculating quorums at meetings.

5.6 ***Cancellation***

The Facility Agreement provides that the Borrower may, from time to time, deliver Notes held by it to the Issuer, having an aggregate principal value of at least EUR 1,000,000 (or its equivalent in other currencies), together with a request for the Issuer to present such Notes to the Principal Paying Agent in case of Bearer Notes or to the relevant Registrar in case of Registered Notes for cancellation in consideration of the extinguishment of the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation, whereupon the Issuer shall, pursuant to the Agency Agreement, request the relevant Registrar or Principal Paying Agent, as the case may be, to cancel such Notes. Notes acquired or held by the Issuer will also be presented to the relevant Registrar or Principal Paying Agent, as the case may be, for cancellation. Upon any such cancellation by or on behalf of the relevant Registrar or Principal Paying Agent, as the case may be, the principal amount of the Loan corresponding to the principal amount of such Notes surrendered for cancellation shall be extinguished as of the date of such cancellation and no further payment shall be made or required to be made by the Issuer in respect of such Notes.

6. **PAYMENTS – BEARER NOTES**

6.1 ***Application***

This Condition 6 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

6.2 ***Principal***

Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bearer Notes at the specified office of any Paying Agent outside the United States by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (and in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System. For the purposes of these Conditions “**TARGET2**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007; “**TARGET System**” means TARGET2 or any successor thereof.

6.3 ***Payments in New York City***

Payments of principal or interest may be made at the specified office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

6.4 ***Interest***

Payments of interest shall, subject to Condition 6.7 (*Unmatured Coupons void*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the specified office of any Paying Agent in the manner described in Condition 6.2 (*Principal*) above.

6.5 ***Payments subject to applicable laws***

All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

6.6 ***Deductions for unmatured Coupons***

If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

- (a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; provided, however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;
- (b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:
 - (i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the “**Relevant Coupons**”) being equal to the amount of principal due for payment; provided, however, that where this sub-Condition would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and
 - (ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; provided, however, that, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which

the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in sub-Condition (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

6.7 Unmatured Coupons void

If the relevant Final Terms specifies that this Condition 6 (*Payments – Bearer Notes*) is applicable or that the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 5.2 (*Mandatory Redemption*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

6.8 Payments on Business Days

If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this Condition 6.8 (*Payments on Business Days*) and in Condition 7.5 (*Payments on Business Days*) below, “**Business Day**” means a day (other than a Saturday or Sunday) on which (a) banks and foreign exchange markets are open for business generally in the relevant place of payment, and (b) if on that day a payment is to be made in a Specified Currency other than euro hereunder, where payment is to be made by transfer to an account maintained with a bank in the Specified Currency, foreign exchange transactions may be carried on in the Specified Currency in the principal financial centre of the country of such Specified Currency and (c) if on that day a payment is to be made in euro hereunder, a day on which the TARGET System is operating.

6.9 Payments other than in respect of matured Coupons

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the specified office of any Paying Agent.

6.10 Partial payments

If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

6.11 Exchange of Talons

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 12 (*Prescription*)). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

6.12 Accrued Interest

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified in the relevant Final Terms shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

6.13 Payments by the Borrower

Save as otherwise directed by the Trustee, at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 7 (*Payments to Noteholders*) of the Agency Agreement, require the Borrower to make all payments of principal and interest and any additional amounts (other than any amounts constituting Reserved Rights) to be made pursuant to the Loan Agreement to the Principal Paying Agent to a specified account in the name of the Issuer (the “**Account**”). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of itself and of the Noteholders.

7. PAYMENTS – REGISTERED NOTES

7.1 **Application**

This Condition 7 (*Payments – Registered Notes*) is only applicable to Registered Notes.

7.2 **Principal**

Payments of principal shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

7.3 **Interest**

Payments of interest shall be made by cheque drawn in the currency in which the payment is due drawn on, or, upon application by a Holder of a Registered Note to the specified office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the principal financial centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London), or, in the case of euro, in a city in which banks have access to the TARGET System, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the specified office of any Paying Agent.

7.4 **Payments subject to applicable laws**

All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

7.5 **Payments on Business Days**

Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Business Day or (B) a cheque mailed in accordance with this Condition 7.5 (*Payments on Business Days*) arriving after the due date for payment or being lost in the mail.

7.6 **Partial Payments**

If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

7.7 **Record Date**

Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

7.8 **Accrued Interest**

In addition, if the due date for redemption or repayment of a Note is not an Interest Payment Date, interest accrued from the preceding Interest Payment Date or, as the case may be, from the Issue Date as specified

in the relevant Final Terms shall be payable only as and when actually received by or for the account of the Issuer pursuant to the Loan Agreement.

7.9 *Payments by the Borrower*

Save as otherwise directed by the Trustee, at any time after any of the Security Interests created in the Trust Deed becomes enforceable, the Issuer will, pursuant to Clause 6 (*Payments to Noteholders*) of the Agency Agreement, require the Borrower to make all payments of principal and interest and any additional amounts (other than any amounts constituting Reserved Rights) to be made pursuant to the Loan Agreement to the Principal Paying Agent to an account in the name of the Issuer (the “**Account**”). Under the Charge, the Issuer will charge by way of first fixed charge all the rights, title and interest in and to all sums of money then or in the future deposited in the Account in favour of the Trustee for the benefit of itself and of the Noteholders.

8. **TAXATION**

- 8.1 All payments in respect of the Notes by or on behalf of the Issuer will be made without deduction or withholding for or on account of any present or future taxes, duties or assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Poland or the Kingdom of Sweden or any political subdivision or any authority thereof or therein having the power to tax, unless the deduction or withholding of such taxes, duties, assessments or governmental charges is required by law.

Where any such deduction or withholding is required by law, the Issuer shall make such additional payments as shall result in the receipt by the Noteholders of such amount as would have been received by them if no such withholding or deduction had been required but only to the extent and only at such time as the Issuer receives and retains an equivalent amount from the Borrower under the Loan Agreement. To the extent that the Issuer receives and retains any such equivalent sum from the Borrower, the Issuer will account to each Noteholder for an additional amount equivalent to a *pro rata* proportion of such additional amount (if any) as is actually received and retained by, or for the account of, the Issuer pursuant to the Loan Agreement on the date of, in the currency of, and subject to any conditions attaching to the payment of such additional amount to the Issuer, **provided that** no such additional amount will be payable in respect of any Note:

- (a) to a Noteholder who (i) is able to avoid such deduction or withholding by satisfying any statutory requirements or by making a declaration of non-residence or other claim for exemption to the relevant tax authority; (ii) is liable for such taxes or duties by reason of his having some connection with the Republic of Poland or the Kingdom of Sweden other than the mere holding of such Note, the receipt of payment in respect thereof, or the enforcement by such Noteholder of its rights under the Notes;
 - (b) presented such Note for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that such additional payment would have been payable if such Note had been presented for payment on such 30th day;
 - (c) where such withholding or deduction is imposed on a payment to an individual as a residual entity and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
 - (d) presented for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union.
- 8.2 As used herein, “**Relevant Date**” (i) means the date on which any payment under the Loan Agreement first becomes due but (ii) if the full amount payable by the Borrower has not been received and retained by, or for the account of, the Issuer pursuant to the Loan Agreement on or prior to such date, it means the date on which such moneys shall have been so received and retained and notice to that effect shall have been duly given to the Noteholders by or on behalf of the Issuer in accordance with Condition 15 (*Notices*).
- 8.3 Any reference herein or in the Trust Deed to payments in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable in accordance with the Trust Deed and this Condition 8 (*Taxation*) or any undertaking given in addition thereto or in substitution therefor pursuant to the Trust Deed.

9. ENFORCEMENT

The Trust Deed provides that only the Trustee may pursue the remedies under the general law, the Trust Deed or the Notes to enforce the rights of the Noteholders and no Noteholder will be entitled to pursue such remedies.

At any time after (i) in case of Senior Loan, an Event of Default (as defined in the Senior Loan Facility Agreement), or (ii) in the case of a Subordinated Loan, an Early Repayment Event (as to be defined in the Subordinated Facility Agreement) or (iii) if a Relevant Event (as defined in the Trust Deed) shall have occurred and be continuing, the Trustee may, in accordance with all applicable laws at its discretion and without notice, and shall, if requested in writing to do so by Noteholders holding at least 25% in aggregate principal amount of the Notes outstanding, or if directed to do so by an Extraordinary Resolution and, in either case, subject to it being secured and/or indemnified to its satisfaction against all Liabilities (as defined in the Trust Deed) to which it may become liable and all costs, charges and expenses which may be incurred in connection therewith, declare all amounts payable under the Loan Agreement by the Borrower to be due and payable (in the case of an Event of Default or Early Repayment Event), or exercise any rights under the Series Security created in the Trust Deed in favour of the Trustee (in the case of a Relevant Event).

Upon a declaration as provided herein and repayment of the Loan following an Event of Default or an Early Repayment, the Notes will be redeemed or repaid at their principal amount outstanding together with interest accrued to the date fixed for redemption and thereupon shall cease to be outstanding.

In the case of a Subordinated Loan, the Issuer shall have no right to accelerate payments under the Subordinated Loan Agreement in the case of a default in payments of principal, interest or other amounts due under the Subordinated Loan Agreement or for breaches of representations and covenants under the Subordinated Loan Agreement.

10. MEETINGS OF NOTEHOLDERS; MODIFICATION OF NOTES, TRUST DEED AND LOAN AGREEMENT; WAIVER; SUBSTITUTION OF THE ISSUER; APPOINTMENT/ REMOVAL OF TRUSTEE

10.1 *Meetings of Noteholders*

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including any modification of, or any arrangement in respect of, the Notes, these Conditions, the Loan Agreement or the Trust Deed. Noteholders will vote *pro rata* according to the principal amount of their Notes. Special quorum provisions apply for meetings of Noteholders convened for the purpose of amending certain terms concerning, *inter alia*, the amounts payable on, and the currency of payment in respect of, the Notes and the amounts payable and currency of payment under the Loan Agreement. Any resolution duly passed at a meeting of Noteholders will be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of 90% of all Noteholders for the time being entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by, or on behalf of, one or more Noteholders.

10.2 *Modification and Waiver*

The Trustee may agree, without the consent of the Noteholders, to any modification of the Notes, these Conditions, the Trust Deed or the Loan Agreement (other than in respect of Reserved Matters (as defined in the Trust Deed)) which in the opinion of the Trustee is of a formal, minor or technical nature, is made to correct a manifest error or is not materially prejudicial to the interests of the Noteholders of a Series of Notes. The Trustee may also waive or authorise or agree to the waiving or authorising of any breach or proposed breach by the Issuer of the Conditions or the Trust Deed or by the Borrower of the terms of the Loan Agreement, or determine that any event which would or might otherwise give rise to a right of acceleration under the Loan Agreement shall not be treated as such, if, in the opinion of the Trustee, to do so would not be materially prejudicial to the interests of the Noteholders of a Series of Notes (other than in respect of Reserved Matters); provided always that the Trustee may not exercise such power of waiver in contravention of any express direction by an Extraordinary Resolution or Written Resolution or a request of 25% in aggregate principal amount of Notes outstanding of the Noteholders. Any such modification, waiver or authorisation shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

10.3 *Substitution*

The Trust Deed and the Loan Agreement contain provisions to the effect that the Issuer may, and at the request of the Borrower shall, having obtained the consent of the Borrower and the Trustee (which latter consent may be given without the consent of the Noteholders) and having complied with such certain requirements as the Trustee may direct in the interests of the Noteholders, substitute any entity in place of the Issuer as creditor under the Loan Agreement, as issuer and principal obligor in respect of the Notes and as principal obligor under the Trust Deed, subject to the relevant provisions of the Trust Deed and the substitute's rights under the Loan Agreement being charged and assigned, respectively, to the Trustee as security for the payment obligations of the substitute obligor under the Trust Deed and the Notes. Not later than 14 days after compliance with the aforementioned requirements, notice thereof shall be given by the Issuer to the Noteholders in accordance with Condition 15 (*Notices*). For so long as the Notes are admitted to trading on the Luxembourg Stock Exchange and the Luxembourg Stock Exchange so requires, a supplement to the most recently published Base Prospectus prepared in connection with the Programme will be prepared and submitted to the Luxembourg Stock Exchange or any other document required by the Luxembourg Stock Exchange in respect of any such substitution.

10.4 *Exercise of Powers*

In connection with the exercise of any of its powers, trusts, authorities or discretions, the Trustee shall have regard to the interests of the Noteholders of each Series of Notes and, in particular, shall not have regard to the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. No Noteholder is entitled to claim from the Issuer, the Borrower or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

10.5 *Appointment and Removal of Trustee*

The Trust Deed contains provisions for the appointment or removal of a Trustee by a meeting of Noteholders passing an Extraordinary Resolution, **provided that**, in the case of removal of a Trustee, at all times there remains a trustee in office after such removal. Any appointment or removal of a Trustee shall be notified to the Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The Trustee may also resign such appointment giving not less than three months' notice to the Noteholders **provided that** such resignation shall not become effective unless there remains a trustee in office after such resignation.

11. **INDEMNIFICATION OF TRUSTEE**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction and to be paid its costs and expenses in priority to the claims of Noteholders. The Trustee is entitled to enter into contracts or transactions with the Issuer and/or the Borrower and any entity related to the Issuer and/or the Borrower without accounting for any profit, fees, corresponding interest, discounts or share of brokerage earned, arising or resulting from any such contract or transactions.

The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Loan Agreement or the security created in respect thereof or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed or by the Borrower in respect of the Loan Agreement. The Trustee has no liability to Noteholders for any shortfall arising from the Trustee being subject to tax as a result of the Trustee holding or realising the Security Interests.

12. **PRESCRIPTION**

Claims for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

13. **REPLACEMENT OF NOTES**

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the

case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

14. AGENTS

The names of the initial Paying Agents and their initial specified offices are set out on the Notes. The Agency Agreement provides that the Issuer may at any time, with the prior written approval of the Trustee, vary or terminate the appointment of the Principal Paying Agent or any of the Paying Agents, and appoint additional or other paying agents **provided that** (i) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will be a paying agent and transfer agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority and (ii) there will be a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such Directive. Any such variation, termination or appointment shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not more than 45 days' and not less than 30 days' notice thereof shall have been given to the Noteholders in accordance with Condition 15 (*Notices*).

15. NOTICES

15.1 *Notices – Bearer Notes*

Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) and, if the Bearer Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

15.2 *Notices – Registered Notes*

Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register and, if the Registered Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, notices to Noteholders will be published on the date of such mailing in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the third day after the date of mailing.

15.3 *Trustee approval of notice*

In case by reason of any other cause it shall be impracticable to publish any notice to holders of Notes as provided above pursuant to Condition 15.1 (*Notices – Bearer Notes*) or Condition 15.2 (*Notices – Registered Notes*) (as relevant), then such notification to such holders as shall be given with the approval of the Trustee and shall constitute sufficient notice to such holders for every purpose hereunder.

16. FURTHER ISSUES

The Issuer may from time to time, with the consent of the Borrower but without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the amount, issue price, issue date and/or the date of the first payment of interest) so as to be consolidated and form a single series with the Notes.

Such further Notes shall be constituted by a deed supplemental to the Trust Deed between the Issuer and the Trustee. The Trust Deed contains provisions for convening a single meeting of Noteholders and the holders of Notes of other series in certain circumstances where the Trustee so decides. In relation to such further issue, the Issuer will enter into a loan agreement supplemental to the Loan Agreement with the Borrower on substantially the same terms as the Loan Agreement (or in all respects except for the amount and the date of the first payment of interest on the further Loan). The Issuer will provide a further fixed charge in favour of the Trustee and amend the existing Security Interests in respect of certain of its rights and interests under such loan agreement and will assign absolutely certain of its rights under such loan agreement which will secure both the Notes and such further Notes and which will amend and supplement the Security Interests in relation to the existing Notes of such Series and the Trustee is entitled to assume without enquiry that this arrangement as regards security for the Notes will not be materially prejudicial to the interests of the Noteholders.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW

The Notes, the Agency Agreement, the Loan Agreements, the Account Bank Agreement and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement, the Loan Agreements, the Account Bank Agreement and the Trust Deed are governed by English law other than provisions relating to subordination in the Subordinated Loan Agreement which are to be governed by Polish law. The Issuer has submitted in the Trust Deed to the exclusive jurisdiction of the courts of England and has waived any objections to the courts of England on the grounds that they are an inconvenient or inappropriate forum and has appointed an agent for the service of process in England.

FORM OF FINAL TERMS

The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.

Final Terms dated [●]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes],
issued by, but with limited recourse to

PKO Finance AB (publ) (the “**Issuer**”)

under the [Programme Amount]
Programme for the Issuance of Loan Participation Notes

for the sole purpose of financing a [Senior/Subordinated] Loan to
Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the “**Borrower**”)

The 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.

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 [●] [and the Base Prospectus Supplement dated [●]] which [together] constitute[s] a base prospectus (the “**Base Prospectus**”) for the purposes of the Prospectus Directive (Directive 2003/71/EC, as amended) (the “**Prospectus Directive**”). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive. These Final Terms contain the final terms of the Notes and must be read in conjunction with such Base Prospectus [as so supplemented].

Full information on the Issuer, the Borrower and the offer of the Notes described herein is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the Base Prospectus Supplement] [is] [are] available for viewing [at [website]] [and] during normal business hours at [address] [and copies may be obtained from [address]].

[The following alternative language applies if the first tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date].

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 [original date] and the supplement base prospectus[es] dated [original date(s)]. These Final Terms contain the final terms of the Notes and must be read in conjunction with the Base Prospectus dated [current date] [and the Base Prospectus Supplement dated [date]] 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**”), save in respect of the Conditions which are extracted from the base prospectus dated [original date] and are attached hereto. This document constitutes the Final Terms relating to the issue of Notes described herein for the purposes of Article 5.4 of the Prospectus Directive.

Full information on the Issuer, the Borrower and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Prospectuses dated [original date] and [current date] [and the Base Prospectus Supplements dated 1● and 1●]. The Base Prospectuses [and the Base Prospectus Supplement] 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, or adding any other final terms or information, 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) Issuer: | PKO Finance AB (publ) |
| | (ii) Borrower: | Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna |
| 2. | [(i) Series Number:] | [•] |
| | [(ii) Tranche Number:] | [•] |
| | (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] | |
| 3. | Specified Currency or Currencies: | [•] |
| 4. | Aggregate Nominal Amount: | [•] |
| | [(i) [Series]: | [•] |
| | [(ii) Tranche: | [•] |
| 5. | Issue Price: | [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from <i>[insert date]</i> (in the case of fungible issues only, if applicable)] |
| 6. | (i) Specified Denominations: | [•] |
| | | <i>[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)]</i> |
| | (ii) Calculation Amount: | [•] |
| | | <i>[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]</i> |
| 7. | (i) Issue Date: | [•] |
| | (ii) Interest Commencement Date: | [Specify/Issue Date/Not Applicable] |

8. Maturity Date: [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]
9. Interest Basis: [● per cent. Fixed Rate]
[[Specify reference rate] +/- ● per cent. Floating Rate]
[Zero Coupon]
[Index Linked Interest]
[Other (Specify)]
(further particulars specified below)
10. Redemption/Payment Basis: [Redemption at par]
[Index Linked Redemption]
[Dual Currency]
[Partly Paid]
[Instalment]
[Other (Specify)]
11. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis]
12. Put/Call Options: [Investor Put]
[Issuer Call]
[(further particulars specified below)]
13. [(i) Status of the Notes: [Senior/[Dated/Subordinated]]
[(ii) Status of the Loan Agreement: [Senior/[Dated/Subordinated]]
[(iii) [Date [Board] approval for issuance of Notes [and Loan Agreement] [respectively]] [●] [and [●]], respectively
[obtained: [(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)]
14. Method of distribution: [Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15. **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 arrear]
- (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)/other]
- (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))]
[Not Applicable/give details]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/give details]
16. **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/ other (give details)]
- (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/other (give details)]
- (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: [●]
- (xv) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
- 17. 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: [●]
- (iii) Any other formula/basis of determining amount payable: [Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition [10(g)]]
- 18. Index-Linked Interest Note/other variable-linked interest Note Provisions** [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: [●]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
- (vi) Interest Determination Date(s): [●]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Interest or calculation period(s): [●]
- (vii) 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")*
- (viii) 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")
- (ix) Business Day Convention:
 [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other *(give details)*]
- (x) Additional Business Centre(s) :
- (xi) Minimum Rate/Amount of Interest: per cent. per annum
- (xii) Maximum Rate/Amount of Interest: per cent. per annum
- (xiii) Day Count Fraction:
19. **Dual Currency Note Provisions**
[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange:
[give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due:
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:
- (iv) Person at whose option Specified Currency(ies) is/are payable:
- PROVISIONS RELATING TO REDEMPTION**
20. **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:
21. **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:
22. **Final Redemption Amount of each Note**
[Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable:
[give or annex details]
- (ii) Calculation Agent responsible for calculating the Final Redemption Amount:
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable:
- (iv) Date for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable:

- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) [Payment Date]: [●]
- (vii) Minimum Final Redemption Amount: [●] per Calculation Amount
- (viii) Maximum Final Redemption Amount: [●] per Calculation Amount
23. **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

24. **Form of Notes¹:** [Bearer Notes:]
 [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [●] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]
 [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice]
 [Permanent Global Note exchangeable for Definitive Notes on [●] 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 [●] days' notice/at any time/in the limited circumstances described in the Global Registered Note]
 [Yes] [No]
25. New Global Note: [Not Applicable/give details.]
26. Additional Financial Centre(s) or other special provisions relating to payment dates: *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*

¹ Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "[EUR 50,000] and integral multiples of [EUR 1,000] in excess thereof up to and including [EUR 99,000]." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

27. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes/No. *If yes, give details*]
28. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made [and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment]: [Not Applicable/*give details*]
29. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
30. Redenomination, renormalisation and reconventioning provisions: [Not Applicable/The provisions [in Condition [●]] apply]
31. [Consolidation provisions: Not Applicable/The provisions [in Condition [●] (*Further Issues*)] [annexed to this Final Terms] apply]

DISTRIBUTION

32. (i) If syndicated, names of Managers: [Not Applicable/*give names*]
(ii) Stabilising Manager(s) (if any): [Not Applicable/*give name*]
33. If non-syndicated, name of Dealer: [Not Applicable/*give name*]
34. 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
[Not Applicable/*give details*]
35. Additional selling restrictions: [Not Applicable/*give details*]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue and admission to trading on the [*specify relevant regulated market*] of the Notes described herein pursuant to the €3000,000,000 Programme for the Issuance of Loan Participation Notes issued by, but with limited recourse to PKO Finance AB (publ) for the sole purpose of financing senior and subordinated loans to Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of

PKO Finance AB (publ):

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing [Luxembourg Stock Exchange/other (specify)/None]
(ii) Admission to trading [Application is has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [*specify relevant regulated market*] with effect from [●].]
[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on the [*specify relevant regulated market*] with effect from [●].] [Not Applicable.]
(*Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.*)

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:]

[“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.”]

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Prospectus under Article 16 of the Prospectus Directive.)]

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

(i) Reasons for the offer:

[●]

(See “Use of Proceeds” wording in Prospectus – if reasons for offer different from making profit and/or hedging certain risks will need to include those reasons here.)

(ii) Estimated net proceeds:

[●]

(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all proposed uses state amount and sources of other funding.)

(iii) Estimated total expenses relating to the admission to trading:

[●]

[Include breakdown of expenses]

(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies it is only necessary to include disclosure of net proceeds and total expenses at (ii) and (iii) above where disclosure is included at (i) above.)

5. **[Fixed Rate Notes only – YIELD**

Indication of yield:

[●]

[The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **[Floating Rate Notes only – HISTORIC INTEREST RATES**

Details of historic [LIBOR/EURIBOR/other] rates can be obtained from [Reuters].]

7. **[Index-linked or other variable-linked notes only – PERFORMANCE OF INDEX/FORMULA/ OTHER VARIABLE, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING**

Need to include details of where past and future performance and volatility of the index/formula/ other variable can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident. [Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained. Where the underlying is not an index need to include equivalent information. Include other information concerning the underlying required by Paragraph 4.2 of Annex XII of the Prospectus Directive Regulation, in particular a description of any market disruptions or settlement disruption events that affect the underlying and adjustment rules with relation to events concerning the underlying.]]

[(When completing this paragraph, 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.)]

The Issuer [intends to provide post-issuance information [specify what information will be reported and where it can be obtained]] [does not intend to provide post-issuance information]

8. **[Dual Currency Notes only – PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT**

Need to include details of where past and future performance and volatility of the relevant rate[s] can be obtained and a clear and comprehensive explanation of how the value of the investment is affected by the underlying and the circumstances when the risks are most evident.]

[(When completing this paragraph, 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.)]

9. **OPERATIONAL INFORMATION**

ISIN Code:

Common Code:

Any clearing system(s) other than Euroclear Bank SA/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):

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 intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
[include this text if “yes” selected in which case the Notes must be issued in NGN form]

[THE FINAL FORM OF [SENIOR/SUBORDINATED] LOAN SUPPLEMENT WILL BE ATTACHED]

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note in bearer form, references in the Terms and Conditions of the Notes to “**Noteholder**” are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary, in the case of a CGN, or a common safekeeper, in the case of an NGN for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or, as the case may be, common safekeeper.

In relation to any Tranche of Notes represented by a Global Registered Note, references in the Terms and Conditions of the Notes to “**Noteholder**” are references to the person in whose name such Global Registered Note is for the time being registered in the Register which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Registered Note (each an “**Accountholder**”) must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder’s share of each payment made by the Issuer or the Borrower to the holder of such Global Note or Global Registered Note and in relation to all other rights arising under such Global Note or Global Registered Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note or Global Registered Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Registered Note, Accountholders shall have no claim directly against the Issuer or the Borrower in respect of payments due under the Notes and such obligations of the Issuer and the Borrower will be discharged by payment to the holder of such Global Note or Global Registered Note.

Exchange of Temporary Global Notes

Whenever any interest in a Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure:

- (a) in the case of first exchange, the prompt delivery (free of charge to the bearer) of such Permanent Global Note, duly authenticated and, in the case of an NGN, effectuated, to the bearer of the Temporary Global Note; or
- (b) in the case of any subsequent exchange, an increase in the principal amount of such Permanent Global Note in accordance with its terms,

in each case in an aggregate principal amount equal to the aggregate of the principal amounts specified in the certificates issued by Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and received by the Principal Paying Agent against presentation and (in the case of final exchange) surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 7 days of the bearer requesting such exchange.

Whenever a Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) a Permanent Global Note has not been delivered or the principal amount thereof increased by 5.00 p.m. (London time) on the seventh day after the bearer of a Temporary Global Note has requested exchange of an interest in the Temporary Global Note for an interest in a Permanent Global Note; or
- (b) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Temporary Global Note has requested exchange of the Temporary Global Note for Definitive Notes; or
- (c) a Temporary Global Note (or any part thereof) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of a Temporary Global Note has occurred and,

in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Temporary Global Note in accordance with the terms of the Temporary Global Note on the due date for payment,

then the Temporary Global Note (including the obligation to deliver a Permanent Global Note or increase the principal amount thereof or deliver Definitive Notes, as the case may be) will become void at 5.00 p.m. (London time) on such seventh day (in the case of (a) above) or at 5.00 p.m. (London time) on such thirtieth day (in the case of (b) above) or at 5.00 p.m. (London time) on such due date (in the case of (c) above) and the bearer of the Temporary Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Temporary Global Note or others may have under the Trust Deed.) Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Temporary Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Temporary Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Permanent Global Notes

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the bearer requesting such exchange.

If:

- (a) Definitive Notes have not been delivered by 5.00 p.m. (London time) on the thirtieth day after the bearer of a Permanent Global Note has duly requested exchange of the Permanent Global Note for Definitive Notes; or
- (b) a Permanent Global Note (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer of the Permanent Global Note in accordance with the terms of the Permanent Global Note on the due date for payment,

then the Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of the Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of the Permanent Global Note or others may have under the Trust Deed). Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before the Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Exchange of Global Note Certificates

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the holder of the Global Note Certificate to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the specified office of the Registrar. Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If:

- (a) Individual Note Certificates have not been delivered by 5.00 p.m. (London time) on the thirtieth day after they are due to be issued and delivered in accordance with the terms of the Global Registered Note; or
- (b) any of the Notes represented by a Global Note Certificate (or any part of it) has become due and payable in accordance with the Terms and Conditions of the Notes or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the holder of the Global Note Certificate in accordance with the terms of the Global Note Certificate on the due date for payment,

then the Global Note Certificate (including the obligation to deliver Individual Note Certificates) will become void at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above) and the holder of the Global Note Certificate will have no further rights thereunder (but without prejudice to the rights which the holder of the Global Note Certificate or others may have under the Trust Deed. Under the Trust Deed, persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note Certificate will acquire all those rights to which they would have been entitled if, immediately before the Global Note Certificate became void, they had been the holders of Individual Note Certificates in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note, Note Certificate or Coupon, will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that in respect of a CGN the payment is noted in a schedule thereto and in respect of an NGN the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Business Day for Payments: While Notes are represented by the Global Note or a Global Note Certificate, references in Conditions 6.8 and 7.5 of the Terms and Conditions of the Notes to “**Business Day**” shall mean, if the currency of payment is euro, any day the TARGET System is operating and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre, as specified in the applicable Final Terms; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies may be carried on in the principal financial centre of the currency of payment and in each (if any) Additional Financial Centre, as specified in the applicable Final Terms.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the “**Record Date**”) where “**Clearing System Business Day**” means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Exercise of put option: In order to exercise the option contained in Condition 5.4 (*Put Option*) the bearer of the Permanent Global Note or the holder of a Global Registered Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 5.3 (*Call Option*) in relation to some only of the Notes, the Permanent Global Note or Global Registered Note may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the

Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, deposited with a depository or a common depository for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or a common safekeeper, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, except that, for so long as such Notes are admitted to trading on the Luxembourg Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

TAXATION

The following is a general description of certain Swedish, Polish and Luxembourg tax considerations relating to the Notes and to the Programme. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws 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 of those countries. This summary is based upon the laws of Sweden, Poland and Luxembourg as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date. The information contained within this section is limited to taxation issues, and prospective investors should not apply any information set out below to other areas, including (but not limited to) the legality of transactions involving the Notes.

The Kingdom of Sweden

Noteholders not resident in Sweden

Payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to the Noteholder should not be subject to Swedish income tax, provided that such Noteholder is not resident in Sweden for Swedish tax purposes and provided that such Noteholder does not have a permanent establishment in Sweden to which the Notes are effectively connected.

Swedish withholding tax, or Swedish tax deduction, is not imposed on payments of any principal amount or any amount that is considered to be interest for Swedish tax purposes to a Noteholder, except for certain payments of interest and other yield on the Notes (if any, not including capital gains) paid at the same time as interest to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes.

Interest received by Noteholders being tax residents of countries other than Sweden may be taxed according to the domestic law of the countries of their tax residency. Accordingly, interest received by Polish Noteholders (individuals and legal persons) should be subject to 19% income tax in Poland.

Noteholders resident in Sweden

Generally, for Swedish corporations and private individuals (and estates of deceased individuals) with residence in Sweden for Swedish tax purposes, all capital income (e.g. income that is considered to be interest for Swedish tax purposes and capital gains on Notes) will be taxable. Specific tax consequences, however, may be applicable to certain categories of corporations, for example life insurance companies.

If the Notes are held by a Swedish nominee in accordance with the Swedish Financial Instruments Accounts Act (SFS 1998:1479), Swedish preliminary taxes are withheld by the nominee on payments of amounts that are considered to be interest for Swedish tax purposes and other yield on the Notes (if any, not including capital gains) paid at the same time as interest to a private individual (or an estate of a deceased individual) with residence in Sweden for Swedish tax purposes.

The Republic of Poland

Polish withholding tax on interest paid by the Bank to the Issuer

Under Polish Law, interest derived on the territory of Poland by the Issuer, being a corporate entity resident in Sweden, is subject to 20% withholding tax in Poland. However, it is possible to decrease the tax rate on the basis of:

- a relevant treaty on the avoidance of double taxation (the “**DTT**”); or
- regulations of Polish corporate income tax act implementing the EU Directive on royalties and interest (“**EU Directive on Royalties and Interest**”) is currently applying the transitional period of implementation of the above-mentioned EU Directive. During the period from 1 July 2009 to 30 June 2013, the applicable withholding tax rate is reduced to 5%. Full implementation of the EU Directive on Royalties and Interest, and therefore an exemption of interest from withholding tax, will come into force starting from 1 July 2013.

The application of preferences resulting from the Poland-Sweden DTT (the treaty reduced the withholding tax rate to 0%) to the interest payments between the Bank and the Issuer is applicable only if:

- (i) interest is at arm's length (the excessive interest paid between related parties does not benefit from treaty protection and withholding tax at the standard rate may apply to such excessive amounts);

- (ii) the Bank is provided with a certificate of tax residency issued by the Swedish tax authorities, documenting the tax residency of the Issuer as at the time of the given interest payment;
- (iii) the limitation of benefits clause under the Poland-Sweden DTT does not apply; and
- (iv) the Issuer can be treated as the beneficial owner of interest received from the Bank under the Poland-Sweden DTT. There are significant controversies relating to the existence of the beneficial owner clause in the Poland-Sweden DTT. However, the Supreme Administrative Court recently issued an important judgment in that respect in which it stated that such clause is in fact present in the above-mentioned DTT and as a consequence, in order to apply the 0% withholding tax rate, it should be determined whether the recipient of the interest (the Issuer) is the beneficial owner.

In general, payments of interest on borrowed funds by a Polish entity to a non-resident legal person are subject to Polish withholding income tax at a rate of 20%, subject to reduction or elimination pursuant to the terms of an applicable double tax treaty. Based on the professional advice it has received.

The Borrower believes that, payments of interest on the Loans made by the Borrower to the Issuer will, more likely than not, not be subject to withholding taxes under the terms of the DTT concluded between Poland and Sweden, provided the Polish tax documentation requirements (confirmation of the Issuer's tax residency in the form of a certificate of tax residency) are satisfied. In order to secure the Borrower's position, such certificate of tax residency should be renewed annually. However, as the interpretation or the wording of the DTT concluded between Poland and Sweden may be changed in the future, there can be no assurance that such double tax relief will continue to be available.

If the payments under the Loan Agreement are subject to any withholding taxes for any reason (as a result of which the Issuer would reduce payments under the Notes in the amount of such withholding taxes), the Borrower is obliged to increase payments as may be necessary so that the Issuer receives the net amount equal to the full amount it would have received in the absence of such withholding. In the event that the Borrower fails to increase the payments, such failure would constitute an Event of Default under a Senior Loan Agreement. If the Borrower is obliged to increase payments, it may prepay the Loan in full. In such case, all outstanding Notes would be redeemable at par with accrued interest.

Currently the Polish Corporate Income Tax Law requires the tax remitter to document the tax residency status of the recipient (here: the Issuer) as at the payment date, without imposing any specific timeframe for documentation. The Bank, as the Polish withholding tax remitter is responsible for any tax arrears resulting from application of the incorrect tax rate or non-withholding the tax (unless the tax has not been withheld or withheld in a wrong amount due to the fault of the taxpayer). Therefore, if the Issuer as the recipient of interest under the Loans does not provide a valid tax residency certificate, the Polish tax remitter should withhold the tax at the standard domestic 20% rate. The same would apply if interest recipient is not entitled to protection under the applicable double taxation treaty or the Polish domestic regulations implementing the EU Directive on Royalties and Interest.

Withholding tax collection and reporting requirements in Poland

If applicable, withholding tax should be withheld by the Bank at the moment of payment and transferred to the relevant Tax Office by the seventh day of the month following the month in which the tax was withheld. Additionally, a tax remitter is obliged to send the respective information on the payments made and on the tax withheld to the taxpayer and to the Polish tax office by the end of the third month of the year following the tax year in which the interest payments were made.

Upon a written request the taxpayer is entitled to obtain from the tax remitter information on the interest payments made and on the tax withheld (within 14 days from the date of the submission of the written request).

The remitter is obliged to submit to the Polish tax office, an annual tax return regarding withholding tax by the end of the first month of the year following the tax year in which the obligation to pay the tax arises.

Refund of overpaid Polish withholding tax

If withholding tax is overpaid or unduly withheld by the Bank as the tax remitter, then generally, pursuant to Polish regulations, the interest recipient/legal owner of the interest can claim the refund of the overpaid tax within five years after the tax is deducted. The application for a refund requires the submission of an application for a statement of tax overpayment to a relevant tax office.

Payments made to the Trustee after enforcement of the security

In the case of interest and fee payments made to the Trustee following any enforcement of security, the key issue is to resolve whether the Issuer or the Trustee or another entity, on the basis of an agreement with the Issuer, may be treated as a recipient and/or beneficial owner of the interest received from the Borrower. There is a lack of clarity as to who the beneficial owner of the interest is, not only due to the absence of a clear definition of “beneficial owner”, but also due to the fact that the concept of trust is not recognised by Polish regulations and, moreover, that the Trust Deed is governed by English law. The mere transfer of administrative rights and obligations from the Issuer to the Trustee should not impact on the Issuer’s right to apply the exemption from withholding tax on interest provided by the Poland-Sweden DTT. Due to the transfer of administrative rights and obligations, the Issuer is not denied legal ownership of the interest and as a consequence, the Issuer should not lose the status of the beneficial owner of such interest. The role of the Trustee is limited to settling the relevant payments, to transferring such payments to the recipients, and to maintaining all technical and administrative data. However, in circumstances where the Issuer ceases to be the recipient of the interest with the full right to dispose of it as its owner, then the Trustee may come to be deemed to be the recipient and/or the beneficial owner of the interest in accordance with the tax treaty between Poland and the country where the Trustee is a resident. As a result, the taxation of interest and other fees constituting remuneration for making capital available should be subject to the treaty between Poland and the country where the Trustee is a resident. It is also possible, however, that the treaty between Poland and the country where the Trustee is a resident may not be applied, because the Trustee, by nature of its functions and contractual obligations, may not qualify as the recipient and/or the beneficial owner of the interest for the purposes of the relevant tax treaty. In such a case (i.e. when neither the Issuer nor the Trustee may be treated as the recipient and/or the beneficial owner within the meaning of the relevant double tax treaty), it cannot be excluded that the Polish tax authorities will support the position that the withholding tax on the interest can only be reduced or eliminated based on the double tax treaty concluded between Poland and the country in which the Noteholder is a tax resident, if any, and the provisions of such treaty, subject to compliance with treaty clearance formalities (such as the delivery of a tax residency certificate to the Bank). At the same time, if withholding tax applies, the Bank is obliged to increase such interest payment to the extent necessary so that the Trustee receives a net amount equal to the full amount it would have received in the absence of such withholding tax.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the “**EU Savings Directive**”), each Member State is required to provide to the tax authorities of another Member State details regarding interest payments within the meaning of the EU Savings Directive or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in such other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments by deducting tax at rates rising over time to 35 percent, unless in the case of Luxembourg the beneficial owner of the interest payments opts for one of the two information exchange procedures available. The transitional period is to terminate at the end of the first full fiscal year following the entry into an agreement by certain non-EU countries regarding the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of information exchange with the Member State of residence as of 1 January 2010.

A number of non-EU countries, including Switzerland and certain dependent or associated territories of certain Member States, have adopted similar measures (either the provision of information or transitional withholding) in relation to payments made by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entities established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entities established in one of those territories.

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Luxembourg

All payments of interest and principal by Issuer in the context of the holding, disposal, redemption or repurchase of the Notes can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with the applicable Luxembourg law, subject however to:

- (i) the application of the Luxembourg laws of 21 June 2005 implementing the EU Savings Directive and several agreements concluded with certain dependent or associated territories and providing for the possible application of a withholding tax (35%) on interest paid to certain non Luxembourg resident investors (individuals and certain types of entities called “residual entities”) in the event of the Issuer appointing a paying agent in Luxembourg within the meaning of the EU Savings Directive (see, paragraph “*EU Savings Directive*” above) and agreements; and
- (ii) the application as regards Luxembourg resident individuals (acting in the context of the management of their private wealth) of the Luxembourg law of 23 December 2005, as amended by law of 17 July 2008, which has introduced a 10% final withholding tax on savings income paid by a Luxembourg paying agent (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive). The law applies to savings income accrued as from 1 July 2005 and paid as from 1 January 2006. In addition, an optional and final 10% tax can be applied by Luxembourg resident individuals on savings income that is being paid by a paying agent that is established outside Luxembourg but within the EU or in a country that is member to the EEA agreement. The 10% tax would not be final in the case of savings income received by an individual in the course of his business activity, agricultural or forestry activity or in the course of a liberal profession.

Responsibility for the withholding of tax in application of the above-mentioned Luxembourg laws of 21 June 2005 and 23 December 2005 (as amended) is assumed by the Luxembourg paying agent within the meaning of these laws and not by the Issuer. As an exception to this rule, Luxembourg resident individuals who have opted for taxation through withholding on savings income paid by a paying agent established outside Luxembourg will be required to meet the withholding tax obligations themselves.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to any one or more of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna or such other Dealers as may be appointed from time to time in respect of any Series of Notes (the “**Dealers**”). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in an amended and restated dealer agreement dated 19 April 2012 (the “**Dealer Agreement**”) and made between the Issuer, the Borrower and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Dealer has agreed that, except as permitted by the Dealer Agreement, it will not offer, sell or deliver Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Notes comprising the relevant Tranche, as certified to the Principal Paying Agent or the Issuer by such Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Principal Paying Agent or the Issuer shall notify each such Dealer when all such Dealers have so certified) within the United States or to, or for the account or benefit of, U.S. persons, and such Dealer will have sent to each dealer to which it sells Notes during the distribution compliance period relating thereto a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of Notes comprising any Tranche, any offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Public Offer Selling Restriction Under the Prospectus Directive

In relation to each Relevant Member State, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by the Base Prospectus as completed by the Final Terms in relation thereto (or are the subject of the offering contemplated by a Drawdown Prospectus, as the case may be) to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) **Approved Prospectus:** if the Final Terms or Drawdown Prospectus in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a “**Non-exempt Offer**”), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus which is not a Drawdown Prospectus has subsequently been completed by the Final Terms contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or final terms, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;
- (b) **Qualified investors:** at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- (c) **Fewer than 100 offerees:** at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (d) **Other exempt offers:** at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Notes to the public**” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented, warranted and agreed that:

- (a) **No deposit-taking:** in relation to any Notes having a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,

where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;

- (b) **Financial promotion:** it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Borrower; and
- (c) **General compliance:** it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Poland

Unless the Base Prospectus for the Notes has been approved by either the Polish competent authority for the approval of prospectuses for the public offering of securities in Poland or the admission of securities to trading on a regulated market in Poland or the relevant competent authority in an EU member state, and Poland has received a certificate of such approval with a copy of the Base Prospectus and Polish translation of its summary as required under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies of 29 July 2005 (Journal of Laws of 2005, No. 184 item 1539) (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, or to an unspecified addressee, which contains sufficient information on the securities to be offered and the terms and conditions of their acquisition, so as to enable an investor to decide to purchase securities”.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result

in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, “**Japanese Person**” shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

General

Each Dealer has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Base Prospectus or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Base Prospectus or any Final Terms comes are required by the Issuer, the Borrower and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Base Prospectus or any Final Terms or any related offering material, in all cases at their own expense.

The Dealer Agreement provides that the Dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the Dealers described in the paragraph headed “*General*” above.

Selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisations

1. The establishment of the Programme was authorised by a resolution of the Board of Directors of the Issuer adopted on 14 July 2008.

The establishment and the renewal of the Programme, as well as the entering into of the Senior Facility Agreement and the Subordinated Facility Agreement was authorised by resolutions of the Management Board of the Borrower adopted on 15 July 2008, as updated on 11 March 2010, and the resolution of the Management Board of the Borrower adopted on 15 February 2011, and by the Supervisory Board of the Borrower adopted on 16 July 2008.

Each of the Issuer and the Borrower (as the case may be) has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the execution and performance of the Senior Facility Agreement and the Subordinated Facility Agreement (as applicable).

Legal and Arbitration Proceedings

2. There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or the Borrower is aware), which may have, or have had during the 12 months prior to the date of this Base Prospectus, a significant effect on the financial position or profitability of the Issuer or the Borrower and its subsidiaries.

Significant/Material Change

3. There has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer since 31 December 2011. There has been no material adverse change in the prospects of the Borrower and its subsidiaries since 31 December 2011 nor has there been any significant change in the financial or trading position of the Borrower and its subsidiaries since 31 December 2011.

Independent Certified Auditors

4. PricewaterhouseCoopers Sp. z o.o., with its registered office in Warsaw (00-638 Warszawa, Al. Armii Ludowej 14), audited the consolidated financial statements of the Group for the year ended 31 December 2011 and the consolidated financial statements of the Group for the year ended 31 December 2010 and issued unqualified auditor's opinions on the aforementioned financial statements. PricewaterhouseCoopers Sp. z o.o. audited the stand-alone financial statements of the Bank for the year ended 31 December 2011 and the stand-alone financial statements of the Bank for the year ended 31 December 2010 and issued unqualified auditor's opinions on the aforementioned financial statements. The stand-alone financial statements of the Bank audited by PricewaterhouseCoopers Sp. z o.o. are not incorporated into this Base Prospectus by reference.

PricewaterhouseCoopers Sp. z o.o. is registered in the register of auditors held by the National Chamber of Statutory Auditors under No. 144. On behalf of PricewaterhouseCoopers Sp. z o.o., the consolidated financial statements of the Group for the years ended 31 December 2011 and 2010 were audited by Antoni F. Reczek (certified auditor, licence No. 90011).

Öhrlings PricewaterhouseCoopers AB, with its registered office in Stockholm (Torsgatan 21, 113 97 Stockholm, Sweden), audited the stand-alone financial statements of the Issuer for the year ended 31 December 2011 and the stand-alone financial statements of the Issuer for the year ended 31 December 2010 and issued unqualified auditor's opinions on the aforementioned financial statements.

On behalf of Öhrlings PricewaterhouseCoopers AB, the stand-alone financial statements of the Issuer for the year ended 31 December 2011 and the stand-alone financial statements of the Issuer for the year ended 31 December 2010 were audited by Sussanne Sundvall who is a member of FAR in Sweden.

There were no events of resignation or dismissal of a certified auditor appointed to audit the financial statements of the Bank or the Group in the period covered by the Consolidated Financial Statements included in this Base Prospectus.

In accordance with the Bank's Statute, an auditor authorised to audit the financial statements of the Bank and the consolidated financial statements of the Group is appointed by the Supervisory Board.

On 17 April 2008, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. as the auditor authorised to audit the annual financial statements of the Bank and the annual consolidated financial

statements of the Group and to review the interim semi-annual financial statements of the Bank and the interim semi-annual consolidated financial statements of the Group for the years 2008-2010.

On 27 June 2008, the Issuer appointed Öhrlings PricewaterhouseCoopers AB as the auditor authorised to audit the annual stand-alone financial statements of the Issuer for the years ended 31 December 2008, 2009, 2010 and 2011.

On 28 March 2010, the Supervisory Board appointed PricewaterhouseCoopers Sp. z o.o. as the auditor authorised to audit the annual financial statements of the Bank and the annual consolidated financial statements of the Group and to review the interim semi-annual financial statements of the Bank and the interim semi-annual consolidated financial statements of the Group for the years 2011-2013.

Documents on Display

5. Copies of the following documents (and the English translations where the original documents are not in English) may be inspected during normal business hours at the specified offices of the Principal Paying Agent and the Luxembourg Paying Agent for 12 months from the date of this Base Prospectus:
 - (a) a copy of this Base Prospectus along with any supplement to this Base Prospectus;
 - (b) the Articles of Association and Certificate of Registration of the Issuer;
 - (c) the By-laws (*Statut*) of the Borrower;
 - (d) the audited consolidated financial statements of the Group for the years ended 31 December 2011 and 2010;
 - (e) the auditors' reports in respect of the audited consolidated financial statements of the Group for the years ended 31 December 2011 and 2010;
 - (f) the audited stand-alone financial statements of the Issuer for the years ended 31 December 2011 and 2010;
 - (g) the auditors' reports in respect of the audited stand-alone financial statements of the Issuer for the years ended 31 December 2011 and 2010;
 - (h) the Agency Agreement;
 - (i) the Trust Deed;
 - (j) the Senior Facility Agreement;
 - (k) the Dealer Agreement;
 - (l) the Account Bank Agreement; and
 - (m) the Issuer-ICSDs Agreement.

Clearing of the Notes

6. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Tranche will be specified in the relevant Final Terms relating thereto. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

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REGISTERED OFFICE OF THE BORROWER

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ACCOUNT BANK AND REGISTRAR**

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LUXEMBOURG PAYING AGENT

**Banque Internationale
à Luxembourg**

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