



Bank Polski

**Supplement dated 5 September 2011
to the Base Prospectus dated 15 April 2011**

€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)

This document constitutes the second supplement (the “**Second Supplement**”) to and must be read in conjunction with the Base Prospectus dated 15 April 2011, as amended by the first supplement dated 6 June 2011 (the “**First Supplement**”) (together, the “**Base Prospectus**”), prepared by PKO Finance AB (publ) (the “**Issuer**”) and Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna (the “**Borrower**” or the “**Bank**”) with respect to the programme for the issuance of loan participation notes (the “**Notes**”) referred to above (the “**Programme**”).

The terms defined in the Base Prospectus have the same meanings ascribed thereto when used in this Second Supplement. To the extent that there is any inconsistency between any statement in this Second Supplement and any other statement in or incorporated into the Base Prospectus, the statements in this Second Supplement will prevail.

Application has been made to the Luxembourg *Commission de Surveillance du Secteur Financier* (the “**CSSF**”), which is the Luxembourg competent authority for the purpose of Directive 2003/71/EC, as amended (the “**Prospectus Directive**”) and relevant implementing measures in Luxembourg to approve this document as a Second Supplement.

Each of the Issuer and the Borrower accepts responsibility for the information contained or incorporated by reference in this Second Supplement. To the best of their knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this Second Supplement is in accordance with the facts and contains no omission likely to affect its import.

Publication of the Semi-Annual Financial Statements of the Borrower

This Second Supplement has been prepared pursuant to Article 16.1 of the Prospectus Directive and Article 13 of the Luxembourg Law on prospectuses for securities dated 10 July 2005 (the “**Luxembourg Law**”) in connection with the release by the Borrower on 11 August 2011 of its condensed interim consolidated financial statements for the six-month period ended 30 June 2011 (the “**Condensed Interim Consolidated Financial Statements**”) and the independent registered auditor’s report on the review of the Condensed Interim Consolidated Financial Statements (the “**Auditor’s Report**”) and for the purposes of incorporating by reference the Condensed Interim Consolidated Financial Statements along with the Auditor’s Report as set out below. A copy of the Condensed Interim Consolidated Financial Statements and of the Auditor’s Report has been filed with the CSSF and is incorporated by reference into, and forms part of, this Second Supplement and, by virtue of this Second Supplement, is incorporated into, and forms part of, the Base Prospectus.

The following information is included on the indicated pages of the Condensed Interim Consolidated Financial Statements:

(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 Condensed Interim Consolidated Financial Statements	pages 8-66

The following constitutes the Auditor's Report:

- (g) Independent registered auditor's report on the review of the condensed interim consolidated financial statements for the period from 1 January to 30 June 2011

Any information not listed above but included in a document 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.

Risk factors

The section titled 'Risk factors' set out on pages 10 to 29 of the Base Prospectus shall be deemed to be amended as set out in Annex A hereto.

Description of the Group

The section titled 'Description of the Group' set out on pages 39 to 83 of the Base Prospectus shall be deemed to be deleted and replaced with Annex B hereto.

Industry overview

The section titled 'Industry overview' set out on pages 84 to 87 of the Base Prospectus shall be deemed to be deleted and replaced with Annex C hereto.

Banking Regulations in Poland

The section titled 'Banking Regulations in Poland' set out on pages 88 to 90 of the Base Prospectus shall be deemed to be deleted and replaced with Annex D hereto.

General Information on the Bank

The section titled 'General Information on the Bank' set out on pages 91 to 98 of the Base Prospectus shall be deemed to be deleted and replaced with Annex E hereto.

Management and Corporate Governance

The section titled 'Management and Corporate Governance' set out on pages 99 to 112 of the Base Prospectus shall be deemed to be deleted and replaced with Annex F hereto.

Significant and Material Change

On 7 July 2011, the second series of Notes under the Programme, with a total face value of CHF 250,000,000, was issued under the Programme. These Notes bear interest at a fixed rate of 3.538% per annum, paid annually, and have a maturity of five years. These Notes are listed on the SIX Swiss Exchange. In connection with the issuance, on 7 July 2011 the Bank borrowed funds from the Issuer, 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 senior and unsecured and was extended for a term of five years.

On 12 August 2011, the Bank issued, on the non-public market and under a program for the issuance of treasury bonds on the domestic market of up to PLN 5,000,000,000 or the equivalent thereof in EUR, USD or CHF, 12,500 short-term discount bonds with a total value of PLN 1,250.0 million. For a detailed description of the issue, please see “*Description of the Group – Material Contracts – Material Issues of Debt Securities*” in Annex B to this Second Supplement.

On 23 August 2011, the Bank’s management board received a letter from the State Treasury and Bank Gospodarstwa Krajowego, both shareholders of the Bank, informing them of the temporary suspension of the sale of shares in the Bank by way of a public offering. In connection with the receipt of the letter, the Bank’s management board decided to suspend any actions connected with the preparation for the sale of shares in the Bank by way of a public offering and consented to the Bank signing and filing an application for the suspension of the administrative proceedings pending before the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*) (the “PFSA”) relating to the approval of the prospectus. While a new date of the offering has not yet been determined, the Ministry of the State Treasury has announced that the decision on the new timing of the offering will be made in late October or early November, once the global financial markets stabilize.

General

Save as disclosed in this Second Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus which is material in the context of the Programme since the publication of the First Supplement.

Copies of this Second Supplement and of the documents incorporated by reference into this Second Supplement can be obtained, free of charge, at the specified offices of Citibank, N.A., London Branch and Dexia Banque Internationale à Luxembourg, unless such documents have been modified or superseded. The Second Supplement as well as such documents which have been incorporated by reference into this Second Supplement will also be available to view on the website of the Luxembourg Stock Exchange (www.bourse.lu).

In accordance with Article 16.2 of the Prospectus Directive and Article 13 paragraph 2 of the Luxembourg Law, investors who have already agreed to purchase or subscribe for the securities before the publication of this Second Supplement have the right, exercisable within a time limit of two working days after the publication of this Second Supplement, to withdraw their acceptances.

Table of contents

	Page
Annex A: Amendments to the ‘Risk Factors’ section	4
Annex B: Description of the Group	18
Annex C: Industry Overview	62
Annex D: Banking Regulations in Poland	70
Annex E: General Information on the Bank.....	74
Annex F: Management and Corporate Governance.....	80

ANNEX A

- (a) The sub-section titled 'Risks Relating to Macroeconomic Conditions' on pages 10 to 11 of the Base Prospectus shall be deemed to be deleted and replaced with the following wording:

"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 11.8% at the end of June 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."

- (b) The sub-section titled 'Risks Relating to the Group's Business' on pages 11 to 26 of the Base Prospectus shall be deemed to be deleted and replaced with the following wording:

"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 30 June 2011 there were 48 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 44.4%, 46.5% and 39.1%, respectively, as of 30 June 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 Second Supplement to 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.

Moreover, in February 2010, the European Commission launched a public consultation with regard to possible changes to the capital requirements directives aimed at strengthening the resilience of the banking sector and the financial system as a whole, the draft of which is expected to be presented during the second half of 2011. 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 Second Supplement to 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.

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.

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 Second Supplement to 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. As of the date of the Second Supplement to the Base Prospectus, according to publicly available information published by the Ministry of Finance, the work on such regulations has been discontinued.

On 18 December 2011, the Act on Consumer Credit dated 12 May 2011 (the "**New Consumer Credit Act**") increasing disclosure obligation on creditors will enter into force. The New Consumer Credit Act will require lenders to inform their clients of the aggregate amount of interest, commissions and fees charged in connection with consumer loans, which will enable consumers to more easily compare the consumer loan products available on the market, but may cause a decline in interest in the Group's consumer loans. In addition, on 29 July 2011 the Sejm (the lower house of the Polish parliament) adopted a bill amending, *inter alia*, the Consumer Credit Act and the New Consumer Credit Act by introducing an explicit obligation on banks 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). The above bill came into force on 26 August 2011.

In addition, in July 2011, a law amending the terms of a government-sponsored housing loans program called "*Rodzina na swoim*" was adopted; it entered into force on 31 August 2011. 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.

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 decreased to 7.6% as of 30 June 2011 compared to 31 December 2010.

The Group's loan portfolio has increased significantly 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 allowance 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 30 June 2011, the Group's ratio of coverage of impaired loans stood at 49.2%.

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 rate of recovery and the likelihood of default).

The mortgage loan portfolio represented 46.8% of the Group's gross lending portfolio as of 30 June 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 implemented 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 (18.5% as of 30 June 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 30 June 2011, 10.1% 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 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 67.2% of the Group's net income from business activities in the six months ended 30 June 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 30 June 2011, 66.7% 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 factors such as: 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 30 June 2011, 99% of its amounts due to customers had maturities of one year or less and 47% were payable on demand. 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 67.2% of the Group's net income from business activities in the six months ended 30 June 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 derivative transaction costs, namely swaps.

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 30 June 2011, the Group's capital adequacy ratio stood at 12.58%. 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 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 a high degree of autonomy in 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 the new agreement amending the NBU requirements concerning the existing condition of Kredobank. As of the date of the Second Supplement to the Base Prospectus, Kredobank has failed to comply with certain 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 komisyjny*)) at Kredobank. All such measures could adversely impact the business, financial condition and results of operations of Kredobank and, in turn, the Group.

In addition, on 30 June 2010 and 15 November 2010 the Bank extended two guarantees to Kredobank which secure the repayment of loans under certain loan agreements entered into by Kredobank as the lender. The nominal value of the guarantees amounts to USD 74.8 million. Both guarantees expire on 17 January 2012.

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 or may even cause 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 incentivize 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.

Risk Resulting from Changes in the Composition of the Management Board

In the last few years, there have been several changes in the composition of the Management Board during a specific term in office. The Bank can give no assurance that frequent changes in the composition of its Management Board will not occur in the future, especially as a result of changes in the political situation in Poland. Given the position of the Bank in the Polish banking sector, the importance of the Management Board to the operation of the Bank and the high profile status of the Management Board in the Polish banking sector, frequent changes in the composition of the Management Board during a term in office may have an adverse effect on the Bank's reputation.

Furthermore, the vice-presidents of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board at the request of the President of the Management Board. The Bank can give no assurance that in the future there will be no difference of opinion between the members of the Supervisory Board and the President of the Management Board with regard to the appointment or dismissal

of vice-presidents of the Management Board or other Management Board members, which could adversely affect the reputation and operations of the Bank.

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 Second Supplement to 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 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 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 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 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 community law.

Furthermore, the 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 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 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. As of the date of the Second Supplement to the Base Prospectus, the Management Board has decided to suspend the preparation for the Proposed Sale and has filed an application for the suspension of the administrative proceedings pending before the PFSA relating to the approval of the prospectus prepared in connection with the Proposed Sale. While a new date of the Proposed Sale has not yet been determined, the Ministry of the State Treasury has announced that the decision on the new timing of the Proposed Sale will be made in late October or early November, once the global financial markets stabilize.

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 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 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 Second Supplement to 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 Second Supplement to 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 community 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 Second Supplement to 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 Second Supplement to 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."

ANNEX B

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 Second Supplement to 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 Second Supplement to the Base Prospectus, the Group is the Polish market leader in terms of the value of loans granted to business entities.

As of 30 June 2011, the Bank serviced approximately 7.5 million retail banking customers (including 7.2 million individual customers, 305.9 thousand small and medium enterprises (“SME”) clients, and 41 thousand Housing Sector Entities, excluding Inteligo clients), approximately 640 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 Second Supplement to the Base Prospectus, the operations of Kredobank do not constitute a significant portion of the Group’s operations.

With 1,201 branches, 1,709 agencies, 2,426 ATMs and 321 self-service terminals, as of 30 June 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 26,490 full-time equivalent staff and employees as of 30 June 2011.

As of 30 June 2011, the Group had total assets of PLN 178,701.9 million, amounts due to customers of PLN 139,093.4 million and loans and advances to customers of PLN 135,680.4 million. The Bank had market shares with regard to the Polish banking sector of 14.4%, 18.1% and 17.0%, 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 1,838.3 million for the six months ended 30 June 2011, which, according to data from the PFSA, accounted for 28.2% and 23.4%, 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 12.58% and a Tier 1 ratio of 11.47% with Tier 1 capital of PLN 16,691.6 million as of 30 June 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 Powszechne Towarzystwo Emerytalne S.A. (now PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.), a universal pension fund company that manages an

open pension fund. In 1999, the Bank established a leasing company under the name Bankowy Fundusz Leasingowy S.A. 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 S.A.” while it remained a wholly-owned subsidiary of the State Treasury.

The initial public offering of shares in the Bank was conducted within the scope of the 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 Second Supplement to 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 Second Supplement to the Base Prospectus, the Group’s business is focused on the Polish market and as of 30 June 2011, approximately 99% 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 Polish economy is supported by strong private consumption that increased by 3.5% during the first quarter of 2011, compared to 0.7% in the EU. The economy is also supported by EU funds, which between 2007 to 2013 are estimated to represent approximately 20% of Poland’s nominal GDP in 2010. The Polish economy has withstood the global economic and financial crisis better than most countries in Europe. Based on Eurostat data, Poland was the only country in the EU that evidenced positive real GDP growth during 2009. Based on GUS data, Poland’s GDP increased by 3.8% in 2010, compared to an increase of 1.6% during 2009. Based on Eurostat forecasts, the growth of the GDP is expected to remain at similar level, with Poland’s real GDP growth in 2011 and 2012 estimated at 4.0% and 3.7%, respectively, compared to 1.8% and 1.9%, respectively, for the EU countries. 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 11.47% with Tier 1 capital at the level of PLN 16,691.6 million as of 30 June 2011 and no hybrid capital on the Group’s balance sheet. The Group’s capital adequacy ratio stood at 12.58% as of 30 June 2011. The Group’s total equity of PLN 20,641.9 million as of 30 June 2011 was the largest among Polish banks (based on the reports of the banks for the first half of 2011), and the Group maintains an effective balance sheet structure reflected by a loan-to-deposit ratio of 97.5% as of 30 June 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 88.0% of the Group’s total liabilities as of 30 June 2011, with 69.6% of the deposits 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 7.6% as of 30 June 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 30 June 2011, the Bank serviced approximately 7.5 million retail customers (excluding Inteligo customers, but including 7.2 million private individual customers, 305.9 thousand SME clients, and 41 thousand housing sector entities), approximately 640 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 30 June 2011, the Bank had 1,201 branches, 1,709 agencies, 2,426 ATMs and 321 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. As of 30 June 2011, the Bank held a 23.0% share in the banking sector retail deposits market (based on NBP data) and a 19.9% market share in the retail loans market (based on NBP data). 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 Second Supplement to 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 2010, 2009 and 2008, the Group's ROE and ROA were 14.9%, 14.8%, and 24.0% and 2.0%, 1.6% and 2.6%, respectively, while for the six months ended 30 June 2011 and 2010, 16.3% and 14.3%, as well as 2.1% and 1.7%, 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 4.3% for the year ended 31 December 2010 and 4.4% for the six months ended 30 June 2011, which was above the average market level of 3.07% and 3.10%, 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 41.7% for the year ended 31 December 2010 compared to 47.9% for the year ended 31 December 2009, and for the six months ended 30 June 2011 such figure stood at 39.9%, compared to 41.9% for the same period of 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.

The Management Board believes that the Group has made significant progress in implementing its strategic plan and intends to formally update certain selected strategic targets during the fourth quarter of 2011.

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.

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 30 June 2011) and market capitalization (as of the date of the Second Supplement to the Base Prospectus). The Bank is the market leader in retail banking (based on NBP data and the reports of the banks for the first half of 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 2010 and 2009 the net profit of the Bank's fully consolidated subsidiaries (before consolidation adjustments) accounted for 1.5% and (2.2%), respectively, of the Group's consolidated net profit attributable to the parent company, and for the six months ended 30 June 2011 such figure stood at 2.8%.

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, the IFS group, CEUP eService, Qualia Development Group and Fort Mokotów Inwestycje 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 Six Months Ended 30 June				For the Year Ended 31 December			
	2011		2010		2010		2009	
	(in PLN thousand) (unaudited)	%	(in PLN thousand) (unaudited)	%	(in PLN thousand) (audited)	%	(in PLN thousand) (audited)	%
Retail segment	1,504,718	65.2	1,343,749	69.6	2,802,854	68.7	2,545,321	86.5
Corporate segment	221,395	9.6	241,056	12.5	386,175	9.5	227,087	7.7
Investment segment, including:.....	584,915	25.4	352,027	18.2	891,022	21.8	170,520	5.8
Own activities	185,074	8.0	207,043	10.7	462,245	11.3	482,812	16.4
Transfer centre	399,841	17.3	144,984	7.5	428,777	10.5	(312,292)	(10.6)
Share of profit (loss) of associates and jointly controlled entities.....	(3,797)	(0.2)	(4,994)	(0.3)	(815)	0.0	342	0.0
Gross profit	2,307,231	100.0	1,931,838	100.0	4,079,236	100.0	2,943,270	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 made based on the management accounts for 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 30 June 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 30 June 2011, the Bank also had 1,134 retail branches, which constitute the main distribution channel of the Bank's products and services, and 1,709 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 5 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 30 June 2011, the Bank serviced approximately 7.5 million retail banking customers (including approximately 7.2 million PI customers, 305.9 thousand SMEs, and 41 thousand housing sector entities), and approximately 640 thousand Inteligo customers. Total loans and advances and deposits to Retail Banking Customers amounted to PLN 107.1 billion and PLN 106.3 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 30 June 2011, the Bank had 1,134 retail branches, which constitute the main distribution channel of the Bank's products and services, and 1,709 agencies, which offer cashier services and promote the Bank's products and services based on exclusive agency agreements. The Bank's branch network represented 17.2% of the total number of commercial bank branches in Poland as of 30 June 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 30 June 2011, the Bank was distributing products through 1,457 active 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 30 June 2011, the Bank operated 2,426 ATMs. As of 31 December 2010, the Bank had 14.5% of the total number of ATMs on the Polish market (according to NBP data) and 321 self-service terminals. 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 30 June 2011, approximately 3.2 million retail banking customers were using iPKO online banking services and in addition, the Bank maintained approximately 640 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 30 June 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 30 June 2011, the Bank's PI customers had PLN 22.1 billion deposited on such accounts.

In addition, as of 30 June 2011, the PI customers had approximately 259.4 thousand foreign currency current accounts denominated in USD, EUR, GBP and CHF and approximately 734.2 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 30 June 2011, the Bank had about 7.2 personal and private banking customers.

Deposit Products

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

Loan Products

Consumer Loans

The Bank offers consumer loans to its PI customers in the form of overdraft facilities, including credit lines, cash loans and credit cards. Consumer loans amounted to 22.7%, 24.4% and 21.4% of the total loans to retail banking customers as of 31 December 2010, 31 December 2009 and 30 June 2011, 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 30 June 2011, the Bank had issued approximately 0.9 million credit cards and approximately 84.7 thousand charge 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 56.4%, 53.9% and 57.4% of total loans to retail banking customers as of 31 December 2010, 31 December 2009 and 30 June 2011, respectively. The Bank offers mortgage loans in PLN and EUR primarily, but also in USD and GBP. 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 30 June 2011, mortgage loans denominated in foreign currencies constituted 39.5% of the Bank’s mortgage loans. For the year ended 31 December 2010, only 13.5% of the newly sold mortgage loans were denominated in foreign currencies, while for the six months ended 30 June 2011 such figure stood at 10.3%.

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 30 June 2011, the Bank maintained approximately 301 thousand SME deposit accounts. In addition, SME customers had approximately 65 thousand Inteligo accounts.

The Bank offers investment and working capital loans to its SME customers. Investment loans amounted to PLN 10.8 billion, PLN 10.2 billion and PLN 8.2 billion as of 30 June 2011, 31 December 2010 and 31

December 2009, respectively, whereas working capital loans amounted to PLN 4.9 billion, PLN 4.3 billion and PLN 3.8 billion as of 30 June 2011, 31 December 2010 and 31 December 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 30 June 2011, the Bank had issued approximately 252 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 year ended 31 December 2010, the Bank generated net income from its loan insurance of PLN 502.7 million, while for the six months ended 30 June 2011 such figure stood at PLN 193.7 million.

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 Second Supplement to 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 5 million.

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

- mid-sized companies – companies with an annual turnover of at least PLN 5 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 first half of 2011, the Bank serviced a total of approximately 11,600 corporate banking customers (of which mid-sized companies, large companies, strategic clients and public sector customers held a 46%, 19%, 9% and 26% share, respectively). As of 30 June 2011, the total gross loans and advances to those customers were PLN 31.2 billion and total deposits were PLN 28.3 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 30 June 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 30 June 2011, the Bank's treasury asset portfolio amounted to PLN 26.6 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 Second Supplement to 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 30 June 2011	As of 31 December		
		2010	2009	2008
	(in PLN thousand) (unaudited)	(in PLN thousand) (audited)		
Securities	24,676,449	22,138,232	22,535,184	14,799,155
Trading book ¹	1,618,339	1,503,649	2,212,955	1,496,147
Banking book ²	23,058,110	20,634,583	20,322,229	13,303,008
Deposits with other banks	1,883,176	1,501,919	1,133,859	2,108,482
Receivables due from repurchase agreements	4,250	-	105,427	603,200

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 30 June	As of 31 December		
	2011	2010	2009	2008
	(in PLN thousand) (unaudited)	(in PLN thousand) (audited)		
FRA (forward rate agreement)	166,231,000	92,420,000	37,118,000	67,390,000
IRS (interest rate swap)	399,218,235	304,834,350	228,547,768	283,010,446
FX swaps (including CIRS)	71,623,785	56,734,794	51,160,563	49,447,477
FX futures and FX forwards	6,783,012	7,422,251	5,987,841	5,961,126
FX options	6,970,700	8,754,074	9,855,172	17,730,400
Other	7,353,338	4,470,977	2,906,151	220,443

Source: Stand-Alone Financial Statements, the Bank

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 2010, the Bank arranged nine corporate bond issues (of which six were underwritten) with an aggregate value of PLN 11.3 billion and 133 municipal bond issues with an aggregate value of PLN 1.2 billion. As of 31 December 2010, the total amount of corporate and municipal debt securities held by the Bank in connection with its underwriting activities was PLN 4.4 billion.

For the six months ended 30 June 2011 the Bank arranged seven corporate bond issues (of which three were underwritten) with an aggregate value of PLN 1.895 billion and 30 municipal bond issues with an aggregate value of PLN 0.842 billion. As of 30 June 2011, the total value of corporate and municipal debt securities held by the Bank in relation to its underwriting activities was PLN 4.4 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 30 June 2011, DM PKO BP's services were offered through 37 brokerage outlets and approximately 956 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 30 June 2011, customers of DM PKO BP held 135 thousand investment accounts and 181 thousand active registry accounts, to evidence securities that were bought on the primary market, with PLN 33.7 billion in equities, PLN 13.0 billion in debt securities and other instruments. The value of clients' assets under management was PLN 1.1 billion. DM PKO BP intends to discontinue offering portfolio management services in the fourth quarter of 2011.

During the first half of 2011, DM PKO BP ranked 11th in the Polish market in equities trading with a 4.06% market share in equities trading (based on WSE data). DM PKO BP is one of the largest retail bond trading houses in Poland, trading 49.21% of all retail bonds for the six months ended 30 June 2011. DM PKO BP also holds the leading market position in sale of retail treasury bonds and sold 23,680,977 bonds (total nominal value – PLN 2.4 billion) to customers during the year ended 31 December 2010 and 11,042,078 bonds (with a total nominal value of PLN 1.1 billion) for the six months ended 30 June 2011. It also offers investment units of 157 investment funds managed by 11 investment fund managers, including PKO TFI. In addition to equities and retail bonds, DM PKO BP also trades derivatives and held a 4.25% futures and 17.24% index options local market share by volume for the first half of 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 1.5% for the year ended 31 December 2010 and 2.8%

for the six months ended 30 June 2011. 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 30 June 2011, PKO TFI was the fourth largest asset management company in Poland by funds under management, managing 28 investment funds and sub-funds with total assets of PLN 9.7 billion and had a share of the Polish asset management market of approximately 8.1% based on publicly available financial reports of asset management companies. Since 1 January 2010 PKO TFI has managed the investment funds portfolios independently. The Bank provides PKO TFI with certain administrative services. These include the use of the Bank's extensive branch and distribution network to sell participation units in PKO TFI funds, the execution by the Bank's treasury department of PKO TFI's fixed-income transactions and the execution by DM PKO BP of PKO TFI's transactions on the WSE.

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

PTE BANKOWY manages the open pension fund PKO BP Bankowy. PTE BANKOWY was jointly founded in 1998. As of 30 June 2011, PTE BANKOWY held assets under management of PLN 7.5 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 owns 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 2010, CEUP eService serviced POS transactions (payment transactions and cash withdrawals) amounting to PLN 21.5 billion and held a significant market share of approximately 25.4% in terms of POS transactions value in Poland, while for the first half of 2011 it serviced POS transactions (regarding payments and cash withdrawals) amounting to PLN 11.1 billion and held a significant market share of approximately 25.2% in terms of the value of POS transactions processed during that period 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 subsidiaries (Bankowy Leasing Sp z o.o. and BFL Nieruchomości Sp z o.o.) provide operational and financial leasing of tangible and real estate assets. For the first half of 2011, Bankowy Fundusz Leasingowy (including subsidiaries) held a market share of approximately 5.7% 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 Second Supplement to the Base Prospectus, owns 99.57% of the share capital of Kredobank.

Kredobank is a commercial bank providing basic banking services to both individual and corporate clients. As of 30 June 2011, Kredobank's distribution network comprised 132 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 0.41% as of 30 June 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 in the first quarter of 2011, the Ukrainian economy recorded an estimated real GDP growth rate of 4.2% and 5.3%, 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.

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 is required 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 Second Supplement to the Base Prospectus, the regulatory capital of Kredobank was increased by:

- USD 35.0 million in subordinated loans extended by the Bank (PLN 96.3 million at the mid exchange rate of the NBP as of 30 June 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 104.6 million at the mid exchange rate of the NBP as of 30 June 2011); and
- UAH 1,024.1 million in 2009 and UAH 368.0 million in 2010 through a share issuance (a total of PLN 479.4 million at the mid exchange rate of the NBP as of 30 June 2011).

In addition, on 30 June 2010 and 15 November 2010 the Bank extended two guarantees to Kredobank which secure the repayment of loans under certain loan agreements entered into by Kredobank. The nominal value of the guarantees amounts to USD 74.8 million. Both guarantees expire on 17 January 2012. Moreover, on 30 December 2010, the Bank deposited USD 4.8 million on 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. Kredobank's obligations under its agreement with the NBU were satisfied with respect to its capital position.

Due to the macroeconomic and market situation in Ukraine, however, Kredobank has been unable to meet the requirements imposed under the agreement with the NBU regarding certain financial indicators, improvement of the loan portfolio quality and the result on banking activities. This resulted primarily from higher than expected loan impairment allowance and a decrease in interest and commission income. On 20 April 2011 Kredobank and NBU signed a new agreement that adjusted NBU's requirements to the existing conditions of Kredobank taking into account the support measures implemented by the Bank, including, among other things, guarantees and deposits securing selected loan receivables of Kredobank. As of the date of the Second Supplement to the Base Prospectus, Kredobank has failed to comply with certain requirements of the Ukrainian bank regulations and the limits imposed on Kredobank in the above-referenced agreement with the NBU. Under the 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, including putting the bank under temporary administration.

As of 30 June 2011, the equity of Kredobank amounted to UAH 924 million (PLN 318 million) – ranking 41st in the Ukrainian banking sector, based on the NBU's data. For 2010 Kredobank reported a net loss of UAH 105 million (PLN 40 million at the mid exchange rate of the NBP as of 31 December 2010), while for the six-month period ended 30 June 2011 they reported a net profit of UAH 8.5 million (PLN 3 million at the mid exchange rate of the NBP as of 30 June 2011). The net loss suffered in 2010 was caused mainly by an increase in the net impairment allowance on loans granted by Kredobank. The restructuring efforts of Kredobank, which were supported by the Bank, allowed Kredobank to generate a net profit for the first half of 2011. As of 30 June 2011, the loan portfolio (gross) of Kredobank was UAH 3,758 million (PLN 1,294 million at the mid exchange rate of the NBP as of 30 June 2011). The coverage ratio for loans and advances with impairment allowances in Kredobank as of 30 June 2011 amounted to 29.7%, which is above the Ukrainian banking sector average of 19.3% (based on NBU data). As of 30 June 2011, the total amounts due to customers of Kredobank amounted to UAH 2,926 million (PLN 1,008 million at the mid exchange rate of the NBP as of 30 June 2011). Kredobank's

capital adequacy ratio was 15.61% as of 30 June 2011 and was higher than the NBU's regulatory minimum of 10%.

Under the current challenging market conditions, Kredobank is focused on attracting deposits to secure low cost funding for its re-established lending activity with particular attention placed at aligning the level of loans with deposits and minimizing liquidity constraints. In order to minimize operational and credit risk at Kredobank, the Bank has implemented conservative risk management policies at Kredobank. The Bank's representatives who sit on Kredobank's supervisory board approve all decisions regarding the granting of loans in excess of USD 2.5 million (the threshold was decreased to the current level from USD 5 million that applied before the economic crisis).

The current strategy of the Group regarding Kredobank is to complete the restructuring, so as to protect the business against further negative effects of the prolonged crisis in Ukraine and establish a solid platform for Kredobank's future development. The Group will review the long-term strategy once the current phase of the restructuring has been completed.

For a description of other subsidiaries, please see "General Information on the Bank – The Bank's Principal Subsidiaries".

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 have registered offices in the EU and have filed for registration in compliance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies; however, as of the date of the Second Supplement to the Base Prospectus, they have not received notice from the relevant authorities of the appropriate Member States regarding their respective registrations. In view of the above, Moody's, Fitch, Capital Intelligence and Standard and Poor's are not included in the list of rating agencies registered in compliance with Regulation (EC) No. 1060/2009 which is published by the European Commission at http://ec.europa.eu/internal_market/securities/docs/agencies/list_en.pdf. 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 Second Supplement to 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 30 trademarks with the Patent Office, including 23 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 Second Supplement to 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 Second Supplement to 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 Second Supplement to the Base Prospectus, the Group uses 275 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 Second Supplement to 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 Second Supplement to 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 30 June 2011, the outstanding amount under this facility was CHF 950,000,000 (PLN 3,135,380,000)

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 Second Supplement to 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 30 June 2011 the balance of the credit facility was PLN 54,000,000 and EUR 85,848,658.76 (PLN 342,244,263.01).

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 30 June 2011, the balance of the credit facility was CHF 227,250,000 (PLN 750,015,900).

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 30 June 2011, the balance of the loan was CHF 75,600,000 (PLN 249,510,240) and EUR 49,814,126 (PLN 198,588,994.71).

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 30 June 2011, the balance of the loan was EUR 75,000,000.00 (PLN 298,955,000.00).

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 300,000,000 between Bankowy Fundusz Leasingowy and Bank Polska Kasa Opieki S.A.

On 16 August 2010, 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 300 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 and the sum of principal repaid in the form of leasing payments made by the lessees until the date of payment of the tranche designated for the financing or refinancing of a relevant leasing agreement. 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 30 September 2010. The facility accrues interest established on the basis of WIBOR 1M increased by a margin as stated in the agreement. As of 30 June 2011 the indebtedness under this agreement amounted to PLN 300,000,000.

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 July 2011, the indebtedness under this agreement amounted to PLN 0.

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

to the Subordinated Loan Facility to be executed by and between PKO Finance and the Bank before or on the date of the issuance of a given tranche of the notes.

On 21 October 2010, PKO Finance issued the first series of Notes under the Programme, with a total face value of EUR 800,000,000, on the terms and conditions set out in the supplement to the trust deed dated 21 October 2010 and the issue prospectus dated 23 April 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. 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 face value of CHF 250,000,000, on the terms and conditions set out in the supplement to the trust deed dated 5 July 2011 and summarized in the issue prospectus dated 15 April 2011 and in the Swiss listing prospectus dated 5 July 2011, drawn up in connection with applying for the introduction of the second tranche notes to trading on the SIX Swiss Exchange. 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 Deeds, as long as any Notes issued under the Programme remain unrepaid or unredeemed, PKO Finance will not, without obtaining prior written approval from the trustee, consent to any amendment to or modification or waiver of any terms, conditions or rights provided for in the Senior Loan Facility or in the Subordinated Loan Facility, nor will it grant any 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).

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 14 December 2006, Bankowy Fundusz Leasingowy entered into an agreement with the Bank (as the arranger) for organizing, carrying out and arranging a bond issue program, which was subsequently amended by

annex No. 1 dated 28 March 2008, annex No. 2 dated 1 September 2008, annex No. 3 dated 15 December 2008 and annex No. 4 dated 21 April 2011. Within the framework of the program Bankowy Fundusz Leasingowy agreed to issue, in private offerings by 30 December 2011, 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 30 June 2011 the Bank has issued bonds with the total nominal value of PLN 170 million. Pursuant to the program, Bankowy Fundusz Leasingowy undertook to redeem all of the issued bonds at their nominal value by 30 December 2011. The Bank agreed to underwrite each series of the bonds not subscribed for by the bondholders. The receivables of the Bank towards Bankowy Fundusz Leasingowy under the above-referenced agreement have been secured by a bank enforcement title up to PLN 700 million issued by Bankowy Fundusz Leasingowy in favor of the Bank. 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. Under the Domestic Market Programme, on 12 August 2011 the Bank issued, on a non-public market, 12,500 short-term discount bonds with a nominal value of PLN 100,000 each. The total value of the issue amounted to PLN 1,250.0 million. The final redemption date for the bonds at the nominal value thereof was established at 10 November 2011.

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.

On 27 April, the Bank issued structured BPWs within the scope of the program of PLN 44,482,000 with the nominal unit value of PLN 1,000. The profit which may be generated on the redemption date under the issuance of the structured BPWs depends on the level of the S&P 500 index value.

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 30 June 2011	As of 31 December		
	(PLN thousand) (unaudited)	2010	2009	2008
			(PLN thousand) (audited)	
Land and buildings.....	1,692,206	1,722,797	1,749,813	1,716,141
Plant and machinery.....	602,156	603,388	651,577	498,166
Means of transport	51,088	47,703	44,832	55,182
Assets under construction	76,738	96,022	207,251	559,619
Investment property	254	259	322	24,170
Other	95,539	106,276	123,899	111,381
Total.....	2,517,981	2,576,445	2,777,694	2,964,659

Source: Consolidated Financial Statements

As of the date of the Second Supplement to the Base Prospectus, the most important fixed assets of the PKO Bank Polski Group are real estate properties.

As of the date of the Second Supplement to 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 Second Supplement to the Base Prospectus, the Bank has 784 plots of land which are either owned by the Bank, held under usufruct or occupied under lease agreements. Moreover, the Bank holds 12 pieces of real estate without legal titles. As of 30 June 2011, the total book gross value of the properties held by the Bank was PLN 2,084 million, including that presented in the "land and buildings" item of PLN 2,083 million and in the "investment property" item of PLN 1 million.

The Bank holds as the owner or holder of a cooperative member's ownership right 794 buildings or premises with a total area of 739,234.70 m². Furthermore, the Bank utilizes 12 pieces of real estate including 36 facilities with the total area of 28,189.83 m², without legal titles. The Bank, under lease agreements, occupies 1,794

buildings and premises with a total usable area of approximately 213,167 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. The aforementioned building is leased by the Bank from a subsidiary of the Bank – Centrum Finansowe Puławska, who is the perpetual usufructuary of the land on which the building is situated and the owner of the building.

The Bank uses the building situated in Warsaw at ul. Puławska 15 on the basis of a lease agreement (*umowa dzierżawy*) entered into on 7 December 1995 between Centrum Finansowe Puławska and the Bank. As of the date of the Second Supplement to the Base Prospectus the Bank leases (*dzierżawi*) from Centrum Finansowe Puławska 45,108.72 m² of usable area which constitutes 88.29% of the usable area of the building. The agreed lease term ends on 31 December 2016. The land and mortgage register maintained for such real estate contains an entry of an ordinary contractual mortgage of PLN 165.3 million which secures the loan extended to Centrum Finansowe Puławska by the Bank on 22 August 2001. Since Centrum Finansowe Puławska has made the early repayment of the loan, such mortgage has expired. On 1 July 2011 the Bank, acting as the sole shareholder of Centrum Finansowe Puławska, adopted a resolution on the dissolution and liquidation of Centrum Finansowe Puławska, the main business of which was the management of the building situated in Warsaw at ul. Puławska 15. It is anticipated that the above procedure will involve the transfer of the ownership title to the building in favor of the Bank.

The Bank leases parts of its buildings and premises which are not used by the Bank for its operation to third parties. As of 30 June 2011, the total area leased by the Bank is approximately 23,917.0 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 2010 amounted to PLN 1.066,1 million. As of 30 June 2011, the net book value of the Integrated IT System was PLN 637,119 thousand.

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 implements the guidelines of the regulatory authorities presented in the course of inspections, including the guidelines of the PFSA presented after the 2009 inspection. With respect to one of those guidelines, which concerns a portion of the Inteligo credit portfolio, the Group has secured the consent of the PFSA for a change of the compliance deadline from 30 July 2011 to 13 September 2011 in accordance with its

request made for certain technical reasons. The implementation of the above guidelines has no material impact on the Group's activities, financial condition or results.

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 30 June 2011, with respect to suits involving claims of at least PLN 2 million each, the Bank was (i) a plaintiff or a claimant in 6 proceedings; and (ii) a defendant or participant in 26 proceedings. The Group Companies were: (i) a plaintiff or a claimant in 37 proceedings (including 20 proceedings regarding Kredobank's collection of indebtedness under loan agreements); and (ii) a defendant or participant in 9 proceedings.

According to the Bank's best knowledge, as of 30 June 2011, the total value of claims subject to court disputes where: (i) the Bank acts as a defendant amounted to PLN 355.9 million, while the total value of claims brought by the Bank as a plaintiff had a value of PLN 92.4 million; (ii) the Group companies act as a defendant amounted to PLN 31 million and the total value of court suits brought by the Group companies equalled PLN 395.8 million (including PLN 253 million in suits related to Kredobank's collection of debts under loan agreements).

As of 30 June 2011, the total value of the provisions created at the Bank against any litigation amounted to PLN 6.3 million. The total value of write-offs created at the Bank against any litigation the value of which exceeds the amount of PLN 5 million was PLN 98.3 million as of 31 December 2010. As of 30 June 2011, the total value of provisions created at the Group companies against any litigation amounted to PLN 1.1 million, while the total value of write-offs created by the Group companies against any litigation the value of which exceeds PLN 5 million was PLN 22.9 million (including PLN 22.3 million relating to Kredobank's collection of debt under loan agreements).

According to the Bank's knowledge, as of the date of the Second Supplement to the Base Prospectus four final appeals (*skarga kasacyjna*) were filed with the Supreme Administrative Court with regard to cases concerning the interpretation of tax law regulations. As of the date of the Second Supplement to the Base Prospectus, the Supreme Administrative Court has not set any dates for the hearings. In the Bank's opinion, if the Supreme Administrative Court issued decisions in those cases which were adverse to the Bank, it would not have any negative financial consequences for the Bank. Additionally, the Group companies are party to five proceedings before the Supreme Administrative Court, including three regarding the interpretation of tax law regulations. According to the best knowledge of the management boards of those companies, if the Supreme Administrative Court were to issue decisions in those cases which would adverse to the companies, it would not have any material, negative financial consequences for the PKO Bank Polski Group.

According to the information held by the Bank as of the date of the Second Supplement to the Base Prospectus, within the 12 months preceding the date of the Second Supplement to 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 Second Supplement to 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. As of the date of the Second Supplement to the Base Prospectus the request for the repeated review of the case has not been yet considered.

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 established a reserve 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. As of the date of the Second Supplement to the Base Prospectus, the Antimonopoly Court has not fixed a trial date for the case.

Proceedings Involving Advertising Campaign of “Max Lokata” Term Deposit

On 12 December 2008, following the completion of proceedings regarding practices against group consumer interests, the President of the Antimonopoly Office found the advertising campaign of the “Max Lokata” term deposit to be a practice infringing mutual consumer rights. The advertisement allegedly misled customers by, *inter alia*, not providing information about the date from which interest accrued, failing to make further references to advertising materials which would identify the need to seek additional information on restrictions involving the aforementioned product, and by suggesting to the recipients within the advertising campaign that the offered product did not include any additional factors affecting its final form and content other than those included in advertisement. Furthermore, in its decision dated 12 December 2008, the President of the Antimonopoly Office ordered the Bank to cease these practices as of 25 February 2009 and imposed on the Bank a fine of approximately PLN 5.7 million. On 2 January 2009, the Bank appealed against this decision of the President of the Antimonopoly Office to the Antimonopoly Court. Subsequently, on 25 March 2009, the President of the Antimonopoly Office responded to the appeal to which the Bank replied on 22 April 2009.

Hearings were held on 27 January and 24 February 2010. On 10 March 2010, the Antimonopoly Court dismissed the appeal of the Bank and upheld the decision of the President of the Antimonopoly Office. The Bank filed a motion for the formal delivery of the Antimonopoly Court's judgment with its grounds and received such judgment on 19 April 2010. On 4 May 2010, the Bank appealed against the judgment. On 9 February 2011, the Appeal Court in Warsaw upheld the Antimonopoly Court's judgment. The ruling of the Appeal Court in Warsaw is legally binding and the fine imposed upon the Bank was duly paid.

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.

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

The Bank is a defendant in five 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. The Court of Appeals set the date for the appeal hearing for 18 October 2011. The proceedings regarding the establishment of the invalidity of resolution No. 1/2010 of the ordinary General Meeting dated 25 June 2010 regarding 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 is imprecise) is being conducted separately and currently is in the court of first instance. The date of the hearing was set for 13 October 2011. As of the date of the Second Supplement to the Base Prospectus, the following statements of claim have not been formally delivered to the Bank: (i) a statement of claim regarding the establishment of the invalidity of resolution No. 1/2011 of the extraordinary General Meeting dated 14 April 2011 regarding the election of the chairman of the extraordinary General Meeting; (ii) a statement of claim regarding the establishment of the invalidity of

resolution No. 1/2011 of the ordinary General Meeting dated 30 June 2011 regarding the election of the chairman of the ordinary General Meeting and resolution No. 8/2011 regarding the payment of dividend for 2010; and (iii) a statement of claim regarding the establishment of the invalidity of resolution No. 7/2011 of the ordinary General Meeting dated 30 June 2011 regarding distribution of the Bank's profit generated in 2010.

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 statute of limitation and on such suit being unjustified by merit. The hearing in the above-referenced matter was set for 6 September 2011.

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 30 June 2011	As of 31 December		
		2010	2009	2008
PKO Bank Polski.....	27,104	27,396	28,548	30,000
Other companies in the Group	3,096	2,887	3,308	3,633
Total.....	30,200	30,283	31,856	33,633

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 30 June 2011	As of 31 December		
		2010	2009	2008
Poland.....	28,091	28,379	29,510	31,114
Ukraine.....	2,101	1,896	2,338	2,513
UK.....	8	8	8	6
Total.....	30,200	30,283	31,856	33,633

Source: the Bank

As of 30 June 2011, approximately 62% of the employees of the Group held higher education qualifications, and approximately 37% have secondary and post-secondary education.

The average monthly basic salary paid to the Bank's employees increased to PLN 4,026, PLN 4,192, PLN 4,373 and PLN 4,760 in the years ended 31 December 2008, 2009 and 2010 and in the first six months of 2011, respectively.

The provisions against pension and retirements benefits or any jubilee awards for the Group employees as of 30 June 2011 stood at PLN 411.8 million.

The number of redundancies due to reasons not attributable to employees was 1,695, 1,283, 952 and 455 jobs for the years ended 31 December 2008, 2009, 2010 and in the first six months of 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 Second Supplement to 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 17 December 2010 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 2011. 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 2011. The understanding has been executed for the period between 1 January 2011 and 31 December 2011. 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 the first half of 2011 the value of severance pay and damages paid by the Bank to the employees subject to the group layoffs amounted to PLN 27.5 million.

In the period covered by the Consolidated Financial Statements and as of the date of the Second Supplement to 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 Second Supplement to 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:

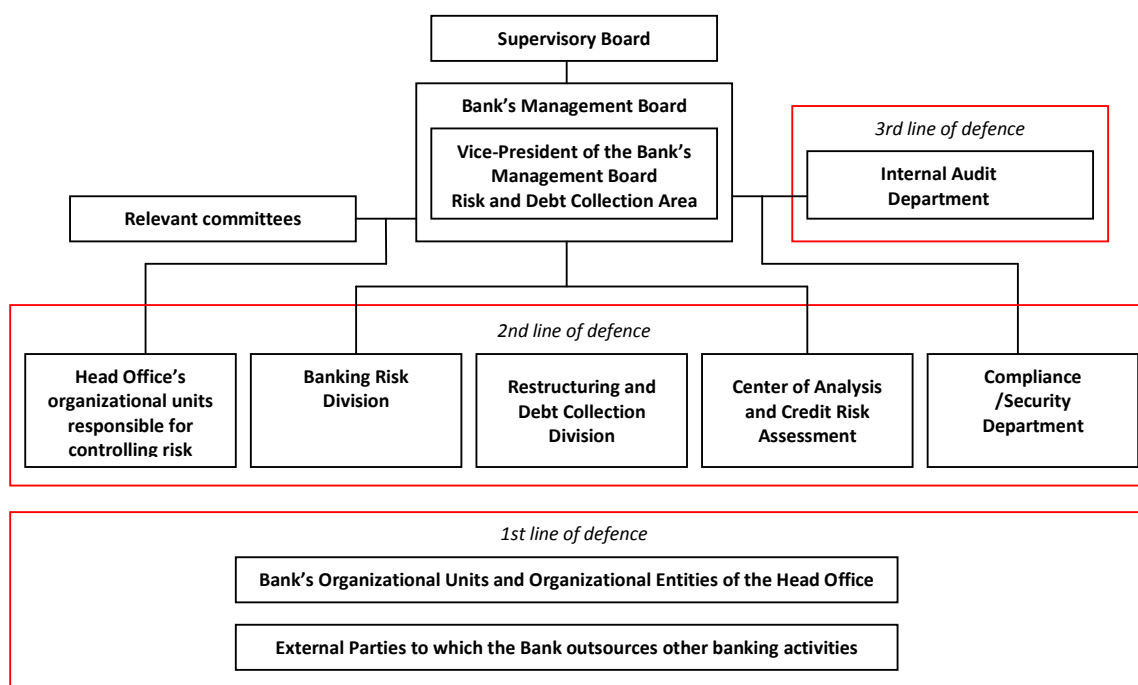
- risk identification by analyzing the sources of existing and potential risks which can result from the Bank's current or planned activities or assessing the significance of the potential impact of these types of risk on the Bank's financial situation;
- risk measurement and assessment by determining 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 July 2011 employed 476 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:
 - o concentration limits – the limits defined in Article 71.1 of the Banking Law;
 - o industry limits – limits of the risk level related to financing institutional clients from industries characterized by high credit risk levels,
 - o 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 in the case of entities not related to the Bank or 20% of the Bank's own funds in the case of entities related to the Bank); and
- the large exposure limit (the sum of individual exposures in excess of 10% of the Bank's own funds may not exceed 800% 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 30 June 2011 is presented in the table below.

The Bank has been exempted from the requirement to include the actual names of the counterparties listed in the table below under Article 33.2.2 of the Act on Public Offering.

Counterparty	30 June 2011
	(in PLN thousand) (unaudited)
Counterparty 1.....	82,049
Counterparty 2.....	52,525
Counterparty 3.....	23,318
Counterparty 4.....	12,920
Counterparty 5.....	12,347
Counterparty 6.....	9,384
Counterparty 7.....	8,576
Counterparty 8.....	6,678
Counterparty 9.....	6,626
Counterparty 10.....	5,902

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 30 June 2011 and 31 December 2010, 2009 and 2008 are presented in the table below.

Name of the sensitivity measure	As of 31 December			
	As of 30 June 2011	2010	2009	2008
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
10-day VaR*	58,909	39,004	17,086	72,337
Parallel movement of the interest rate curves by 200 bp	647,421	522,641	233,304	266,216

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 approx. PLN 22,795 thousand as of 30 June 2011.

As of 30 June 2011, the interest rate 10-day VaR (“**IR VaR**”) was PLN 58.9 million, approximately 0.34% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totaled PLN 17,375.3 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 30 June 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 mortgages 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 unfavorable 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 the particular client.

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 30 June 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 permitted internal limits determined by the Bank. As of 30 June 2011, the Bank completed 817 European plain vanilla option transactions, whereas the open delta position without hedge (gross in foreign currencies) was PLN 289.8 million. As of 30 June 2011, the Bank completed 54 European binary options transactions, while the open delta position without hedge (gross in foreign currencies) was approximately PLN 6.8 million. As of 30 June 2011, the Bank executed 24 European barrier options transactions, while the open position of unhedged delta (gross in foreign currencies) accounted for PLN 6.2 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:

- 15% 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;
- 15% 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 10.53%; 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 5.92%.

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 30 June 2011 and 31 December 2010, 2009 and 2008 are presented in the table below.

Name of the sensitivity measure	As at 31 December			
	As of 30 June 2011	2010	2009	2008
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
10-day VaR*	975	3,171	1,092	11,297
Change of exchange rates CUR/PLN by 15%	2,289	6,081	697	13,222

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 30 June 2011 was approximately PLN 181 thousand.

As of 30 June 2011, the 10-day VaR at a 99% confidence level resulting from foreign exchange operations ("FX-VaR") was PLN 1.0 million, approximately 0.01% of the Bank's own funds which, calculated in accordance with the provisions on calculating the capital adequacy ratio, totaled PLN 17,375.3 million.

The foreign exchange positions in the Group as of 30 June 2011 and 31 December 2010, 2009 and 2008 are presented in the table below.

	As at 31 December			
	As of 30 June 2011	2010	2009	2008
	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)	(in PLN thousand)
USD	1,588	(78,916)	(31,811)	(128,288)
GBP.....	317	48,073	1,501	1,459
CHF.....	(26,640)	(18,820)	(3,634)	(14,865)
EUR	28,689	(4,035)	26,489	17,728
Other (Global Net)	11,302	11,257	12,101	38,661

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 the first six months of 2011 was PLN 5.7 million. The average absolute position in the portfolio of derivatives on the WIG20 index in the first six months of 2011 was PLN 1.7 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 30 June 2011, amounted to PLN 18.0 billion and accounted for approximately 71% 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 30 June 2011 these assets accounted for approximately 20%, 9% and below 1% of the most liquid assets, respectively.

The table below presents the adjusted liquidity gap as of 30 June 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.

	a'vista	0-1 month	1-3 months	3-6 months	6-12 months	12-24 months	24-60 months	over 60 months
Group adjusted liquidity gap	4,343,857	11,178,481	(1,479,836)	(2,528,573)	2,601,175	4,148,279	(317,020)	(17,946,363)
Group adjusted cumulative liquidity gap	4,343,857	15,522,338	14,042,502	11,513,929	14,115,104	18,263,383	17,946,363	-

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 30 June 2011, cumulative liquidity gap for up to a one-month horizon was PLN 15.5 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.

ANNEX C

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 Arrangers 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 354 billion in 2010 (according to Eurostat), it is the seventh largest EU economy and the 20th largest economy globally. The Polish economy has expanded consistently, with real GDP growing at a CAGR of 4.7% over the five years to 31 December 2010. In 2009, Poland was the only European country to record positive GDP growth, 1.6%, which increased to 3.8% in 2010, and prospects for continued growth appear strong. Eurostat projects Polish GDP growth at 4.0% in 2011 and 3.7% in 2012 compared to 1.8% and 1.9% 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, GDP per capita, population and GDP growth rate for 2010 for the 20 largest countries in the EU by GDP.

Rank ¹	Country	GDP	GDP	Population	2010 real GDP Growth Rate
		(EUR billion)	(Purchasing Power)	(in million)	(%)
1	Germany	2,498.8	29,000	81.8	3.6
2	France	1,932.8	26,100	64.7	1.5
3	United Kingdom	1,696.6	27,800	62.0	1.4
4	Italy	1,548.8	24,300	60.5	1.3
5	Spain	1,062.6	24,700	46.1	(0.1)
6	Netherlands	591.5	32,800	16.6	1.8
7	Poland	354.3	15,300	38.2	3.8
8	Belgium	352.9	28,900	10.9 ²	2.2
9	Sweden	346.7	30,100	9.3	5.7
10	Austria	284.0	30,700	8.4	2.1
11	Denmark	234.4	30,400	5.5	1.7
12	Greece	230.2	21,700 ²	11.3	(4.5)
13	Finland	180.3	28,300	5.4	3.1
14	Portugal	172.7	19,800	10.6	1.3
15	Ireland	153.9	30,700	4.5	(1.0)
16	Czech Republic	145.0	19,500	10.5	2.3
17	Romania	121.9	11,000	21.4	(1.3)
18	Hungary	98.4	15,700	10.0	1.2
19	Slovakia	65.9	18,100	5.4	4.0
20	Luxembourg	41.6	69,100	0.5	3.5

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 six months ended 30 June 2011	For the year ended 31 December		
		2010	2009	2008
Real GDP growth (%)	-	3.8	1.6	5.1
Individual consumption growth (%)	-	3.2	2.1	5.7
Public sector spending growth (%)	-	4.0	2.0	7.4
Investment expenditures growth (%)	-	(1.0)	(1.2)	9.6
Inflation rate y/y (%)	3.4	2.6	3.5	4.2
Average wage growth (%)	-	4.0	5.4	10.1
Unemployment (%)	11.8	12.3	12.1	9.5
Exports growth (%)	-	10.1	(6.8)	7.1
Imports growth (%)	-	11.5	(12.4)	8.0
Budget deficit / GDP (%)	-	3.2	1.8	1.9
Government debt / GDP (%)	-	52.8	49.9	46.9
PLN / EUR (average)	3.95	3.99	4.33	3.52

Source: GUS, NBP.

Poland’s key economic indicators and its growth prospects worsened in the fourth quarter of 2008 as the global financial crisis spilled over into the real economy. However, the deterioration was relatively weaker than in Western European countries, as private consumption growth remained positive and depreciation of PLN in the second half of 2008 and the beginning of 2009 supported the competitiveness of Polish products. Furthermore, the Polish banking sector, characterized by relatively strong capitalization and solid deposit base, remained resilient through the crisis and continued to provide funding to Polish companies and consumers. In contrast to most CEE and Western European countries, the Polish economy showed positive real GDP growth in all quarters throughout the financial crisis.

Forecasts of Macroeconomic Indicators

Based on data from the NBP, the European Commission, and the IMF, the Polish economy is expected to remain one of the fastest growing economies in the CEE, with GDP growth remaining significantly 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 increased household spending and recovery in corporate investments. The projected growth of household consumption is expected to be fuelled by improvements in the labor market, acceleration of salary growth, and an increase in total lending by financial institutions. However, indirect taxation may increase in the future, potentially weakening the impact of these growth factors. Growth in corporate investment is expected to be driven by increasing business confidence and by necessary investments that had been delayed as a consequence of the global financial crisis. It is expected that the dynamics of public expenditure will be positive in 2011, supported by a continued inflow of EU funds and by investment relating to the Euro 2012 football championship to be held in Poland and Ukraine. Net foreign direct investments are also expected to increase significantly.

Eurostat forecasts estimate the real GDP growth rate in Poland to be at a level of 4.0% and 3.7% in 2011 and 2012, respectively, compared to 1.8% and 1.9% in the EU. The European Commission projects that the annual rate of HICP inflation in the Eurozone will remain close to 3% in the EU in 2011 and ease to approximately 2% in 2012, as compared to 3.8% and 3.2%, 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 30 June 2011, there were 48 commercial banks in Poland, 21 branches of credit institutions and 575 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 30 June 2011, the number of banks and branches of credit institutions with majority foreign share in the Polish banking sector was 59. 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		
	2010	2009	2008
	(%)		
Domestic investors.....	33.8	31.9	27.7
The State Treasury.....	21.5	20.8	17.3
Co-operative banks.....	6.1	5.8	5.4
Other	6.2	5.3	5.0
Foreign investors	66.2	68.1	72.3
Commercial banks.....	61.5	62.8	66.9
Branches of foreign credit institutions.....	4.7	5.3	5.4

Source: PFSA.

In the period from 2006 to 2010, the number of bank branches in Poland increased from 4,854 to 6,936 (according to the NBP and PFSA).

According to the PFSA, as of 30 June 2011, the share of the five largest Polish banks in total deposits and loans of the banking sector was 46.5% and 39.2%, 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 30 June 2011	As of 31 December		
		2010	2005	2000
		(%)		
Deposits from non-financial institutions	46.5	46.5	55.8	54.7
Loans to non-financial institutions	39.1	39.2	45.0	46.1
Total assets	44.4	43.9	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 2010, the assets of the five largest banks in Poland accounted for 43.9% of the total assets of the Polish banking sector, as compared to a non-weighted average of 44.3% of the total assets of the banking sectors of EU Member States according to PFSA data.

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 by Banco Santander in 2011, the finalizing of the purchase of Allianz Bank Polska by Getin Noble Bank in 2011, and the agreement between EFG Eurobank Ergasias and Raiffeisen Bank International. On 21 June 2011 the PFSA unanimously decided not to raise objections against the acquisition by James Wolfensohn, through WCP Cooperatief U.A., of shares in Meritum Bank ICB S.A. in an amount which entitles him to not more than one-third of all the votes at the general meeting of the shareholders Meritum Bank ICB S.A.

Furthermore, in 2008 new banks, Alior Bank S.A. and Allianz Bank S.A., were 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 become less fierce as banks had built considerable liquidity buffers, credit activity slowed down and financial market conditions eased.

In 2009, competition between banks on the credit market generally decreased. Due to greater credit risk caused by worsening macroeconomic conditions, the majority of the banks maintained restrictive credit policies. However, signs of improvement in the macroeconomic environment, both globally and domestically, resulted in a gradual easing of the credit policies of banks and an increase in competition with regard to mortgage loans and credit for local governments in 2010. However, retail lending growth during 2011 was negatively impacted by a change of the criteria for the “Rodzina na swoim” program, as well as the implementation of PFSA Recommendations S and T. At the same time as the economy began to recover, demand for corporate loans increased and banking sector balances started to record growth.

Financial Situation of the Polish Banking Sector

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

	As of 30 June 2011	As of 31 December		
		2010	2009	2008
		<i>(in PLN billion)</i>		
Polish banks' aggregate assets.....	1,224.4	1,159.4	1,057.4	1,035.4
Deposits from non-financial sector.....	627.1	620.4	567.2	499.0
Loans to non-financial sector	738.0	698.5	641.2	608.0

Source: the 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 30 June		Change	As of 31 December			Change	
	2011	2010	VI.2011- VI.2010	2010	2009	2008	2010-2009	2009-2008
	<i>(in PLN billion, except percentages)</i>		<i>(%)</i>	<i>(in PLN billion, except percentages)</i>			<i>(%)</i>	
Households.....	497.6	455.3	9.3	475.4	416.4	372.4	14.2	11.8
In % of total.....	67.4%	66.9%	-	68.1%	64.9%	61.2%	-	-
Institutional customers	236.8	222.8	6.3	219.7	222.1	233.3	(1.1)	(4.8)

	As of 30 June		Change	As of 31 December			Change	
	2011	2010	VI.2011- VI.2010	2010	2009	2008	2010-2009	2009-2008
	(in PLN billion, except percentages)		(%)	(in PLN billion, except percentages)			(%)	
In % of total.....	32.1%	32.7%	-	31.5%	34.6%	38.4%	-	-
Non-commercial institutions	3.6	2.9	24.1	3.4	2.7	2.3	25.9	17.4
In % of total.....	0.5%	0.4%	-	0.4%	0.5%	0.4%	-	-
Total	738.0	681.0	8.4	698.5	641.2	608.0	8.9	(1.9)

Source: the PFSA

Increased household deposit volumes during 2009 and 2010 were driven by the result of attractive deposit offers from banks to overcome the funding restrictions on the interbank market and by their 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 30 June		Change	As of 31 December			Change	
	2011	2010	VI.2011- VI.2010	2010	2009	2008	2010- 2009	2009- 2008
	(in PLN billion, except percentages)		(%)	(in PLN billion, except percentages)			(%)	
Households.....	435.8	401.3	8.6	422.4	387.7	336.9	8.9	15.1
In % of total.....	69.5%	68.7%	-	68.1%	68.4%	67.5%	-	-
Institutional customers	176.2	167.5	5.2	182.8	165.1	148.0	10.7	11.6
In % of total.....	28.1%	28.7%	-	29.5%	29.1%	29.7%	-	-
Non-commercial institutions	15.2	15.3	(0.3)	15.2	14.4	14.1	6.0	1.4
In % of total.....	2.4%	2.6%	-	2.4%	2.5%	2.8%	-	-
Total	627.1	584.0	7.4	620.4	567.2	499.0	9.4	13.7

Source: the PFSA

The financial results for the banking sector in 2009 fell by 36% to PLN 10.2 billion gross (PLN 8.3 billion net), compared to PLN 16.8 billion gross (PLN 13.7 billion net) for 2008.

The poor financial performances of banks in 2009 was driven by a very sharp increase in write-offs resulting from the worsening financial situation for certain borrowers, as well as a decrease in interest income as a consequence of the ‘deposit war’, a slowdown in credit growth and the low margins on loans granted during strong credit expansion prior to the global crisis.

Despite a strong deterioration in financial performance, the situation of the banking sector remained stable. At the same time, due to the record increase of the capital base, the stability of the banking sector strongly increased, including the ability to absorb potential losses. The potential for the sector’s development also increased.

In 2010, along with the improving macroeconomic situation, the financial results of the banking sector improved significantly: the net profit for the banking sector was PLN 11.5 billion, an increase of 38.6% in comparison to 2009. This improvement in the banks’ profits was the effect of higher net interest income; fees and commissions revenues; lower interest rates for deposits; lower cost of risk thanks to better credit quality connected to improving macroeconomic situation; and cost-discipline. The increase in the net profits of the banks did not lead to a comparable increase in the ratios of return on equity because some banks increased their capital or decreased the amount of dividend paid.

In the first half of 2011 there was further improvement in the financial results of the banking sector and at the end of June 2011 this amounted to PLN 7.8 billion, a 43.5% increase compared to the end of June 2010. Such

growth was the result of a considerable decrease in risk costs, a high increase in interest net income and the maintaining of a low rate of increase with respect to 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.

	June 2011	June 2010	2010	2009	2008
	<i>(in PLN billion except percentages)</i>				
Net profit	7.8	5.5	11.4	8.3	13.6
Cost to income ratio.....	51.0	52.4	52.4	54.2	54.4
Return on equity	N/A	N/A	8.9%	8.6%	7.4%
Deposits from non-financial sector	627.1	584.0	620.4	567.2	499.0

Source: the 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 2010 amounted to 82.0% of Poland's GDP for the year as compared to the average in the Eurozone, which was 350% 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 loan portfolios and depressing 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.

However, over the course of 2008 commercial banks in Poland bought substantial amounts of FX derivatives sold to the banks by Polish SMEs, mainly exporters. Initially derivatives were supposed to hedge the exporters' FX risk. However, as PLN appreciated against EUR, the practice of selling FX derivatives for pure speculative profit and not for hedging of loans or receivables denominated in foreign currencies became popular. SMEs speculated on the account of the further appreciation of the PLN, which was perceived as inevitable in light of the expectation of the PLN quickly entering the ERM 2 mechanism. The sellers of 'toxic FX options' expected them to expire unexercised. This did not happen, however, due to the sudden depreciation of the PLN in 2009, which shifted the 'toxic FX options' in the money and resulted in many SMEs being faced with substantial liabilities and adversely impacted the results of operations and financial condition of some of the Polish banks.

Competitive Environment

The level of competition in the Polish banking sector is high. Among the factors impacting competition are the recent mergers of major Polish banks and the establishment of new banks by foreign 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, as was the case in 2011 with Allianz Bank Polska, which was sold to Getin Noble Bank, and Polbank, the Polish branch of EFG Eurobank Ergasias, a Greek financial institution, which was the subject of a preliminary sales agreement concluded by Raiffeisen Bank International.

In 2009, competition among banks on the credit market decreased. Due to higher credit risk caused by worsening macroeconomic conditions, the majority of banks maintained restrictive credit policies. However signs of improvement in the macroeconomic environment both globally and domestically resulted in a gradual easing of the credit policies of banks during 2010, as well as an increase in competition: first in the segment of mortgage loans and loans for local government units, and then at the beginning of 2011, according to an NBP survey, also in the case of loans for the corporate sector.

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:

	30 June 2011	31 December 2010	30 June 2010	31 December 2009	30 June 2009	31 December 2008	30 June 2008
Capital adequacy ratio.....	13.7%	13.8%	13.3%	13.3%	12.4%	11.2%	10.9%
Own equity for capital adequacy (in PLN billion).....	105.2	100.6	95.7	90.1	87.0	77.6	65.0

Source: the 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. According to the PFSA, more restrictive dividend policies allowed Polish banks to accumulate PLN 11.2 billion during 2009. This amount corresponded to 87.5% of aggregate profits of the commercial banks, as compared to 60.6% during 2008 and 44.2% during 2007.

In addition, several Polish banks undertook rights issues in 2009 and 2010. The trend was initiated by the Bank in 2009. 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 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 deteriorating since the fourth quarter of 2008. However, 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, but in the first half of 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 also been deteriorating, primarily in the consumer loan portfolio. The quality of the household mortgage 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.

	June 2011	December 2010	June 2010	December 2009	June 2009	December 2008	June 2008
	%						
NPL ratio of corporate clients....	11.0	12.4	12.3	11.6	9.6	6.1	6.2
NPL ratio of households	7.2	7.2	6.7	6.0	4.8	3.5	3.8
Total NPL ratio.....	7.4	7.8	7.7	7.1	6.5	4.4	4.8

Source: the PFSA

Inflation Rate and Interest Rates

Inflation in Poland (as measured by the consumer price index ("CPI") was 4.2% in 2008, 3.5% in 2009 and 2.6% in 2010, according to GUS. A slowdown in economic development decreased inflationary pressure, allowing the Monetary Policy Council to cut the NBP's interest rates to the record low level of 3.5% in June 2009. During the second half of 2010, inflation increased gradually due to the impact of rising food, energy and fuel prices. Inflation (as measured by the CPI) increased to 2.5% year on year in September 2010, reaching the NBP's inflation target. At the end of the year it increased further, exceeding the upper band of the inflation target of 3.5% and reaching 4.2% year-on-year in June 2011. The acceleration of 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 potential increased inflation. In order to mitigate against the risk that inflation could remain above the inflation target in the medium term, the Monetary Policy Council raised the NBP's interest rates four times in 2011, in January, April, May and June.

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 as of 31 December 2010 and 30 June 2011.

	<u>June 2011</u>	<u>December 2010</u>	<u>June 2010</u>	<u>December 2009</u>	<u>June 2009</u>	<u>December 2008</u>	<u>June 2008</u>
	%						
Average interest on new corporate deposits in zlotys	4.0	3.1	3.1	3.0	3.3	5.6	5.6
Average interest on new household deposits in zlotys	4.1	3.6	3.7	4.0	4.4	6.5	5.2
3M WIBID	4.5	3.8	3.7	4.1	4.2	5.7	6.5

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>June 2011</u>	<u>December 2010</u>	<u>June 2010</u>	<u>December 2009</u>	<u>June 2009</u>	<u>December 2008</u>	<u>June 2008</u>
	%						
Average interest on new corporate loans in zlotys	6.6	5.9	6.2	6.5	7.0	8.3	8.3
Average interest on new household loans in zlotys	10.8	10.0	11.1	12.5	13.4	13.6	13.6
3M WIBOR	4.7	4.0	3.9	4.3	4.4	5.9	6.7

Source: NBP, Reuters

ANNEX D

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 are 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 Second Supplement to 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. Based on publicly available information published by the Ministry of Finance, as of the date of the Second Supplement to the Base Prospectus, the work on such regulations has been discontinued.

Bank Guarantee Fund

The cash deposited in individual 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

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 20 July 2001, 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.

The maximum interest rates which may be charged by a bank under a consumer loan agreement are equal to four times the NBP Lombard credit rates. Regardless of the above, the total value of all the fees, commissions and other payments related to a consumer loan (this does not apply to, e.g., mortgage loans) cannot be greater than 5% of the principal of the consumer loan.

On 12 May 2011 the Act on Consumer Credit dated 12 May 2011 (the "**New Consumer Credit Act**") was adopted and it will enter into force on 18 December 2011. The purpose of the New Consumer Credit Act 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 New Consumer Credit Act applies to all consumer loans of less than PLN 255,550 (as compared to PLN 80,000 under the act adopted in 2001) and generally applies to mortgage loans. The new act will lift the five percent limit on the total fees and commissions paid for the arrangement of consumer loans. The banks will be allowed to charge fees for early repayment of a loan. However, the New Consumer Credit Act will apply to all institutions granting consumer loans and not just to banks, as well as to all intermediaries. The New Consumer Credit Act introduces the Standard European Consumer Credit Information form, which will require 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. Where a decision to reject an application for credit is based on the consultation of a database, the creditor will be obliged to inform the consumer of this fact.

On 29 July 2011, the Sejm (the lower house of the Polish parliament) adopted a bill amending the Consumer Credit Act and the New Consumer Credit Act by introducing an explicit obligation on the banks 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). The above bill came into force on 26 August 2011.

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 a 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.

ANNEX E

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
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Website: www.pkobp.pl
Email address: ir@pkobp.pl
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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 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 Second Supplement to 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 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 Statute, is necessary to convert those shares into bearer shares. Under the Prospectus the Bank is requesting the admission and introduction of the 197,500,000 series A shares referred to in the

preceding sentence to trading on the regulated market of the WSE on which the series B, C and D shares issued by the Bank are already trading.

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 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 Second Supplement to the Base Prospectus, the Group consists of the Bank and 25 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 Centrum Finansowe Puławska or Inteligo).

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

PKO Bank Polski S.A.

Subsidiaries		Jointly controlled entities		Associates	
Kredobank S.A.	99.5655%	CENTRUM HAFNERA Sp. z o.o.	49.43%	Bank Pocztowy S.A.	25.0001%
	99.5655%		49.43%		25.0001%
PKO Towarzystwo Funduszy Inwestycyjnych S.A.	100%	Centrum Obsługi Biznesu Sp. z o.o.	41.44%	Poznański Fundusz Poręczeń Kredytowych Sp. z o.o.	33.33%
	100%		41.44%		33.33%
PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A.	100%	Bankowy Leasing Sp. z o.o. ³	99.9988%	Agencja Inwestycyjna CORP S.A.	22.31%
	100%		99.9988%		22.31%
Bankowy Fundusz Leasingowy S.A.	100%	BFL Nieruchomości Sp. z o.o. ³	99.9973%	Kolej Gondolowa Jaworzyna Krynicka S.A. ¹⁴	37.53%
	100%		99.9973%		36.71%
Bankowe Towarzystwo Kapitałowe S.A.	100%	PKO BP Faktoring S.A. ³	99.9889%	Spółka Dystrybucyjna Banku Poczтового Sp. z o.o.	100%
	100%		99.9889%		100%
Inteligo Financial Services S.A.	100%	Qualia Sp. z o.o. ⁵	100%	Centrum Operacyjne Sp. z o.o.	100%
	100%		100%		100%
Centrum Elektronicznych Usług Płatniczych eService S.A.	100%	Qualia spółka z ograniczoną odpowiedzialnością – Nowy Wilanów Sp. k. ⁶	99.9750%	Sopot Zdrój Sp. z o.o.	100%
	100%		-		100%
Qualia Development Sp. z o.o.	100%	Qualia spółka z ograniczoną odpowiedzialnością Neptun Park Sp. k. ⁷	99.9975%	Promenada Sopocka Sp. z o.o.	100%
	100%		-		100%
Fort Mokotów Inwestycje Sp. z o.o. ¹	99,9885%	Qualia - Rezydencja Flotylla Sp. z o.o. ⁸	100%	Centrum Majkowskiego Sp. z o.o.	100%
	99,9885%		100%		100%
Centrum Finansowe Puławska Sp. z o.o. – w likwidacji ²	100%	Sarnia Dolina Sp. z o.o. ⁹	56%	Kamienica Morska Sp. z o.o.	100%
	100%		56%		100%
PKO Finance AB	100%	Qualia sp. z o.o.- Sopot Sp. k. ¹⁰	99,9787%		
	100%		-		
PKO BP Finat Sp. z o.o. ⁴	80.3298%	Fort Mokotów Sp. z o.o. – w likwidacji ¹¹	51%		
	80.3298%		51%		
		Qualia spółka z ograniczoną odpowiedzialnością – Pomeranka Sp. k. ¹²	50%	UKRPOLINWESTYCJE Sp. z o.o.	55%
			-		55%
		Qualia spółka z ograniczoną odpowiedzialnością - Projekt 1 Sp. k. ¹³	50%		
			-		

1. The other shareholder in this entity is Qualia Development Sp. z o.o.

2. On 1 July 2011 the Bank, acting as the sole shareholder of Centrum Finansowe Puławska Sp. z o.o., adopted a resolution on the latter's dissolution and liquidation

3. The Bank directly holds 1 share in the entity

4. The remaining shareholders of PKO BP Finat Sp. z o.o. are PKO BP BANKOWY Powszechne Towarzystwo Emerytalne S.A. (19.6702%) and PKO Bank Polski S.A. (one share). On 8 August 2011 the Bank and the existing shareholders of PKO BP Finat Sp. z o.o. signed a conditional purchase agreement regarding shares of this company. Once the conditions for the transaction stated in such agreement are satisfied, the Bank will become the only shareholder of PKO BP Finat Sp. z o.o.

5. Qualia Sp. z o.o. was registered with the relevant registry court on 25 February 2011

6. Formerly PKO BP Inwestycje – Nowy Wilanów Sp. z o.o.; on 1 July 2011 the transformation and change of the company's name was entered in the National Court Register (Qualia Sp. z o.o. is the general partner).

7. Formerly PKO BP Inwestycje – Neptun Park Sp. z o.o.; on 1 July 2011 the transformation of the company and the change of its name has been entered in the National Court Register (where Qualia Sp. z o.o. is the general partner).

8. Formerly PKO BP Inwestycje – Rezydencja Flotylla Sp. z o.o.; on 30 June 2011 the change of its name was entered in the National Court Register.

9. Formerly PKO BP Inwestycje – Sarnia Dolina Sp. z o.o.; on 29 June 2011 the change of its name was entered in the National Court Register.

10. The general partner of the company is Qualia Sp. z o.o.; the partnership was registered in the National Court Register 11 March 2011.

11. On 28 July 2011 the Extraordinary General Meeting of Shareholders of Fort Mokotów Sp. z o.o. adopted a resolution on the dissolution and liquidation of this company. On 4 August 2011 the notice of the opening of liquidation was filed with the registry court.

12. The general partner of the company is Qualia Sp. z o.o.; the company was entered in the National Court Register on 21 July 2011.

13. The general partner of the company is Qualia Sp. z o.o.; the company was entered in the National Court Register on 29 July 2011.

14. The company has been designated for sale and is disclosed in the Bank's accounting records under non-current assets held for sale.

Legend:

Name	% 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 Powszechne 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 Powszechne Towarzystwo Emerytalne S.A.

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

Share capital: PLN 260,000,000

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

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.

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.

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 the PKO Finance AB (publ), which entitles it to exercise 100% of the votes at the meeting of 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 bonds. The first tranche of the bonds (in EUR) under the program was issued on 12 October 2010. The second tranche of the bonds (in CHF) under the program was issued on 7 July 2011.

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.

ANNEX F

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 Statute and the By-Laws of the Management Board and Supervisory Board as of the date of the Second Supplement to the Base Prospectus.

Management Board

The governing body of the Bank is the Management Board.

Composition

Pursuant to the 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 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 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 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 Second Supplement to 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 Oblękowski	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 Hypothekenbank, 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 Navarra – 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 Statute, the Supervisory Board consists of five to thirteen members appointed for a joint three-year term. Pursuant to § 11, section 1 of the 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 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 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 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 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 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 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 Second Supplement to 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 Second Supplement to 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 Second Supplement to 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 Second Supplement to 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
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.

The business address of Krzysztof Kilian is Polkomtel S.A., ul. Postępu 3, 02-676 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 Second Supplement to 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 Obłəkowski, 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 Second Supplement to the Base Prospectus.

Except for Zbigniew Jagiełło, Piotr Alicki, Jacek Obłəkowski, 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 Second Supplement to the Base Prospectus, there are no restrictions on the disposal of Shares held by members of the Management Board and the Supervisory Board.