



mBank Hipoteczny Spółka Akcyjna

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

EUR 3,000,000,000

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

Under this EUR 3,000,000,000 Programme (the "**Programme**"), mBank Hipoteczny Spółka Akcyjna, with its registered offices at Al. Armii Ludowej 26, 00-609 Warsaw, Poland (the "**Bank**") may from time to time issue mortgage covered bonds (*hipoteczne listy zastawne*) (the "**Covered Bonds**"). The Covered Bonds will be issued in bearer form.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed EUR 3,000,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement), subject to increase as described herein.

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

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

This Base Prospectus has been approved by the Commission de Surveillance du Secteur Financier (the "**CSSF**") of the Grand Duchy of Luxembourg ("**Luxembourg**") in its capacity as competent authority (the "**Competent Authority**") under the Luxembourg Act on Prospectuses for Securities dated 10 July 2005, as amended (*loi relative aux prospectus pour valeurs mobilières*) (the "**Luxembourg Act**") which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (as amended or re-enacted) (the "**Prospectus Directive**"). Application has been made to admit Covered Bonds on the Official List of the Luxembourg Stock Exchange and to trade the Covered Bonds on the regulated market of the Luxembourg Stock Exchange. References in this Base Prospectus to Covered Bonds being listed (and all related references) shall mean that such Covered Bonds have been admitted to trading on the regulated market of the Luxembourg Stock Exchange and have been listed on the Official List of the Luxembourg Stock Exchange. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (as amended, "**MiFID II**").

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchange(s) or markets in the European Economic Area (the "**EEA**") as may be agreed between the Bank and the relevant Dealer. The Bank may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

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

The aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined herein) of Covered Bonds will be set out in a final terms document (the "**Final Terms**") which will be filed with the CSSF. Copies of Final Terms in relation to Covered Bonds to be listed on the Official List of the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Covered Bonds are expected to be rated by Moody's Deutschland GmbH ("**Moody's**"). Moody's is established in the European Union and is registered under the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (as amended) (the "**CRA Regulation**"). Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website as at the date of this Base Prospectus (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. The Covered Bonds issued under the Programme are expected to be assigned a rating by Moody's. However, the Bank may also issue Covered Bonds which are unrated or rated by another rating agency. Where a Tranche of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms and will not necessarily be the same as the ratings assigned to other Tranches of Covered Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Interest amounts payable under floating rate Covered Bonds may be calculated by reference to (i) the Euro Interbank Offered Rate ("**EURIBOR**"), which is currently provided by the European Money Markets Institute ("**EMMI**"), or (ii) the London Interbank Offered Rate ("**LIBOR**"), which is currently provided by ICE Benchmark Administration ("**IBA**"), or (iii) the Sterling Overnight Index Average ("**SONIA**"), which is currently provided by the Bank of England, or (iv) the Secured Overnight Financing Rate ("**SOFR**"), which is currently provided by the Federal Reserve Bank of New York or (v) the Warsaw Interbank Offered Rate ("**WIBOR**") which is currently provided by GPW Benchmark S.A. ("**GPW Benchmark**"). As at the date of this Base Prospectus, SONIA and SOFR do not fall within the scope of the Benchmark Regulation (Regulation (EU) 2016/1011) (the "**Benchmark Regulation**"). As at the date of this Base Prospectus, the IBA and EMMI do appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of the Benchmark Regulation ("**Benchmark Register**"). As at the date of this Base Prospectus, GPW Benchmark does not appear on the Benchmark Register. As far as the Bank is aware, the transitional provisions in Article 51 of the Benchmark Regulation apply, such that GPW Benchmark is not currently required to obtain authorisation or registration (or, if located outside the European Union, recognition, endorsement or equivalence). The regulatory status of any administrator under the Benchmark Regulation is a matter of public record and save as required by the applicable law, the Bank does not intend to provide any updates or prepare any supplement to reflect any changes in the regulatory status of any administrator.

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

Arranger and Dealer

Commerzbank

This Base Prospectus and any supplement hereto will be published in electronic form on the website of the Luxembourg Stock Exchange under www.bourse.lu, and will be available free of charge at the specified offices of the Bank and will be published in electronic form on the website of the Bank under www.mhipoteczny.pl.

The date of this Base Prospectus is 11 July 2019.

IMPORTANT NOTICE

This document constitutes the base prospectus of mBank Hipoteczny Spółka Akcyjna (the "**Bank**") in respect of Covered Bonds (the "**Base Prospectus**"). This Base Prospectus constitutes a base prospectus for the purposes of Article 5(4) of the Prospectus Directive.

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

Full information on the Bank and any Tranche of Covered Bonds is only available on the basis of the combination of this Base Prospectus, including any supplements thereto, and relevant final terms (the "**Final Terms**").

The Bank accepts responsibility for the information in this Base Prospectus and the Final Terms for the Covered Bonds issued under the Programme from time to time. The Bank hereby declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Base Prospectus for which it is responsible is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Base Prospectus contains selected macroeconomic, industry and statistical data as well as data relating to the mBank group which has been derived from publicly available sources, including official industry sources and other third-party sources, such as financial statements of the mBank group which do not form part of this Base Prospectus. It is hereby confirmed that (a) to the extent that information reproduced herein derives from a third party, such information has been accurately reproduced and (b) in so far as the Bank is aware and is able to ascertain from information derived from a third party, no facts have been omitted which would render the information reproduced inaccurate or misleading. The Bank believes that such data is reliable but cannot guarantee its accuracy and completeness. Such information, data and statistics may be based on a number of assumptions and estimates, and may be subject to rounding.

The requirement to publish a prospectus under the Prospectus Directive only applies to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area.

Neither Commerzbank Aktiengesellschaft (the "**Arranger**" and together with any further financial institution appointed as a dealer under the Programme Agreement, the "**Dealers**"), nor any other person mentioned in this Base Prospectus (other than the Bank), including PricewaterhouseCoopers Sp. z o.o. and Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., has independently verified all the information contained in this Base Prospectus or any supplement thereof, or any Final Terms or any other document incorporated herein by reference, and accordingly, and to the extent permitted by the laws of any relevant jurisdiction, none of these persons accepts any responsibility for the accuracy and completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme.

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

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

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

Restrictions on Distribution

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

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

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

General investment considerations

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

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

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

Certain definitions

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

As at 31 May 2019, the EUR/PLN spot exchange rate published by the National Bank of Poland was euro 1.00 = PLN 4.2916.

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

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

Stabilisation

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the stabilising manager(s) in the applicable Final Terms (or persons acting on behalf of a stabilising manager) may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Covered Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds.

Any such stabilisation action or over-allotment must be conducted by the relevant stabilising manager or person acting on behalf of any stabilising manager(s) in accordance with all relevant requirements applicable to such actions in the jurisdictions where such actions are effected (including rules and other regulatory requirements governing any stock exchange where such Covered Bonds are listed).

Important – EEA Retail Investors

If the Final Terms in respect of any Covered Bonds include a legend entitled "Prohibition of Sales to EEA Retail Investors", the Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of the Directive 2014/65/EU (as amended or re-enacted, "**MiFID II**") or (ii) a customer within the meaning of Directive 2016/97/EU (as amended or superseded, the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014, as amended (the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MiFID II product governance / target market

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

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

Forward-Looking Statements

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

performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Bank's present and future business strategies and the environment in which the Bank will operate in the future. Important factors that could cause the Bank's actual results, performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to, those discussed in the section entitled "*Risk Factors*". These forward-looking statements speak only as at the date of this Base Prospectus or as at such earlier date at which such statements are expressed to be given. Subject to any continuing disclosure obligation under applicable law (including, without limitation, the obligation to prepare a supplement to this Base Prospectus pursuant to Article 16 of the Prospectus Directive), the Bank expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

TABLE OF CONTENTS

Important Notice	i
Risk Factors	1
General Description of the Programme	35
Documents Incorporated by Reference	42
Use of Proceeds	43
Form of the Covered Bonds	44
Form of Final Terms	46
Terms and Conditions of the Covered Bonds	54
Market Overview	74
Description of the Bank	82
Management of the Bank	93
Related Party Transactions	99
Overview of Legal Regulations Concerning the Banking Sector	101
Overview of the Polish Covered Bonds Legislation	104
Bankruptcy and Insolvency	109
Taxation	114
Subscription and Sale	119
General Information	123

RISK FACTORS

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

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

Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Prospective investors should be aware that the risks set forth below are not exhaustive and should carefully consider the following factors in addition to the matters set out elsewhere in this Base Prospectus before investing in the Covered Bonds issued under the Programme.

Risk Factors relating to the Bank

The Bank may fail to meet its strategic objective

The key business objective defined in the Bank's strategy is to increase the share of long-term funding in its balance sheet via covered bond issuances. The Bank's strategic business objectives for the years 2019-2022 are (i) strong growth of the portfolio of residential and commercial property loan assets meeting the criteria of collateral for covered bonds, in line with the adopted risk management strategy; (ii) maximisation of the use of covered bonds as a tool for refinancing the long-term mortgages portfolio; and (iii) use of the resources and capacities available at the Bank, mBank S.A. ("**mBank**") and the rest of the mBank group (the "**Group**") entities in order to generate synergy effects and provide an efficient issue process in line with the principles of safe and prudent management of the Bank. This means that the Bank's financial performance and its ability to deliver the stated strategic business objective largely depend on the condition of the residential and commercial mortgage loans market in Poland. Any shifts in the market environment, particularly those with a negative impact on demand for, and margins on, mortgage loans and covered bonds, may adversely affect the Bank's business, results of operations and financial condition. Given the nature of its business, the Bank will have a limited ability to seek alternative sources of funding should it fail to deliver its strategic objective regarding mortgage loans and covered bonds. Such failure to deliver its strategic objective could adversely affect the Bank's business, results of operations and financial condition, and ability to meet its obligations under the Covered Bonds.

The Bank is dependent on mBank

The Bank is a wholly-owned subsidiary of mBank. The Bank is dependent in a number of areas on mBank, which, as at 31 May 2019, is 69.33 per cent. owned by Commerzbank AG ("**Commerzbank**").

mBank set up the Bank in 1999 to diversify the sources of funding for the Group. As at the date of this Base Prospectus, the Group perceives the covered bonds to be issued by the Bank as part of its strategic objective to strengthen long-term funding for the Group. One tool to implement this objective is to transfer mortgage assets held within the Group to the Bank for refinancing via Covered Bonds. However, a change in the Group's strategy cannot be excluded, and the Group may decide to raise financing for the granting of mortgage loans in ways other than through the issuance of covered bonds by the Bank. Such a change in the Group's strategy may lead to a reduction in the scale of the Bank's business activity.

As the sole shareholder of the Bank, mBank may be required to subscribe for new shares in the Bank's share capital, or provide the Bank with capital in a different manner if so required by the applicable capital adequacy requirements. It is possible that mBank may decide that these requirements are too onerous for the Group. This may lead to mBank deciding to reduce the scale of operations of the Bank to avoid making additional capital contributions.

Additionally, the Bank and mBank cooperate with each other in accordance with the cooperation agreement of 28 August 2013 (with amendments) entered into between the Bank and mBank ("**Cooperation Agreement**"). The above-mentioned cooperation sets out the rules under which mBank provides the Bank with comprehensive services related to credit product maintenance and the terms of cooperation of the Bank and mBank in the organisation of joint credit sale channels.

In particular, the Cooperation Agreement covers the following activities performed by mBank for the benefit of the Bank:

- (i) providing credit intermediation activities, together with accepting payments from clients and utilising loans granted by the Bank;
- (ii) monitoring services relating in particular to repayment of loans, establishment and inspection of security interest, and contractual conditions of the loans;

- (iii) servicing of credit products;
- (iv) providing customer service, including handling complaints and other services; and
- (v) delivering certain IT and data tools.

For a detailed description, please see "*Description of the Bank – Business overview of the Bank – Cooperation between the Bank and mBank in mortgage loan origination*".

mBank's ability to originate mortgage loans to transfer to the Bank depends on the competitive market position of mBank and the demand for its products. The ability of the Bank to add new mortgage loans to its pool of assets which are the basis for the issuance of mortgage-covered bonds by the Bank and are entered into the cover pool register (*rejestr zabezpieczenia listów zastawnych*) created for mortgage-covered bonds (the "**Cover Pool**"), may be adversely affected if mBank terminates the Cooperation Agreement or if mBank fails to comply with its servicing or other obligations under such agreement.

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

The procedure of establishing mortgages is lengthy and formalised

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

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

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

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

The borrowers may prepay mortgage loans

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

Borrowers may fail to duly perform their obligations under mortgage loans

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

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

Other factors that concern a borrower's personal or financial condition may also affect the borrower's ability to repay mortgage loans, such as loss of earnings, illness or divorce. In addition, the ability of a borrower to sell a property mortgaged

as security for a mortgage loan at a price sufficient to repay the amount outstanding under that loan depends on a number of factors, including the availability of buyers for the property, the value of that property and property values in general at any given time. To the extent the Bank's credit exposure increases, it could have an adverse effect on its business and profitability if material unexpected credit losses occur.

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

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

In accordance with Polish law, the Bank is not able to unilaterally change the terms of granted loans and advances to individuals, including credit margins. As a result, the Bank is limited in its ability to change its credit portfolio margins through the generation of new mortgage loans and advances reflecting current credit margins on the market compared with other financial institutions operating on the Polish market, which may have credit portfolios with a larger proportion of short-term loans. Moreover, the Bank was not able to recover the cost of the Polish Banking Tax (see "*The Bank is subject to additional tax, levied on certain financial institutions (including mortgage banks)*") from its clients with respect to the portfolio of mortgage loans originating before the introduction of the banking tax. This limited ability to re-price its loan portfolio may adversely affect the business, financial condition and results of operations of the Bank.

When granting a mortgage loan and calculating the applicable interest rate, the Bank assumes a certain level of price of the residential real property securing such loan. If sale prices of residential real property in Poland substantially decline for any reason, the value of the Bank's security might be adversely affected and, in cases of foreclosure, the Bank may not be able to recover the entire amount of the loan if the borrower is unable to repay them. In addition, investments in real estate are characterised by low liquidity as compared with other types of investments, and such liquidity may further deteriorate in periods of economic downturn. The Bank cannot guarantee that if the residential real estate market in Poland deteriorates significantly, the ability to enforce its security in a timely and effective manner would not also deteriorate significantly. This could have an adverse effect on the Bank's business, financial condition and the results of its operations.

Enforcement of mortgages is a lengthy and expensive process

Enforcement of a mortgage over a property can be a lengthy process and may require the creditor to incur substantial costs, especially in relation to foreclosure sales of property by court enforcement officers. The Bank has not yet developed a comprehensive database on the average time to enforce security over property; meanwhile, the Bank relies on the Group's solution in this case. The Group's solution provides for either (i) a soft enforcement i.e. a series of actions taken at the stage of repayment monitoring (text messages, e-mail and telephone contacts and prompts sent to the client) or (ii) a hard enforcement i.e. termination of the agreement which happens in case of non-repayment following soft enforcement. If these actions do not result in repayment, judicial proceedings will be instigated. This solution may affect the reliability of the Bank's projections concerning the expected duration of an enforcement action.

Additionally, the Act on Mortgage Credit and Supervision over Mortgage Credit Intermediaries and Agents dated 23 March 2017 (the "**Mortgage Credit Act**") introduced certain restrictions on the ability of banks to enforce mortgages over real estate. In particular, before commencing enforcement proceedings, a bank should grant the borrower a six-month period in which to sell the real estate asset encumbered with the mortgage.

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

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

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

The fair market value of real estate that is mortgaged as security for loans may be subject to fluctuations over time, caused in particular by changes in supply and demand, construction deficiencies and delays, land contamination and environmental hazards, leasing status (vacancies) or potential buyers and their financial resources, changes in the general legal framework

such as tax treatment, and other factors that are beyond the control of the Bank (such as natural disasters, civil war and terrorist attacks). Such market developments and changes may reduce the value of real estate collateral. A decline in the value of collateral taken by the Bank, or the inability of the Bank to obtain additional collateral may require the Bank to reclassify the relevant loans and/or set aside additional provisions for loan losses and could result in increased reserve and/or capital requirements.

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

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

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

Transformation of perpetual usufruct rights (użytkowanie wieczyste) into an absolute ownership from 1 January 2019

In addition to an absolute ownership, which gives title to a real estate with the broadest legal rights, Polish law also recognises perpetual usufruct rights. These are transferable and mortgageable rights to use real estate. Perpetual usufruct rights can be granted in relation to a state-owned or a local government-owned real estate for a specified time period being between 40 and 99 years, after which it expires unless extended for another such period. Buildings and other installations situated on land that is subject to perpetual usufruct rights are owned by the perpetual usufructuary. The usufructuary is required to pay an annual fee to the state or the local government unit. The broad rights granted to the usufructuary result in the rights of the owner (i.e. the State Treasury or local government unit) being limited in that they may neither encumber nor sell the property to a third party other than the usufructuary.

The Act of 29 July 2005 on the transformation of the perpetual usufruct rights into the right of an absolute ownership made the transformation of perpetual usufruct rights into outright ownership possible in specific cases. In practice, however, its application was restricted by many conditions. In order to improve the transformation of perpetual usufruct rights held by natural persons into the full ownership right and limit the creation of new perpetual usufruct rights for housing purposes in the future, on 20 July 2018 the Polish Parliament adopted the Act on the Transformation of Perpetual Usufruct Rights in respect of Real Estate used for Residential Purposes (the "**Transformation Act**"). According to the Transformation Act, as at 1 January 2019 perpetual usufructuaries (*użytkownicy wieczystości*) of land used for housing purposes became the absolute owners of such land.

The ownership right created from the perpetual usufruct right must be registered in the land and mortgage register. The registration process is conducted on the basis of the certificate issued by the executive bodies of the local government units. These authorities are obliged to issue certificates within 12 months from the transformation of the perpetual usufruct into the absolute ownership and provide them to the relevant courts which, in turn, make relevant entries *ex officio* i.e. without the necessity for any applications or motions to be made by the owners. Furthermore, owners may themselves request that their ownership rights, created from the perpetual usufruct rights, be registered in the land and mortgage register. At the owner's request, a certificate confirming the creation of an absolute ownership should be issued within 30 days if the request is made in connection with any legal action regarding real estate.

Any delays in issuing certificates or a court's decision on registering the new ownership rights can have a material adverse effect on the timing of the acquisition of residential properties by new buyers, the process of extending mortgage loans in respect of such properties and, in consequence, on the Bank's business, financial condition and results of operations.

The Bank's refinancing costs may increase

Mortgage loans granted by the Bank usually have maturities beyond the maturity of the corresponding funding, which results in the Bank's dependence on its ability to continuously refinance its maturing debts with new funding. The Bank's funding capacity and ability to raise funding can deteriorate due to a number of factors such as a lower credit rating, large

financial losses, rumours, market price changes that affect the size of liquidity reserves, increases in interest rates and/or a widening of credit spreads. Some of these factors may also increase the Bank's need for funding through, for example, a higher amount of collateral demanded by the counterparties to certain financing transactions.

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

Changes in interest rates may affect the Bank's income

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

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

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

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

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

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

The Bank is exposed to settlement risk

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

The Bank is exposed to counterparty credit risk

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

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

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

The Bank is exposed to operational risk

The business operations of the Group are dependent on its ability to process a large number of complex transactions across different markets in many currencies. The Bank is exposed to operational risks related to its operational activities and data security. There might be disruptions in the Bank's day-to-day operations which may even render the Bank temporarily unable to conduct its business. Such disruptions may be caused by a number of factors, including: IT system failures, software bugs, errors by the Bank's staff, crimes to which the Bank may fall victim (such as cyber-attacks and other security breaches), improper performance of tasks by the Bank's outsourcing partners, the Bank's internal procedures not being appropriate to its business, or incorrect processing of data or information received by the Bank in the course of its business. Moreover, with the expansion of activity related to sales of retail loans the Bank may expect an increase in the number of complaints and claims of natural persons against the Bank and a higher number of loan frauds by natural persons. Any disruptions in the Bank's day-to-day operations may have an adverse effect on the Bank's financial standing and ability to perform its obligations under the Covered Bonds.

Risk management systems might not identify all risks

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

A borrower may challenge the transfer of a mortgage loan from mBank to the Bank

One of the Bank's activities is the acquisition of mortgage loans granted by mBank, to the extent permitted by the Polish Covered Bonds Act. In 2016, the Bank took over from mBank the leading role in granting residential mortgages to individuals in Poland. The Bank's business model is based on systematically taking over the existing residential mortgages portfolio from mBank (acquisition of receivables – pooling model).

The model based on the acquisition of receivables involves the risk of the borrower challenging, by way of litigation, the effectiveness of the transfer of receivables to the Bank (for example, due to lack of the borrower's consent for a transfer). In connection with such transfer, the Bank also bears the risk of unjustified, in terms of scope and point in time, access to the receivables seller's data covered by banking secrecy. The transfer of receivables also involves a potential increase in the number of client grievances, requests and complaints.

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

The transfer of mortgage loans from mBank to the Bank may be declared ineffective

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

In case of the bankruptcy of mBank, the transfer of certain mortgage loans from mBank to the Bank may be declared ineffective pursuant to certain rules in the Polish Bankruptcy Law dated 28 February 2003 (*Ustawa z dnia 28 lutego 2003 r. Prawo upadłościowe*) (the "**Bankruptcy Law**"). Grounds for ineffectiveness include: (i) the transfer of mortgage loans occurring before six months after the bankruptcy of mBank, unless the Bank can show that such transfer was not detrimental to the creditors of mBank; or (ii) if the transfer of mortgage loans was made no later than 12 months before the commencement of bankruptcy proceedings, and such transfer was made without remuneration or the remuneration obtained by mBank was grossly disproportionate to the value of the transferred mortgage loans.

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

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

As at 31 December 2018, the Bank's total capital ratio was 16.25 per cent. At the date of this Base Prospectus, the capital adequacy ratios reported by the Bank were above the minimum levels required by the Polish Financial Supervisory Authority (*Komisja Nadzoru Finansowego*) (the "**KNF**"). However, certain developments could affect the Bank's ability to continue to satisfy the current capital adequacy requirements, including:

- increasing the scale of the Bank's business activities and increasing the Bank's risk-weighted assets;

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

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

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

Moreover, there can be no assurance that the Bank will be able to comply with potentially more stringent prudential regulations concerning capital adequacy, including further changes to the Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (the "CRD IV") and Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (the "CRR") package and the possible introduction of Basel IV.

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

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

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

The Bank faces litigation risk

The Bank, like all other commercial entities, may from time to time be subject to litigation, whether of a substantive or vexatious nature. Such litigation, if not dismissed at an early stage or if decided contrary to the Bank's best commercial interests, may have an adverse impact on the operations of the Bank. Furthermore, such cases may include claims or actions in which the petitioner or plaintiff has not specifically, or not in whole, quantified the penalties or damages sought. In these circumstances, it may, in particular, be difficult to predict the outcome of a dispute and estimate possible losses in a reliable manner and, therefore, to set aside adequate provisions for such possible losses. Furthermore, the Bank might also be subject to representative actions brought by prosecuting attorneys, empowered bodies or certain civil society organisations in relation to consumer agreements which are entered into pursuant to the Bank's standard forms of contract, where a court

might, in certain circumstances, declare its judgment binding with respect to all agreements entered into on the relevant standard terms of the Bank if one or more of them is found unfair. In relation to agreements entered into on the standard terms of the Bank, there is also the risk that an action brought by a customer and/or a judgment rendered in favour of such customer, which would not, in isolation, affect the financial condition of the Bank, may encourage a large number of other customers with similar agreements to bring several actions simultaneously against the Bank. Should such actions be brought against the Bank and be adjudicated contrary to its commercial interest, the combined effect of such judgments together, as a whole, may have a negative effect on the operations of the Bank. In addition, the Bank may settle litigation prior to final judgments or determination of liability with a view to avoiding the cost, management efforts or negative business, regulatory or reputational consequences of continuing to contest liability, even when the Bank believes that it has no liability. This might also be the case where the potential consequences of failing to prevail would be disproportionate to the costs of settlement. Furthermore, the Bank may, for similar reasons, reimburse counterparties for losses even when the Bank does not believe that it is legally compelled to do so.

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

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

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

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

Risks related to the overall political and economic situation

Global macroeconomic conditions and the behaviour of the financial markets have an impact on the Bank and its performance. The prolonged slowdown of the world economy following the recent global financial crisis has been accompanied by an increase in risk aversion, which resulted in, amongst other factors, a lack of trust with regard to financial institutions, restricted access to financing on the interbank market and other forms of financing and decreases in the market valuations of assets. The crisis had an adverse effect on the valuation of assets and capital adequacy in relation to many financial institutions globally. The consequences of the deteriorating economic conditions include an increase in credit risk provisions, poorer access to capital and credit markets, and to other available forms of financing. Additionally, there has been a liquidity crisis and the cost of raising financing has significantly increased. Although the world economy has started to recover from the global financial crisis and the market and economic conditions have improved, there is still a threat of economic turbulence, and no assurance may be given that the improvement of the economic conditions will persist. The performance of the European markets and economies could deteriorate significantly as a result of the difficulties related to the potential re-emergence of the sovereign debt crisis, the consequences of the United Kingdom's exit from the European Union and certain doubts over the stability of the financial system in the Eurozone. Further developments in the Eurozone will depend on many political and economic factors including, amongst others, the effectiveness of measures taken by the European Central Bank (the "ECB") and the European Commission in connection with the sovereign debt in certain European countries and the role of the euro as the common currency in the face of a diverse economic and political situation in individual Eurozone countries. Although Poland has strong trade and financial links with the Eurozone, including links through participation in German supply chains, adverse macroeconomic conditions or negative developments in the financial markets could have an adverse effect on the Bank's business, financial condition and results of operations. No assurance can be given that such matters would not adversely affect the ability of the Bank to satisfy its obligations under the Covered Bonds and/or the market value and/or the liquidity of the Covered Bonds in the secondary market.

The United Kingdom's exit from the European Union may affect the business of the Bank

On 23 June 2016, the UK held a referendum on whether the UK should remain a member of the European Union. The UK voted to leave the European Union and, on 29 March 2017, the UK Government invoked Article 50 of the Lisbon Treaty and officially notified the European Union of its decision to withdraw from the European Union. This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the European Union (the Article 50 withdrawal agreement). As part of those negotiations, a transitional period has been agreed in principle which would extend the application of European Union law and provide for continuing access to the European Union single market until the end of 2020. It remains uncertain whether the Article 50 withdrawal agreement will be finalised and ratified by the UK and the European Union before the 31 October 2019 deadline. If it is not ratified, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply

to the UK from that date. Whilst continuing to negotiate the article 50 withdrawal agreement, the UK Government has therefore commenced preparations for a "hard" Brexit or "no-deal" Brexit to minimise the risks for firms and businesses associated with an exit with no transitional agreement. This has included publishing draft secondary legislation under powers provided in the EU (Withdrawal) Act 2018 to ensure that there is a functioning statute book on 1 November 2019.

The UK ranks amongst the EU's three largest trading partners, accounting for 13 per cent. of trade in goods and services. There are also complex supply chain links between companies across the bloc. A hard Brexit could adversely affect European or worldwide economic market conditions and could contribute to instability in global financial and foreign exchange markets. Brexit may have negative implications for the Polish economy, as Poland is the largest beneficiary of European Union structural funds and the United Kingdom is one of the largest net contributors to the European Union budget. The United Kingdom's exit from the European Union may cause a need to adjust the European Union budget, which could reduce the amount of funds available to and received by Poland. Moreover, Brexit may cause exchange rate fluctuations and instability in the Euro exchange rate. Volatility, or adverse macroeconomic developments in Poland, may have an effect on the business, financial condition and results of operations of the Bank.

Due to the ongoing political uncertainty as regards the terms of the UK's withdrawal from the European Union and the structure of the future relationship, it is not possible to determine the precise impact of Brexit on the Bank's business, results of operations, financial condition and cash flows, and could negatively impact the value of the Covered Bonds.

The economic conditions in Central and Eastern Europe and the devaluation of the currencies in these countries could have an adverse effect on the Group's, including the Bank's business, financial condition and results of operations

There is a perception amongst certain investors that the economic or financial conditions of Central and Eastern European countries influence the economic or financial conditions of Poland, and that the financial assets of Central and Eastern European countries may be treated as the same "asset class" by foreign investors. As a result, investors may reduce their investments in Polish financial assets due to deteriorating economic or financial conditions in other countries of Central and Eastern Europe. Specifically, the devaluation or depreciation of any of the currencies in Central and Eastern Europe could impair the strength of the PLN. A depreciation of the PLN against foreign currencies may make it more difficult for the Group's, including the Bank's, customers to repay their obligations denominated in a foreign currency, which could also have a material adverse effect on the Bank's business, financial condition and results of operations. The financial problems faced by the Group's, including the Bank's, customers could also adversely affect the Bank's business, financial condition and results of operations. Market turmoil and economic deterioration could adversely affect the respective liquidity, businesses and/or financial conditions of the Group's, including the Bank's, borrowers, which could in turn impair the Group's, including the Bank's, loan portfolio and other financial assets and result in reduced demand for the Group's, including the Bank's, products. In an environment of significant market turmoil, economic deterioration and increasing unemployment, coupled with declining consumer spending, the value of assets collateralising the Group's, including the Bank's, secured loans could also decline significantly. The occurrence of any of these developments could have a material adverse effect on the business, financial condition, results of operations and/or the prospects of the Bank.

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

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

The economic situation in Poland depends on a number of factors, including measures by which a government attempts to influence the economy, such as setting levels of taxation, government budgets, the money supply and interest rates as well as the labour market, the demographic situation in the country, macroeconomic conditions in the world and in Europe, and the inflow of funds from the European Union. A potential prolonged economic slowdown in Poland would damage the Bank's operations. Higher unemployment and lower consumption, as well as fluctuations in the financial markets (including the currency market), may adversely affect the financial conditions of the Bank's customers, which could, in turn, impair the quality and volume of the Bank's loans and advances portfolio and other financial assets and result in decreased demand for the Bank's products. In addition, in unstable market conditions, the value of assets securing loans already granted or to be granted by the Bank, including real estate, may decline significantly. Fluctuations in financial markets may adversely affect the financial conditions of the Bank's customers, which could, in turn, impair the quality and volume of the Bank's loan portfolio and result in decreased demand for the Bank's products. The Bank's business, as well as the successful implementation of its strategy, is highly dependent on the financial situation of its customers and their ability to repay existing obligations. The financial situation of Polish households, including the Bank's customers, is highly correlated with the unemployment rate. An increase in the unemployment rate in Poland could cause an increase in the Bank's impairment losses or hinder growth of the Bank's loans and advances portfolio.

On 15 January 2016, S&P Global Ratings Europe Limited ("**S&P**") downgraded Poland's long-term foreign currency sovereign credit rating to BBB+ from A-. The rating outlook was negative. The downgrade reflects S&P's view that Poland's system of institutional checks and balances has been eroded significantly as the independence and effectiveness

of key institutions, such as the constitutional court and public broadcasting, is being weakened by various legislative measures initiated since the election. The negative outlook reflected S&P's view that there is potential for further erosion of the independence, credibility, and effectiveness of key institutions, especially the National Bank of Poland (*Narodowy Bank Polski*) (the "NBP"). Moreover, S&P foresaw some reversals in Poland's sound macroeconomic management of the past years, for instance by targeting certain sectors with new taxes. However, on 2 December 2016, S&P revised its outlook for Poland's sovereign credit rating to stable from negative and affirmed the country's long-term foreign currency credit rating at BBB+. S&P believes that near-term concerns over a further weakening of key institutions have abated, while the sovereign's budgetary position has not deteriorated, despite its weaker than expected economic growth.

On 12 May 2017, Moody's Investors Service Ltd. changed the outlook on Poland's A2 issuer rating from negative to stable. This decision by Moody's Investors Service Ltd. to change Poland's outlook was based on the following factors: (i) reduced risks of loose fiscal policy, with the headline fiscal balance adhering to the 3% of GDP limit, and public debt stabilising at or near the current level of 55% of GDP, and (ii) the expectation that uncertainties stemming from government policies will remain contained, easing the downside risks to the business climate and investment flows. Moody's Investors Service Ltd. noted that in the first quarter of 2017 the budget deficit was smaller than the one the government projected resulting from higher than expected tax revenues. Moody's Investors Service Ltd. assumes that the government will continue to adhere to the 3% of GDP limit on the headline fiscal deficit. Despite certain recently adopted measures such as reducing the retirement age, the government has postponed or cancelled others, including lowering the VAT rate, or providing tax exemptions to small and medium-sized enterprises which positively affected the outlook of Poland's rating. In the view of Moody's Investors Service Ltd., further economic growth in the medium term will, most likely, remain supportive of the government's fiscal balance on the back of domestic demand, improving export prospects, and a higher utilisation of inflows of EU funds. Moody's Investors Service Ltd. also highlighted the fact that uncertainty regarding government policies is being contained and the risks to investment inflows are abating, with the government reversing or diluting a number of the measures it announced shortly after the 2015 elections, including cancelling its plan to convert Swiss franc-denominated mortgages into local currency.

On 13 January 2017, Fitch Ratings ("**Fitch**") reaffirmed Poland's long-term foreign currency sovereign rating at "A-" with a rating outlook of stable. According to Fitch, Poland's "A-" ratings are supported by its solid macro fundamentals, including a healthy banking system and sound monetary framework. However, Fitch did note that policy predictability and the political climate have deteriorated, adding to downside risks to Fitch's economic and fiscal forecasts. In 2016, the government implemented unorthodox measures, including a tax on banks, a cut in the retirement age (from Q4 2017) and fiscal relaxation, despite high GDP growth. A number of reforms have led to tensions in the country and criticism from abroad, including by the European Commission. The most recent example of increased political polarisation was the row over the vote on the 2017 budget, in December 2017, which the opposition has described as illegal and has triggered large demonstrations. The stable outlook reflects Fitch's assessment that upside and downside risks to the rating are currently balanced. In Fitch's view, the following risk factors could, individually or collectively, trigger negative rating action: (i) any sign that the relevance of the 3% of GDP EU deficit criteria weakens as a fiscal anchor, or failure to tighten fiscal policy in order to stabilise the debt-GDP ratio in the medium term, and/or (ii) a weaker macroeconomic policy framework potentially resulting in a deterioration in the investment climate, macro instability and lower GDP growth. On the other hand, the following factors could, individually or collectively, trigger positive rating action: (i) continued high GDP growth that supports income convergence towards the "A" category median, and (ii) continued reduction in external debt ratio supported by stronger current account balances and non-debt capital inflows.

Fitch confirmed its assessment of Poland with an A- rating in October 2018 and March 2019. The agency pointed out the diversity and strong macroeconomic foundations of Polish economy as the basis for such an assessment. The strength of the banking sector and smaller-than-expected budget deficit were also considered to be crucial factors. However, continuing growth in public revenues may lead to an increase in the rating to A.

Moody's Investors Service Ltd. maintained the rating of Poland on stable A2 in October 2018 and March 2019. The growth perspectives are said to remain stable and the fiscal indicators are compliant with both domestic and EU rules. However, both Moody's Investors Service Ltd. and Fitch stressed that a decrease in the retirement age and withdrawal of the reform to gradually increase it may have a negative impact on Poland's rating as these could weaken public finances and economic growth.

At the beginning of 2018, S&P changed the outlook of their BBB+ rating of Poland to positive and in October 2018, Poland's rating was upgraded to A- with the stable outlook. This reflects the view that the Polish economy's growth was better than expected, which, together with better tax administration, led to an increase in public revenues and helped to lower the budget deficit. This improved assessment was also based on the belief in a good relationship between Poland and EU. In April 2019, S&P published Sovereign Risk Indicators with Poland's rating being A-, the same as Spain. The rating outlook remains stable as at the date of this Base Prospectus. The "diversified economy" was also mentioned as one of Poland's strengths, together with deep domestic capital markets. However, S&P also took into consideration that the government deficit could rise.

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

Effect of government policy and regulation

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

Areas where changes could have an impact include:

- (a) the monetary, interest rate and other policies of the NBP and regulatory authorities in Poland;
- (b) general changes in government or regulatory policy that may significantly influence investor decisions;
- (c) general changes in regulatory requirements, for example prudential rules relating to the capital adequacy framework and rules designed to promote financial stability;
- (d) the costs, effects and outcomes of other regulatory reviews, actions or litigation, including any additional compliance requirements;
- (e) changes in bankruptcy legislation and the consequences thereof;
- (f) initiatives by local, state and national regulatory authorities or legislative bodies to revise the practices, pricing or responsibilities of financial institutions serving the interests of their consumers;
- (g) changes in rules on competition and the pricing environment;
- (h) further developments in the financial reporting environment;
- (i) the expropriation, nationalisation or confiscation of assets;
- (j) any change in legislation, including, but not limited to, taxation (e.g. the introduction of tax on financial institutions and the retail sales tax), banking regulations, foreign exchange control and customer protection rules, in particular, legislative or administrative measures imposing restrictions and limitations on the ability of financial institutions to set their prices or recoup their costs of operation (including the imposition of caps on interest rates, exchange rates, annual percentage rates, asset management and other fees, commissions and/or fixing lending interest rates and/or linking such interest rates to reference rates with predetermined maximum spreads);
- (k) governmental, regulatory or legislative intervention in existing contractual relations (such as, but not limited to, existing loan or deposit agreements), or specifying other commercial or legal terms that must be applied to, or become by operation of law part of, such existing agreements (such as terms under which the provision of loans, settlement of claims, repayment of deposits, repayment of loans or other banking services or operations are required to take place or provisions that give borrowers under existing loan agreements the right to reduce or defer monthly repayments (whether with or without compensation to the lending financial institution) or oblige financial institutions to provide additional lending in relation to such existing loan agreements);
- (l) the possibility that certain aspects of the Bank's business may be determined by the relevant authorities (such as the NBP, the KNF or the Polish Office of Competition and Consumer Protection (*Urząd Ochrony Konkurencji i Konsumentów*) (the "UOKiK")), or the courts find that aspects of the Bank's business have not been conducted in accordance with applicable laws or regulations;
- (m) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to the Bank, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers, all of which may require additional provisions;
- (n) the high level of scrutiny of the treatment of customers by financial institutions from regulatory bodies, the press and politicians;
- (o) any failure or malfunction of any relevant judicial system, including, but not limited to, the failure of, or substantial delay to, court proceedings and/or in respect of enforcement procedures;
- (p) any circumstance resulting in judgments becoming unenforceable or any substantial delay to the enforcement of judgments rendered by any relevant court, including any courts of arbitration; and
- (q) other unfavourable political developments producing any legal uncertainty which in turn may affect demand for the Bank's products and services.

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

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

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

Statutory intervention regarding CHF mortgage loans

Prior to the global financial crisis, there was a high demand in Poland for foreign-currency mortgage loans and mortgage loans indexed to foreign currencies (the "**FX Loans**"), especially in CHF, due to the very low prevailing exchange rates of CHF against PLN at the time. After the end of the global financial crisis, the exchange rate of CHF against PLN began to rise and on 15 January 2015, as a result of the Swiss National Bank Announcement, CHF appreciated significantly against EUR, and consequently against PLN. This exchange rate movement affected the value and the risk profile of CHF-denominated mortgage loans granted by Polish banks.

On 13 January 2017, the Financial Stability Committee (*Komitet Stabilności Finansowej*, the "**KSF**") published its statement and recommendation concerning FX Loans. The KSF believes that a statutory intervention in the FX Loans issue could threaten the stability of the Polish financial system. According to the KSF, any restructuring of the FX Loans should be conducted on a voluntary basis. At the same time, the KSF recommended that the public authorities supervising the financial system should take actions which would encourage the banks which granted the FX Loans to enter into restructuring arrangements with borrowers under these loans. These recommendations included: increasing the risk weight (from 100 per cent. to 150 per cent.) and the minimal loss given default parameter for exposures collateralised by residential properties, the purchase of which was financed with the FX Loans; modifying the operations of the Borrowers' Support Fund (*Fundusz Wsparcia Kredytobiorców*) to increase the support offered by the fund to borrowers under mortgage loans and enable the fund to support the restructuring of the FX Loans; amending the applicable tax regulations in a manner which would reduce the tax burden on lenders and borrowers participating the voluntary restructuring of the FX Loans; imposing a systemic risk buffer of 3 per cent. applicable to all exposures in Poland; the KNF taking into account risk of FX loans in Supervisory Review and Evaluation Process and Pillar II requirements; the KNF issuing a recommendation on good practices concerning the restructuring of the FX Loans; the Bank Guarantee Fund taking into account the risks associated with the FX Loans in determining the contributions paid by the banks to the fund.

On 2 August 2017, the Chancellery of the President of Poland presented a bill to the Polish Parliament to amend, among other things, the existing law on support to home loan borrowers in difficult financial conditions and to amend the law on corporate income tax. On 4 July 2019 the bill was passed by the Polish Parliament and is now awaiting the President's signature. The new act will come into force on 1 January 2020. The main purpose of the new act is to change the mechanism for providing financial support to those borrowers who find themselves in a difficult financial situation and are also required to repay instalments on a home loan that represents a significant burden on their household budgets. The new act extends the scope of the law on support to borrowers in a difficult financial situation by introducing rules for granting a loan to pay back the remaining part of the home loan and by specifying the conditions of use for the repayment loan if the amount obtained from the sale of the property fails to cover the entire obligation. Furthermore, the new act modifies the criteria for granting financial aid and defines criteria for granting repayment loans. It also extends the duration of financial aid from 18 to 36 months and increases the maximum amount of financial aid from PLN 1,500 to PLN 2,000 per month, up to a maximum of PLN 72,000. The funds are to be repaid in 144 equal, interest-free monthly instalments. If a borrower repays 100 instalments without any delay or postponement, the remaining 44 instalments would be cancelled.

According to the new act, the supporting fund is to be used to make financial aid payments and disburse repayment loans. It is financed mainly by quarterly contributions from creditors in proportion to the portfolio of home loans whose principal or interest has been outstanding for more than 90 days. The quarterly contributions would not exceed 1 per cent. of the carrying amount of the portfolio of home loans referred to above.

The new law may have a considerable impact on the profitability of the Polish banking sector, particularly when the quarterly contributions to the supporting fund are set at their maximum level. Consequently, it could reduce the Polish banking sector's capacity to provide loans. The impact would be unevenly distributed across the sector, with banks holding large portfolios of home loans whose principal or interest has been outstanding for more than 90 days being particularly affected. The new act may have a material negative impact on the banking sector in Poland and therefore can adversely affect the business, financial condition and results of operations of the Group.

In the recent years, numerous cases have been initiated by the borrowers in respect of FX Loans (predominantly retail mortgage loans denominated in CHF). On 4 April 2019 the Polish Supreme Court issued a judgement (case III CSK 159/17) in which it was determined that FX Loans agreements, under which a lender can freely determine the exchange rate are contrary to good customs and violates the interests of the consumer. As a result, clauses allowing for such free lender's determination in FX Loans agreements shall be deemed void and the value of the lender's payments under FX Loans agreements should be determined in PLN. It cannot be excluded that the Polish Supreme Court's decision will be treated as a precedent by other Polish courts and that they will issue judgements which will follow the similar rationale. The Polish Supreme Court's decision and any future similar judgements may have a negative impact on the Group which has a significant portfolio of FX Loans.

There is currently a case pending in front of the Court of Justice of the European Union (the '**Court of Justice**') initiated by the request for a preliminary ruling from the District Court (*Sąd Okręgowy*) in Warsaw (Poland) submitted on 16 April 2018 (C-260/18 Kamil Dziubak, Justyna Dziubak vs Raiffeisen Bank Polska SA) regarding allegedly unfair contractual terms relating to the exchange rate applicable to repayments of a loan. In line with the opinion of the Advocate General Giovanni Pitruzzelli (the '**Preliminary Opinion**') issued for the purpose of these proceedings, the EU law prohibits a national court from (i) replacing unfair terms of the contract by referring to general provisions of the domestic law which would result in, their being unfavourable for the consumer, or ordering cancellation of an agreement; (ii) upholding the contract with the consumer against their express will even if, in the domestic court's view, the contract in its entirety is not unfavourable for the consumer. Further to the opinion of the Advocate General, the Court of Justice will issue a preliminary ruling. The Court of Justice may follow the opinion of the Advocate General (which is usually the case) or issue an opposing judgment. If the views presented in the Preliminary Opinion will be accepted in the judgment of the Court of Justice, it may have a negative impact on the Group as it has a significant exposure to FX Loans (predominantly retail mortgage loans denominated in CHF).

There are no FX Loans denominated in CHF in the Bank's loan portfolio, however, they are in mBank's portfolio. As at 31 December 2018, PLN 14.5 billion of the Group's net loans and advances to customers were denominated in CHF. As at 31 December 2018, the Group's CHF-denominated loans and advances to customers constituted 41.8 per cent. of the Group's total net loans and advances to customers.

The conversion of foreign currency denominated loans may have a negative impact on the Group and the Polish banking sector as a whole and, as a consequence, on the business activity and financial position of mBank. This may adversely affect the Bank's financial standing and its ability to meet obligations under the Covered Bonds.

Transfer of pension funds' assets

Open pension funds, which are a part of the pension system in Poland, are important investors in debt securities issued in the Polish market. Any changes to the operations of the pension funds which may limit the number of pension funds, the value of assets managed by the pension funds or their investment policies may affect the investors' demand for covered bonds issued by the Bank and therefore may adversely affect the Bank's financial standing and ability to meet its obligations under the Covered Bonds.

Employee Capital Plans

In 2019, the Act on Employee Capital Plans (*pracownicze plany kapitałowe*) ("**PPK Act**") entered into force. Employee Capital Plans are voluntary and private long-term saving systems created by employers and the state and available to all employees. According to the Employee Capital Plans official website, they have been developed to increase the financial security, boost the economic growth and increase private retirement savings. Payments to the Employee Capital Plans accounts come from three sources: (i) an employer, (ii) an employee and (iii) the state. The amount of the basic payment is calculated as a percentage of the employee's gross remuneration. In addition, both the employer and the employee may declare the transfer of extra voluntary payments. The state will pay additional amounts to this pool which are independent of the employee's income. An employee who decides to join the Employee Capital Plans will be able to freely use the accumulated funds after reaching the age of 60. The Employee Capital Plans may decrease a market appetite for other investments such as covered bonds issued by the Bank and therefore may adversely affect the Bank's financial standing and ability to meet its obligations under the Covered Bonds.

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

In June 2016, the Polish Prime Minister announced the establishment of the new programme '*Mieszkanie+*' (Apartment+) aimed at improving the accessibility of dwellings through the development of apartments for rent with an affordable rent level which is aimed at being lower than the market rate. The apartments are available to low and medium-wage earners.

The programme also supports social housing and savings programmes for housing needs. As at 1 June 2019, 480 dwellings had been let to tenants and more than 27,000 are being built. On 20 July 2017, the Act on National Real Estate Pool (*Ustawa o Krajowym Zasobie Nieruchomości*) was adopted. This act introduced the concept of the National Real Estate Pool (*Krajowy Zasób Nieruchomości*). The National Real Estate Pool has enabled the use of real estates for the purpose of building flats and houses within the programme. Also, on the basis of the act dated 20 July 2018 on state aid regarding rent costs in the initial years of an apartment's rental, from 1 January 2019, it is possible to seek a subsidy for rent payments. Implementation of the Apartment+ programme may result in a decreased demand for mortgage loans financing the acquisition of new apartments.

Limits on trade in Poland on Sundays, public holidays and some other days may affect the Bank's portfolio

Under the Act on limiting trade on Sundays, public holidays and some other days adopted on 10 January 2018 (**Limiting Trade Act**) trade and activities related to trade are prohibited on Sundays, public holidays and other days (including December 24 and the Saturday immediately preceding the first day of Easter). In accordance with the Limiting Trade Act, the prohibition of trading on the days specified therein is being implemented gradually. From 1 March 2018 to 31 December 2018, the prohibition did not apply on the first and last Sunday of every calendar month. From 1 January 2019, the prohibition does not apply on the last Sunday of every calendar month.

In consequence of the Limiting Trade Act, as at the date of this Base Prospectus there is only one trading Sunday per month. Instead of seven, there are six trading days per week and only one trading day per weekend. These restrictions negatively affect the profits of shopping centres. As shopping centres constitute a significant element of the portfolio of entities financed by the Bank, they can also negatively affect the Bank and its financial condition.

Any reduction in the credit rating of the Bank and its affiliates could increase its cost of funding and adversely affect its interest margins

Credit ratings affect the cost and other terms upon which the Group is able to obtain funding. A reduction in the Group companies' credit ratings could increase the costs associated with their interbank and capital market transactions and could adversely affect the Group's liquidity and competitive position, undermine confidence in the Group, increase its borrowing costs and adversely affect its interest margins. Furthermore, should the rating of the Bank be downgraded below investment grade, this could significantly impair the operating business of the Bank, the refinancing costs of the Group and the Bank's eligibility to act as a counterparty to derivative transactions for some market participants.

Rating agencies' assessments are driven by a number of factors, including franchise value, capitalisation, profitability, refinancing opportunities and liquidity as well as potential parental support.

On 3 February 2016, S&P revised its opinion of country risk in the Polish banking sector to negative from stable. As a result, S&P changed the outlook on mBank's credit rating to negative from stable and affirmed the BBB and A-2 counterparty credit ratings. On 11 March 2016, S&P revised again the rating outlook for mBank from negative to stable, following a similar revision of Commerzbank's rating outlook. On 28 March 2017, S&P upgraded the Bank's long-term rating from BBB to BBB+ as a result of the upgrading of the rating of Commerzbank from BBB+ to A-. The long-term rating outlook for the Bank after the upgrade was negative, which mirrored the negative outlook for Commerzbank's long-term rating. On 16 July 2018, S&P assigned to the Bank long and short-term resolution counterparty ratings of BBB+ and A-2, respectively. On 15 October 2018, following the upgrade of Poland's long-term sovereign rating from BBB+ to A- on 12 October 2018, S&P raised the long-term resolution counterparty rating for mBank from BBB+ to A-. At the same time, S&P affirmed the Long-term Issuer Credit Rating for mBank at BBB+ and the short-term rating at A-2.

In the case of the Bank, on 7 March 2016, Fitch upgraded the Bank's long-term issuer default rating from BBB- with positive outlook to BBB with stable outlook as a result of the upgrade of Commerzbank's issuer default rating from BBB to BBB+. Furthermore, on 7 March 2016, Fitch upgraded the Bank's Covered Bonds rating to BBB+ from BBB following the recent upgrade of the Bank and, on 4 July 2016, Fitch upgraded the Covered Bonds rating to A from BBB+ with the rating outlook to positive from stable. The upgrade was a result of changes in the law on covered bonds and mortgage banks, which entered into force on 1 January 2016. On 18 January 2017, Fitch affirmed the Bank's long-term issuer default rating at BBB (outlook stable) and assigned a corresponding national long-term rating 'AA (pol)' (outlook stable). This affirmation reflected Fitch's opinion that there is a high probability that both banks would be supported by their parents. On 23 June 2017, Fitch affirmed Bank's mortgage covered bond programme at 'A' with a positive outlook. On 8 December 2017 the Bank's BBB long-term issuer default rating was affirmed. On 9 January 2018, Fitch affirmed the Bank's long-term issuer default rating at BBB (outlook stable). On 22 June 2018 Fitch affirmed the Bank's mortgage covered bond programme at 'A'. On 30 November 2018, Fitch again affirmed all the ratings and the outlook on the Bank's long-term rating.

On 27 May 2019, Moody's assigned Baa2 long-term and Prime-2 short-term issuer ratings to the Bank. Moody's has also assigned the Bank A3 (cr) long-term and Prime-2 (cr) short-term counterparty risk assessment (CR Assessment) and A3 long-term and Prime-2 short-term counterparty risk ratings (CRRs). The outlook on the long-term issuer ratings is stable as at the date of this Base Prospectus.

On 28 May 2019 the Bank delivered to Fitch a notice of termination of the agreement on providing ratings of the Covered Bonds. The ratings of the Covered Bonds are subject to analytical review prior to the withdrawal, and in addition, Fitch will be providing approximately 30 days' notice to the market of the rating withdrawal.

A downgrade in the rating of mBank or the Bank could increase the financing costs associated with transactions on the interbank market and could adversely affect the Group's business, financial condition and results of operations.

Falling residential and commercial property prices may affect the Bank's financial standing

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

Decline in demand for residential and commercial properties will lead to decline in demand for mortgage loans

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

The banking sector is exposed to systemic risks

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

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

Systemic risk has two dimensions:

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

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

Some provisions of the Polish Covered Bonds Act may be interpreted differently by market participants, public authorities and the courts

Some provisions of the Polish Covered Bonds Act and other acts of law governing the activities of mortgage banks, in particular, the provisions concerning the bankruptcy of a mortgage bank, have not been tested in practice. This means that

market participants, public authorities and the courts in Poland have limited experience in applying the Polish Covered Bonds Act. There is a risk that the Bank's interpretation of the Polish Covered Bonds Act may differ from views of other market participants, public authorities and the courts. A different interpretation may have an impact on the validity and enforceability of certain rights and obligations under the Covered Bonds. These differences may also result in sanctions imposed by the relevant authorities or disputes which may have unfavourable results for the Bank. Additionally, these differences may require the Bank to change the way it conducts business and these changes may adversely affect the Bank's financial standing and its ability to perform obligations under the Covered Bonds.

New legislation in Poland implementing the Mortgage Credit Directive might restrict the Bank's business activity

On 22 July 2017, the Mortgage Credit Act entered into force. The Mortgage Credit Act has implemented into Polish law the Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (the "**Mortgage Credit Directive**").

The Mortgage Credit Act introduces certain restrictions on the Bank's business activity. The general purpose of the Mortgage Credit Act is to improve the position of borrowers who purchase real estate. The Mortgage Credit Act introduces restrictions on granting mortgage loans (for example restrictions on currencies in which a loan may be granted, which depend on the currency of the borrower's income). Banks will not be allowed to tie mortgage loans with its other products, except the auxiliary bank account, free of charge (which does not concern Polish mortgage banks as they are no longer allowed to maintain bank accounts for their clients). It does not affect the cross-selling that respects the borrower's right to choose a stand-alone mortgage loan or other combined offer. Additionally, while a bank may require the borrower to insure the property financed with the mortgage loan and to assign this insurance to the bank, the bank may not restrict the borrower's ability to choose an insurer, as long as the insurance policy meets the criteria stipulated by the bank. The Mortgage Credit Act imposes several mortgage loan information requirements on banks. The first one is information in respect of advertising concerning mortgage loans, which must provide detailed information about loan features. Another is the offer information which must be presented in a special information sheet and submitted to the customer after having become acquainted with the customer's credit needs. The information sheet is binding on a bank for 14 days. The Bank is also obliged to issue a credit decision within 21 days of the date of a loan application and to justify a refusal to grant a loan. The third requirement is a loan agreement's content, which is also strictly regulated. It includes a customer's right to withdraw from the loan agreement within 14 days of the date of signing the agreement. Therefore, these regulations have caused some changes in the process of originating mortgage loans. The Mortgage Credit Act introduces licensing requirements for brokerage and agent services regarding mortgage loans. Moreover, it introduces regular training requirements as a condition of maintaining the licence. Banks are also required to conduct regular training of their employees involved in mortgage loan origination processes. The Mortgage Credit Act may adversely affect the Bank's ability to efficiently enforce its claims under the mortgage loans, especially because it provides a six-month restraining period from mortgage foreclosure which aims to allow the borrower itself to sell the encumbered property in the market. No assurance can be given that the supervisory authorities will interpret and apply the Mortgage Credit Act in a manner that will not have an adverse effect on the Bank's business, operations and financial condition.

The Bank may be required to make substantial contributions to the Bank Guarantee Fund and the Borrowers' Support Fund

Pursuant to the provisions of the Polish Act on Bank Guarantee Fund, Deposit Guarantee Scheme and Compulsory Restructuring dated 10 June 2016 (as further amended) (*Ustawa z dnia 10 czerwca 2016 r. o Bankowym Funduszu Gwarancyjnym, systemie gwarantowania depozytów oraz przymusowej restrukturyzacji (z późniejszymi zmianami)*) (the "**Resolution Act**"), members of a mandatory guarantee system are obliged to contribute to a deposit guarantee fund and a resolution fund. If an entity that is a member of the Polish Bank Guarantee Fund (*Bankowy Fundusz Gwarancyjny*) (the "**BFG**") is declared bankrupt, other members may be required to make additional one-off payments to cover the liabilities of such entity.

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

In 2015 and 2016, the BFG has requested additional contributions from the banking sector to cover the cost of payments to deposit holders of bankrupt banks. In 2015, the KNF submitted a bankruptcy filing for the cooperative bank Spółdzielczy Bank Rzemiosła i Rolnictwa w Wołominie. As a result, based on the Resolution Act, the Group was obliged to pay a contribution of PLN 141.7 million to the BFG. In 2016, the Group's additional contribution for the repayment of guaranteed deposits to the depositors of Bank Spółdzielczy in Nadarzyn reached PLN 10.9 million.

In November 2018, the liquidity of Getin Noble Bank and Idea Bank, two banks controlled by Mr Leszek Czarnecki (being the "**Relevant Banks**"), significantly deteriorated. At that time, the Relevant Banks borrowed PLN 5.8 billion from the National Bank of Poland to cover their outflow of deposits and maintain liquidity. By the end of March 2019, both of the Relevant Banks had repaid refinancing loans borrowed from the National Bank of Poland and their liquidity ratios improved to be approximately equal to the market average. As the scale of the Relevant Banks' operations is much larger, and the amount of guaranteed deposits held by both Relevant Banks is much higher, than that of the cooperative banks mentioned above, the BFG contribution (related to the resolution process and guaranteed deposits) by Polish banks (including the Bank) would be significantly higher than any other BFG contribution to date. As at 31 December 2018, a total amount of PLN 37.185 billion was due to Getin Noble Bank's customers (PLN 31.278 billion of such amount being due to retail customers), and a total amount of PLN 17.106 billion was due to Idea Bank's customers (PLN 15.748 billion of such amount being due to retail customers). The amount of covered deposits held by Getin Noble Bank and Idea Bank is not publicly available. According to the latest available data published by the BFG, as at 31 December 2017, the total amount of the deposit guarantee fund was PLN 12.338 billion; it can therefore be concluded that upon the hypothetical bankruptcy of either Relevant Bank, the BFG funds are unlikely to be sufficient to cover the Relevant Banks' guaranteed deposits. As at the date of this Base Prospectus, the Relevant Banks do not satisfy the minimum capital requirements. As at 31 December 2018: (i) Getin Noble Bank group reported a Total Capital Ratio ("**TCR**") of 14.17 per cent. and a Tier 1 capital ratio of 9.0 per cent., but the minimum capital requirements as at the date of the release of the annual consolidated financial statements for 2018 (31 December 2018) were 14,17 per cent. and 11.85 per cent., respectively; and (ii) Idea Bank group reported a TCR of 4.11 per cent. and a Tier 1 capital ratio of 2.70 per cent., but the minimum capital requirements were 12.88 per cent. and 10.88 per cent., respectively. In accordance with Article 60 paragraph 1 of the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system, both Relevant Banks have prepared capital protection plans. The capital protection plan of Getin Noble Bank was approved by the KNF in April 2018 and is being implemented. It is not known whether the capital protection plan of Idea Bank has been approved by the KNF. On 15 May 2019, the KNF, exercising its statutory powers decided to appoint a curator (*kurator*) in Idea Bank. According to the KNF's statement, the main purpose of appointing a curator (*kurator*) is to support Idea Bank bodies in their efforts to improve its economic and financial situation, in particular through the development and implementation of a recovery plan, being an alternative to the scenario involving an equity injection contributed by a financial investor. In addition, by appointing a curator (*kurator*), the KNF wishes to upgrade effective exchange of information between Idea Bank and the KNF and monitor ongoing activities of Idea Bank.

Based on the targeted levels of funds that are stipulated in the Resolution Act, the total financial burden for the sector in 2018 is expected to be only slightly higher than in 2017, assuming no significant pay-outs from the BFG are required. Nevertheless, methodology for the calculation of bank contributions to the BFG may be subject to future changes.

In addition, a Borrowers' Support Fund was established pursuant to the Polish Act on the support of borrowers in financial difficulties who have taken out a housing loan dated 9 October 2015 (*Ustawa z dnia 9 października 2015 r. o wsparciu kredytobiorców znajdujących się w trudnej sytuacji finansowej, którzy zaciągnęli kredyt mieszkaniowy*) in order to support residential borrowers in financial difficulties. This fund is intended to provide support to natural persons who find themselves in difficult financial situations and who are required to repay housing loans which significantly encumber their household budgets. The Borrowers' Support Fund is funded predominantly from contributions made by lenders in proportion to their housing loan portfolio for households, for which the delay in repayment of principal or interest exceeds 90 days.

If the Bank is required to make substantial contributions to the BFG and the Borrowers' Support Fund, it may have a material adverse effect on the Bank Group's strategy, its growth potential and profit margins and, consequently, could have a material adverse effect on the Bank's business, financial condition and results of operations.

Bank's supervisory authorities may identify issues during inspections of the Bank in the future which may result in sanctions, fines or other penalties

In the course of its activities, the Bank may be subject to numerous inspections, reviews, audits and explanatory proceedings conducted by various supervisory authorities which supervise the financial services sector and other areas in which the Bank operates, including the KNF and the UOKiK. The latest inspection of the Bank was conducted by the KNF from 28 January to 26 February 2019.

If any irregularities are found by these supervisory authorities and the Bank fails to remedy them (provided that such possibility is given), the Bank may be exposed to sanctions, fines and other penalties. This could affect the business, financial condition and results of operations of the Bank.

Bank outsources some of its activities

As part of its business, and pursuant to applicable law, the Bank outsources some of its business-related functionalities, and therefore relies on certain service and business process partners and other third parties. There is a risk that it will be difficult for the Bank to replace these relationships on commercially reasonable or similar terms, or at all, and seeking alternative relationships could be time-consuming and result in interruptions to the Bank's business. The Bank's use of business outsourcing partners also exposes the Bank to reputational risks.

Further, the Bank's business outsourcing or other partners could commit fraud with respect to the services that the Bank outsources to them, fail to comply with applicable laws and regulations, such as data protection requirements, or fail to otherwise provide their agreed services to the Bank. To the extent that these third parties violate laws, other regulatory requirements or their contractual obligations to the Bank, or otherwise act inappropriately in the conduct of their business, there is a risk that the Bank's business and reputation will be negatively affected or that penalties will be directly imposed on the Bank. Further, some of the Bank's agreements with third parties contain provisions that limit the liability of such third parties, and the Bank may in such cases not be able to recover the full amount of a loss even if it is the result of the third party breaching the agreement. There is also a risk that the Bank's methods and procedures for overseeing how outsourcing and other partners operate their businesses are inadequate, and that the Bank does not become aware of the occurrence of any violations for a substantial period of time, exacerbating the effect of such violations. Should any of these risks materialise, there is a risk that it will have an adverse effect on the Bank's business, financial condition and results of operations.

The information systems of these third parties may be vulnerable to security breaches, and there is a risk that the Bank's methods and procedures for overseeing how outsourcing partners and other third parties operate their businesses may be inadequate or that the Bank may not be able to ensure that these third parties have appropriate security controls in place to protect the information that the Bank shares with them. Furthermore, such third parties may misuse data provided by the Bank. If the Bank's proprietary or confidential customer information is intercepted, stolen, misused or mishandled while in the possession of a third party, there is a risk that it will result in reputational harm to the Bank, loss of customer business, or loss of income, thereby adversely affecting the Bank's funding situation, and additional regulatory scrutiny, and that it will expose the Bank to civil litigation and possible financial liability, adversely affecting the Bank's business, financial condition and results of operations.

Properties securing mortgage loans are exposed to catastrophes and natural disasters

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

Undeveloped secondary market for mortgage loans

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

Changes in accounting standards

The Bank's accounting policies and methods are fundamental to how it records and reports its financial condition and results of operations. From time to time, amendments are adopted to the applicable financial accounting and reporting standards that govern the preparation of the Bank's financial statements.

As at 1 January 2018, the Bank has applied the International Financial Reporting Standard 9 "Financial Instruments" ("**IFRS 9**") replacing the International Accounting Standard 39 ("**IAS 39**"). IFRS 9 was published in 2014 and combines all aspects of accounting for financial instruments: classification and measurement, impairment and micro hedge accounting.

According to IFRS 9, the classification and measurement of financial assets is based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics (the so-called SPPI-test, SPPI standing for "solely payments of principal and interest"). The Bank changed classification and measurement method for 25 corporate loans measured at amortized cost in accordance with IAS 39 at fair value through profit or loss in accordance with IFRS 9 in connection with non-compliance the SPPI criteria in category non-recourse assets.

The new impairment rules under IFRS 9 replace the incurred loss model of IAS 39 with an expected credit loss model. The IFRS 9 impairment rules require an impairment allowance to be recognised for all financial assets that are measured at amortised cost and fair value through other comprehensive income for all loan commitments and all financial guarantees not recognised at fair value. The changes in these allowances are reported in profit and loss. For financial assets, the impairment allowance is measured as the expected credit losses projected over the next 12 months or the lifetime of a given exposure. The allowance remains based on the expected losses over the next 12 months, unless there is a significant increase in credit risk. If there is a significant increase in credit risk, the allowance is measured as the expected credit losses projected for the instrument over its full lifetime. If the credit risk significantly recovers, the allowance can once again be limited to the projected credit losses over the next 12 months. The Bank has identified all the necessary elements to adjust the

impairment methodology to the requirements of IFRS 9 and the Management Board has validated all material aspects of the impairment methodology applicable from 1 January 2018 onwards.

Hedge accounting under IFRS 9 is aligned more with the risk management policies of entities than under IAS 39. It expands the definition of non-derivative financial instruments and can now also include non-financial assets such as hedging instruments. IFRS 9 does not address macro hedge accounting and allows entities to continue with IAS 39 for such hedges. The Bank continues to apply the requirements of IAS 39.

As at 1 January 2018, the total impact of IFRS 9 on the Common Tier 1, the Tier 1 and the Total Capital Ratio of the Bank was negligible. Therefore, the Bank decided, for the purpose of capital adequacy calculation, to not apply transitional arrangements to mitigate the impact of the implementation of IFRS 9, which are specified in Regulation No. 2017/2395 of the European Parliament and the Council (EU) of 12 December 2017.

The Bank has applied the provisions of IFRS 9 when preparing the Bank's annual financial statements for the year ended 31 December 2018. The comparative figures have not been restated. This hinders a comparative analysis between the Bank's annual financial statements for the year ended 31 December 2017 and the year ended 31 December 2018.

In addition, the International Financial Reporting Standard 16 "Leases" ("**IFRS 16**") published by the International Accounting Standards Board on 13 January 2016 and approved by the European Union on 31 October 2017, is binding for annual periods starting on or after 1 January 2019. IFRS 16 introduces new principles for the recognition of leases. The main amendment is the elimination of the classification of leases as either operating leases or finance leases and, instead, the introduction of a single lessee accounting model. Applying a single accounting model, a lessee is required to recognise lease assets and corresponding liability in the statement of financial position, except for leases with a term of less than 12 months and leases of an underlying asset of low value. A lessee is also required to recognise depreciation costs of lease assets separately from interest costs on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting approach. It means that the lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The application of a new standard has an impact on the recognition, presentation, measurement and disclosure of operating lease assets and corresponding liability in the financial statements of the Bank as a lessee. Due to the inclusion of lease agreements in the Bank's balance sheet as at 1 January 2019, the total amount of risk exposures increased, and thus the total capital ratio of the Bank decreased by approximately two basis points. Any amendment to the International Financial Reporting Standards which, in the future, may be adopted by the European Union and which concerns the valuation of the balance sheet, off-balance sheet items, disclosures or creating write-downs and provisions, may have a negative impact on the financial and economic situation of the Bank.

Risk of unpredictable events

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

Risk relating to the Cover Pool

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

The Covered Bonds are not guaranteed by any person and constitute direct, unconditional and unsubordinated obligations of the Bank, which will rank *pari passu* amongst themselves and with all other mortgage covered bonds issued by the Bank and with all other obligations of the Bank that have been provided the same priority as the Covered Bonds (to a swap provider of hedging instruments that form the cover pool). No other security for the Bank's obligations under the Covered Bonds has been established. In particular, the Covered Bond Holders will not have the benefit of any security over the Bank's rights under any transaction document.

The Covered Bonds and any other mortgage covered bonds issued by the Bank, as well as liabilities under the eligible hedging arrangements, will have the benefit of a statutory preference under the Polish Covered Bonds Act over a single shared cover pool maintained by the Bank. The Bank maintains the Cover Pool for all mortgage covered bonds issued by the Bank, including the Covered Bonds. In case of issuance by the Bank of the public covered bonds, the Bank would be required to maintain a separate cover pool for all such public covered bonds.

This means that holders of all mortgage covered bonds issued by the Bank, as well as counterparties to the eligible hedging arrangements, have a claim against the same assets in the Cover Pool. Holders of one type of covered bonds have no claim against the assets in the cover pool maintained for another type of covered bonds, which means that holders of mortgage covered bonds have no claim against the cover pool maintained for public covered bonds and holders of public covered bonds have no claim against the Cover Pool. The Polish Covered Bonds Act does not permit the maintenance of a "variety of pools" for calculation, insolvency or other purposes under Polish law (for example, on an issue-by-issue or a programme-

by-programme basis). As at 31 May 2019, the aggregate principal amount of all mortgage covered bonds issued by the Bank was PLN 7.3 billion.

Currently, there are no outstanding public covered bonds issued by the Bank and the Bank does not have plans to issue public covered bond in the future. However, the Bank may decide to issue mortgage covered bonds under programmes other than the Programme (including the domestic covered bonds programme) or on a stand-alone basis and the holders of mortgage covered bonds will have access to the same Cover Pool as the Covered Bond Holders. Such other covered bonds may be issued on different terms to the Covered Bonds (including as to maturity).

Holders of the Covered Bonds will have limited information on loans in the Cover Pool

This Base Prospectus provides basic information on the loans in the Cover Pool as at 31 March 2019. Within three months from the end of each financial year, the Bank will announce in "*Monitor Sądowy i Gospodarczy*" the aggregate amount of the Bank's receivables in the Cover Pool. Additionally, the Bank publishes quarterly a cover pool report in accordance with Article 129 section 7 of the CRR. The Cover Pool Monitor supervises the proper maintenance of both cover pool registers (separately for mortgage covered bonds and public covered bonds), but the results of this inspection are not publicly available. Therefore, it is possible that, after the date of this Base Prospectus, the composition of the Cover Pool will change, and these changes may have an adverse effect on the Bank's financial position and ability to perform its obligations under the Covered Bonds.

Audit of the Cover Pool

Neither the Bank nor the Dealers have conducted or commissioned any independent audit of the Cover Pool, nor will they undertake any audit of the Cover Pool in connection with an offering of the Covered Bonds.

Valuation of properties

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

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

The Bank may breach the regulatory requirements concerning the cover pools

The Bank, its cover pools and issuances of covered bonds by the Bank are subject to a number of regulatory restrictions. If the Bank does not originate or acquire new loans to replace the loans which were included in the cover pools, but were repaid, it is possible that the Bank will not satisfy the statutory over-collateralisation requirements. Additionally, even though the Bank and the Cover Pool Monitor verify whether the loans in the cover pools meet the statutory criteria, it cannot be excluded that particular loans in the cover pools might not satisfy all statutory criteria. In such a case, the Bank may need to replenish the assets in the cover pools in order to comply with the regulatory requirements concerning the cover pools which can be done through adding additional eligible loans or by supplying substitute liquid assets. Breach of regulatory requirements concerning the cover pools may also result in disciplinary action from the KNF, including fines, removal of board members and (in extreme circumstances) commencement of compulsory restructuring.

Termination payments for swaps

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

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

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

Regulatory considerations regarding hedging arrangements

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

The EU regulatory framework and legal regime relating to derivatives is set not only by EMIR but also by the directive and regulation which have been adopted by the European Council and the European Parliament and published in the Official Journal of the European Union on 12 June 2014 which amend the existing Markets in Financial Instruments Directive (together known as "**MiFID II**"). In particular, MiFID II requires sufficiently liquid, standardised derivative trades that are subject to the clearing obligation under EMIR to be executed on a trading venue. MiFID II applies from 3 January 2018. As a result of MiFID II implementation, the Bank is obliged to provide more information to its customers, such as the cost and charges involved in providing investment services and, in consequence, could face significantly higher compliance costs and become subject to increasingly complex requirements and additional legal risk, which could, in turn, have a material adverse effect on the Bank's business, prospects, financial position and/or results of operations and ability to make payments in respect of the Covered Bonds.

The European Parliament and Council have adopted Regulation (EU) No 2015/2365 of 25 November 2015, which was published in the Official Journal of the European Union on 23 December 2015 and took effect as at 12 January 2016, known as the Securities Financing Transactions Regulation ("**SFTR**"). The SFTR introduces certain requirements in respect of OTC derivative contracts applying to financial counterparties ("**SFTR FCPs**"), such as investment firms, credit institutions and insurance companies and certain non-financial counterparties ("**SFTR Non-FCPs**"). Such requirements include, amongst other things, the reporting of each "Securities Financing Transaction" that has been concluded between SFTR FCPs and SFTR Non-FCPs, together with any modification or termination of a Securities Financing Transaction, to a trade repository. The definition of Securities Financing Transaction includes a repurchase transaction, securities or commodities lending transaction, a buy-sell back transaction and a margin lending transaction and could potentially include the credit support arrangements. ESMA has been tasked with drafting draft regulatory technical standards to be included in the reports prepared pursuant to the SFTR's reporting obligation. The requirements also include an obligation to disclose certain information before counterparties (including SFTR FCPs and SFTR Non-FCPs) can reuse financial instruments (but not cash) received as collateral from 13 July 2016 (the "**Collateral Reuse Notification Obligation**"). The Collateral Reuse Notification Obligation applies irrespective of whether the transaction is a Securities Financing Transaction.

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

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

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

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

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

The Covered Bonds are intended to comply with the requirements of Article 129 of the CRR and qualify for a preferential risk weighting in the eligible European jurisdictions; however, no assurance is provided in relation to (ongoing) compliance with Article 129 of the CRR. However, the requirements of Article 129 of the CRR (in relation to derivative exposures) are unclear in circumstances where derivative counterparties are not credit quality step 1 (for the purposes of the CRR), and, in addition, the Polish Covered Bonds Act does not provide any restrictions with regard to credit quality of swap counterparties.

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

Risk factors in the event of bankruptcy

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

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

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

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

Both tests are conducted separately for mortgage covered bonds and public covered bonds. If the results of both the coverage test and the liquidity test are positive, the claims of the Covered Bond Holders for the repayment of principal are to be fulfilled in accordance with the terms and conditions of the Covered Bonds and the applicable Final Terms up to the Extended Maturity Date.

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

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

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

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

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

Meetings of holders of covered bonds in the event of bankruptcy

According to the Polish Bankruptcy Law, following the declaration of bankruptcy of the Bank, the meeting of holders of covered bonds (including the Covered Bonds) may be convened by the judge-commissioner on a motion of holders of covered bonds representing at least 10 per cent. of the nominal value of the outstanding covered bonds. Unless the Polish Bankruptcy Law provides otherwise, resolutions of the meeting of holders of covered bonds are adopted regardless of the number of the covered bond holders present, by a majority of votes of those holders who hold no less than 50 per cent. of the nominal value of the outstanding covered bonds. Consequently, Covered Bond Holders can be bound by the result of a vote that they voted against.

Consent of the abovementioned meeting is required for sale of assets belonging to any cover pool register maintained by the Bank if: (i) they are sold in whole and the proceeds from such sale will not be enough to cover costs of cover pool liquidation and liabilities from covered bonds; or (ii) they are sold in part and below their fair value. Consent to the sale of part of the Bank's banking enterprise, comprising, in particular, the separate bankruptcy asset pool, requires a majority of two thirds of the votes cast. In such case, none of the covered bonds (including the Covered Bonds) is subject to such sale and the bankruptcy receiver shall determine the share of the proceeds from the sale of the Bank's banking enterprise which will be used for covering claims of covered bond holders (including the Covered Bond Holders).

For the pre-declaration of bankruptcy meeting of the Covered Bond Holders, please refer to the "*Meetings of Holders of Covered Bonds*" risk factor below.

Risks relating to the Group and its relationship with Commerzbank

Commerzbank holds corporate control over mBank and indirectly over the Bank

As at 31 May 2019, Commerzbank held 29.35 million shares, representing 69.33 per cent. of mBank's share capital, which gave Commerzbank the right to exercise 69.33 per cent. of the total number of votes at any General Shareholders' Meeting.

Commerzbank is able to exercise corporate control over mBank, and indirectly over the Bank, due to its share in the capital of mBank and in the total number of votes at the General Meeting of mBank. In particular, Commerzbank has majority voting power at the General Meeting of mBank, and thus has a decisive voice regarding major corporate actions, such as the amendment of the Articles of Association, issuance of new shares of mBank, decrease of mBank's share capital, issuance of convertible bonds, payment of dividends and other actions, which, according to the Polish Code of Commercial Companies and Partnerships of 15 September 2000 (as amended) ("**KSH**"), require a qualified or simple majority vote at a General Shareholders' Meeting for approval. In addition, Commerzbank holds a sufficient number of votes to appoint a majority of the members of the Supervisory Board, which, in turn, appoints the members of the Management Board. As a result, Commerzbank has the ability to exercise considerable control over mBank and indirectly over the Bank.

If the interests of Commerzbank and the interests of the Group conflict, this could have an adverse effect on the business, financial condition and results of operations of the Group.

The Group relies on Commerzbank's funding

The Group still relies to a large extent on Commerzbank's funding, although in recent years the Group has diversified its funding profile. mBank has been provided with foreign currency denominated senior unsecured funding by Commerzbank and issued subordinated CHF-denominated bonds which have been acquired by Commerzbank. As at 31 December 2018, the total outstanding indebtedness of the Group to the Commerzbank Group, including loans, subordinated liabilities and other liabilities, was the equivalent of PLN 2.074 billion. As at 31 December 2018, the value of subordinated liabilities granted to mBank by Commerzbank was CHF 0,25 billion.

Any sudden or material reduction in Commerzbank's funding to the Group would have a material adverse effect on the Group's business, financial condition and results of operation.

In addition, under its loan agreements with Commerzbank, mBank may be required to repay all outstanding loans with all outstanding interest and associated costs if Commerzbank ceases, directly or indirectly, to own at least 50 per cent. plus one share of the Bank's share capital and/or total number of votes in the Bank. Any reduction in Commerzbank's holding in mBank's share capital and/or total number of votes in mBank resulting in an early repayment obligation would have a material adverse effect on the Group's business, financial condition and results of operations.

The Group diversifies its funding base in order to reduce the volume of funding provided by Commerzbank. It seeks to achieve this by repaying maturing loans and replacing them by increasing the amount of stable deposits (partially swapping deposits of medium and long-term maturity into the required foreign currencies), by issuing senior unsecured bonds and by issuing covered bonds via the Bank.

If the Group is unable to execute its funding strategy, the Group's funding costs may increase and the Group's funding concentration and reliance on Commerzbank would continue.

mBank's shareholders are not required to support mBank or, indirectly, the Bank

mBank is an independent entity from its principal shareholder (Commerzbank) and, as indicated above, has historically benefited from its support in different areas. Commerzbank's past efforts do not necessarily mean that it is obliged to provide support and finance to the Group in the future, in particular to subscribe for newly issued shares in any future equity offering of mBank or ensure debt financing for the Group. If mBank needs further equity injections or debt financing and/or a significant decrease of Commerzbank's shareholding in mBank in the future were to occur, a lack of financial support from Commerzbank may have a negative reputational effect on the Group. A loss of control over mBank by Commerzbank in the future may lead to negative consequences resulting from the agreements based on which the Group obtained debt financing, in particular the potential necessity to repay such debt financing earlier. Moreover, mBank's issuer default ratings by S&P and Fitch incorporate uplift driven by parental support, which would be removed if Commerzbank lost control over mBank.

The occurrence of any of these situations may have a material adverse effect on the Group's business, financial condition and results of operations.

mBank is exposed to risk relating to its foreign currency denominated assets

mBank is exposed to various risks resulting from granting, financing and securing loans denominated in foreign currencies. Loans denominated in foreign currency (net) account for approximately 37 per cent. of total (net) loans and advances made by mBank to customers (comprising loans and advances made by mBank to customers at amortised cost and loans and advances to customers mandatorily at fair value through profit or loss). In particular, the Group is exposed to regulatory and political risks related to its CHF denominated loans. As at 31 December 2018, PLN 14.5 billion of the Group's net loans and advances to customers were denominated in CHF. In retail banking, CHF denominated mortgage loans constitute the majority of foreign currency loans advanced by mBank to customers. The material depreciation of PLN against CHF has caused the value of the collateral securing mBank's CHF-denominated mortgage loans to fall below the outstanding value of many of these loans. Any further material depreciation of PLN against CHF will reduce the value of such collateral further and may, in turn, further increase the loss given the default ratio applicable to mBank's foreign currency portfolio. However, CHF-denominated assets have never been transferred to the Bank and are not intended to be transferred to the Bank or into the Cover Pool.

The implementation of the Bank Recovery and Resolution Directive into Polish law may adversely affect the Group's business, financial condition, results of operations or prospects

Based on the reform measures developed by the Financial Stability Board (Effective Resolution of Systemically Important Financial Institutions) and Basel III, the European Parliament and the Council of the European Union adopted the BRRD. The aim of the BRRD is to minimise the burden on taxpayers in the event of failure on the part of banks to meet their obligations while ensuring that shareholders and creditors bear the costs thereof. Pursuant to the BRRD, the so-called "resolution authorities" are vested with the necessary powers to apply resolution tools to institutions that meet the applicable conditions for resolution. The resolution tools include, *inter alia*, the instrument of "bail-in", which gives resolution authorities the power to write down the claims of the unsecured creditors of a failing institution and to convert debt claims to equity without the consent of the creditors. The resolution authorities are also vested with the power to write down "relevant capital instruments" in full and on a permanent basis or to convert them in full into common equity Tier 1 instruments before any resolution action is taken if and when one or more specific circumstances apply, such as the determination by the relevant resolution authority that the institution meets the conditions for resolution and that the institution concerned has reached the point of "nonviability". A write-down follows the allocation of losses and ranking in insolvency so that equity absorbs the losses in full before any debt claim is subject to a write-down.

Pursuant to the BRRD, the costs of resolution are to be borne by the banking sector. The European Union Countries ("**Member States**") should set up their own financing arrangements funded with contributions from banks and investment firms, made by those entities proportionally to their liabilities and risk profile. Banks ought to contribute annually in relation to their share of specific liabilities in the total size of the national financial sector in order to reach a target funding level of at least 1 per cent. of deposits (over a 10-year period). If the *ex ante* funds are insufficient to cover the resolution of a financial institution, further contributions will be raised *ex post*.

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

institutions. The Bank has to comply with the Resolution Act and has adjusted its operations to comply with the new requirements.

The BRRD also impacts on how large a capital buffer an institution will need, in addition to those requirements set out in CRD IV and/or the CRR. To ensure that institutions always have sufficient loss-absorbing capacity, the BRRD requires institutions to maintain at all times a sufficient aggregate amount of own funds (as defined in Article 4(1)(118) of the CRR Regulation) and 'eligible liabilities' (namely, liabilities and other instruments that do not qualify as Tier 1 or Tier 2 capital and that may be bailed-in using the bail-in tool) – minimum requirements for own funds and eligible liabilities ("**MREL**"). As at the date of this Base Prospectus, according to article 97 of the Resolution Act, the Bank is exempt from an obligation to meet the MREL requirements but mBank and Commerzbank are obliged to comply with the MREL requirements. In consequence, mBank and Commerzbank take into account the Bank when verifying the MREL requirements at the consolidated level. Nevertheless, on 16 April 2019, the European Parliament adopted a package of proposals ("**BRRD 2**") which, amongst other things, amend the BRRD. According to BRRD 2 mortgage credit institutions (which definition applies to the Bank) shall be exempted from the MREL requirement at the consolidated level. As at the date of this Base Prospectus, the draft BRRD II is still under review and there is no clarity as to when and whether BRRD 2 will enter into force. If mBank or Commerzbank will still be obliged to take the Bank into account in its MREL calibration, they may decide to raise financing in other ways than through the issuance of covered bonds by the Bank or reduce the scale of operations of the Bank.

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

Potential conflicts of interest

The Bank is not aware of any conflicts of interest at the date of this Base Prospectus which would be material for the issue and offering of the Covered Bonds.

It is not excluded that a potential conflict of interest between the Bank and mBank or between the Bank and Commerzbank as Arranger or Dealer (since the Bank is part of the mBank and Commerzbank Groups) could affect the Holders of Covered Bonds.

Risk factors regarding the Covered Bonds

The Covered Bonds are obligations of the Bank only

The Covered Bonds will constitute the obligations of the Bank only. An investment in the Covered Bonds involves a reliance on the creditworthiness of the Bank. The Covered Bonds are not guaranteed by mBank or any other member of the Group. Holders of Covered Bonds have no recourse to any entity other than the Bank.

No events of default

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

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

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

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

The Covered Bonds can be subject to a mandatory bail-in tool

On 2 July 2014, Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") entered into force. The provisions of BRRD were implemented into Polish law pursuant to the Resolution Act. Under the Resolution Act, the obligations of the Bank under the Covered Bonds may be subject to a compulsory write-down or conversion into equity but only to the extent the value

of the Cover Pool is not sufficient to satisfy all claims under the mortgage covered bonds issued by the Bank. Furthermore the Resolution Act permits the BFG to take the following measures: (i) sale of business — which enables BFG to direct the sale of the Bank or the whole or part of its business on commercial terms; (ii) bridge institution — which enables BFG to transfer all or part of the business of the Bank to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation — which enables BFG to transfer impaired or problem assets to one or more publicly owned asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down (this can be used together with another resolution tool only).

The resolution measures described above (including the compulsory write-down or conversion) may only be taken by BFG towards the Bank if: (i) the Bank is threatened with bankruptcy, (ii) there is no reasonable that any alternative measures would prevent the failure of the Bank within a reasonable timeframe; and (iii) the public interest requires such action.

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

The relevant Final Terms relating to any specific Tranche of Covered Bonds may provide that it will be the Bank's intention to apply the proceeds from an offer of those Covered Bonds specifically to refinance existing loans in the cover pool or acquire new loans which, in each case, are secured over energy-efficient residential buildings ("**Green Mortgage Loans**" and the Covered Bonds issued thereunder, "**Green Covered Bonds**"). It should be noted that any Green Mortgage Loans will be included in the cover pool together with other mortgage loans which are not Green Mortgage Loans. Accordingly, prospective investors will have a claim against the entire cover pool, without having preferential claim on the Green Mortgage Loans over and above other investors.

Prospective investors in the Green Covered Bonds should have regard to the information in "*Use of Proceeds*" regarding the use of the net proceeds of those Green Covered Bonds and must determine for themselves the relevance of such information for the purpose of any investment in such Green Covered Bonds together with any other investigation such investor deems necessary. In particular, no assurance is given by the Bank or the Dealers that the use of such proceeds for "green" purposes (as described in "*Use of Proceeds*") will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply.

Furthermore, it should be noted that there is currently no clear definition (legal, regulatory or otherwise) of, or market consensus as to what constitutes, a "green" or an equivalently labelled project or as to what precise attributes are required for a particular project to be defined as "green" or such other equivalent label, nor can any assurance be given that such a clear definition or consensus will develop over time or that any prevailing market consensus will not significantly change. Accordingly, no assurance is or can be given to investors that any projects or uses the subject of, or related to, any Green Covered Bonds will meet any or all investor expectations regarding such "green" or other equivalently labelled performance objectives.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any report, assessment, opinion or certification of any third party (whether or not solicited by the Bank) which may or may not be made available in connection with the issue of any Green Covered Bonds. Any such report, assessment, opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Base Prospectus. Any such report, assessment, opinion or certification is not, nor should be deemed to be, a recommendation by the Bank, the Dealers or any other person to buy, sell or hold any such Green Covered Bonds. Any such report, assessment, opinion or certification is only current as at the date it was issued. Prospective investors must determine for themselves the relevance of any such report, assessment, opinion or certification and/or the information contained therein and/or the provider of such report, assessment, opinion or certification for the purpose of any investment in such Green Covered Bonds. Currently, the providers of such reports, assessments, opinions and certifications are not subject to any specific oversight or regulatory or other regime.

In the event that any Green Covered Bonds are listed or admitted to trading on any dedicated "green" or other equivalently labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Bank, the Dealers or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply. Furthermore, the criteria for any such listing or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Bank, the Dealers or any other person that any such listing or admission to trading will be obtained in respect of any such Green Covered Bonds or, if obtained, that any such listing or admission to trading will be maintained during the life of the Green Covered Bonds.

While it is the intention of the Bank to apply the net proceeds of any Green Covered Bonds and obtain and publish the relevant reports, assessments, opinions and certifications in, or substantially in, the manner described in "*Use of Proceeds*", there can be no assurance that the Bank will be able to do this.

The withdrawal of any report, assessment, opinion or certification as described above, or any such report, assessment, opinion or certification attesting that the Bank is not complying in whole or in part with any matters for which such report,

assessment, opinion or certification is reporting, assessing, opining or certifying on, and/or any such Green Covered Bonds no longer being listed or admitted to trading on any stock exchange or securities market, as aforesaid, may have a material adverse effect on the value of such Green Covered Bonds and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.

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

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

Currency risk

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

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

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

Furthermore, in the course of bankruptcy proceedings, in principle the claims of the Bank's creditors denominated in any currency other than PLN will be placed on the list of claims in PLN at the exchange rate of the NBP as at the date of the Bankruptcy Event, and in the absence of such exchange rate, according to the average market price on that day. Entering the claim on the list of claims in PLN does not result in the conversion of the claim denominated in a foreign currency into a claim denominated in PLN, however all payments made as a result of the implementation of the distribution plan prepared based on the list of claims shall be made in PLN. The Bank, after consultation with its advisers, has concluded that in the course of bankruptcy proceedings the abovementioned provisions relating to satisfaction of claims as a result of the implementation of the distribution plan after conversion into PLN should not apply to the Covered Bonds, and consequently all payments under the Covered Bonds should be made in accordance with their respective terms and conditions in the Specified Currency. However, as the relevant provisions of the Polish Bankruptcy Law relating to the bankruptcy of mortgage banks have recently been amended and have not been tested in practice, the Bank cannot exclude the possibility that bankruptcy administrators appointed in the course of bankruptcy proceedings of the Bank might interpret the relevant legislation in a different manner.

Inflation risk

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

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

Application may be made to list the Covered Bonds to be issued under the Programme on the Official List of the Luxembourg Stock Exchange (*Bourse de Luxembourg*) and to admit to trading such Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange. In addition, the Programme provides that Covered Bonds may be listed on other or further stock exchanges or may not be listed at all. Regardless of whether the Covered Bonds are listed or not, there can be no assurance that a liquid secondary market for the Covered Bonds will develop or, if it does develop, that it will continue. The fact that the Covered Bonds may be listed does not necessarily lead to greater liquidity than if they were not listed. If the Covered Bonds are not listed on any exchange, pricing information for such Covered Bonds may, however, be more difficult to obtain, which may affect the liquidity of the Covered Bonds adversely. In an illiquid market, an investor

might not be able to sell his Covered Bonds at any time at fair market prices. The possibility to sell the Covered Bonds might additionally be restricted due to currency restrictions.

Fixed Rate Covered Bonds

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

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

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

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

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

Floating Rate Covered Bonds

General

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

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

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

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

International proposals for reform of Benchmarks include Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "**Benchmark Regulation**").

The Benchmark Regulation was published in the Official Journal of the EU on 29 June 2016 and applies, subject to certain transitional provisions, from 1 January 2018. In addition, there are numerous other proposals, initiatives and investigations which may impact Benchmarks. The Benchmark Regulation applies to "contributors", "administrators" and "users" of Benchmarks in the EU, and requires amongst other things, (i) Benchmark administrators to be authorised (or, if non EU-based, to have satisfied certain 'equivalence' conditions in its local jurisdiction, to be 'recognised' by the authorities of a Member State pending an equivalence decision or to be 'endorsed' for such purpose by an EU competent authority) and to comply with requirements in relation to the administration of Benchmarks, and (ii) a ban on the use of Benchmarks of unauthorised administrators.

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

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

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Covered Bonds linked to or referencing EURIBOR, LIBOR or WIBOR.

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

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

Future discontinuance of LIBOR may adversely affect the value of Covered Bonds which reference LIBOR

On 27 July 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

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

Future unavailability or discontinuance of EURIBOR may adversely affect the value of a return on Covered Bonds which reference EURIBOR

In March 2017, EMMI (as administrator of EURIBOR) published a position paper setting out the legal grounds for certain proposed reforms to EURIBOR. The proposed reforms seek to clarify the EURIBOR specification, to align the current methodology with the Benchmark Regulation, the IOSCO Principles (i.e. nineteen principles which are to apply to benchmarks used in financial markets as published by the Board of the International Organisation of Securities Commissions in July 2013) and other regulatory recommendations and to adapt the methodology to better reflect current market conditions. EMMI is more specifically aiming to evolve the current quote-based methodology to a transaction-based methodology in order to better reflect the underlying interest that it intends to measure and adapt to the prevailing market conditions. In particular, it is contemplated that it will be anchored on actual market transaction input data whenever available, and on other funding sources if transaction data are insufficient. In a statement published in January 2018, EMMI indicated that it aims to launch the hybrid methodology for EURIBOR by the fourth quarter of 2019 at the latest, in accordance with the transitional period provided for by the Benchmark Regulation. On 29 March 2018, EMMI launched its first stakeholder consultation on the hybrid methodology. The consultation closed on 15 May 2018 and was followed by an in-depth testing of the proposed methodology under live conditions from May to August 2018. On 17 October 2018, EMMI launched a second stakeholder consultation on a hybrid methodology for EURIBOR. This second consultation closed on 30 November 2018. EMMI published a summary of the feedback received and views of the final methodological blueprint on 12 February 2019. On 6 May 2019 EMMI filed for authorisation from the Belgian Financial Services and Markets Authority. Subsequently, EMMI has started transitioning panel banks from the current EURIBOR methodology

to the new hybrid methodology. On 2 July 2019, EMMI received authorisation as the administrator of EURIBOR from the Belgian Financial Services and Markets Authority. Therefore, EURIBOR is considered compliant with Benchmark Regulation and was added to the Benchmark Register.

On 21 September 2017, the ECB, the European Commission, ESMA and the Belgian Financial Services and Markets Authority announced that they would be part of a new working group tasked with the identification and adoption of a 'risk-free overnight rate' which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. Furthermore, the ECB announced that it will start providing an overnight unsecured index before 2020. On 13 September 2018, the working group announced its recommendation that the euro short-term rate ('**ESTER**') be used as the risk-free rate for the euro area. ESTER will reflect the wholesale euro unsecured overnight borrowing costs of euro area banks and will complement existing benchmark rates produced by the private sector, serving as a backstop reference rate. The above-mentioned working group is now exploring possible approaches for ensuring a smooth transition to this rate. A first meeting of the working group took place on 9 November 2018. On 21 January 2019, the euro risk-free rate working group published a set of guiding principles for fallback provisions in new euro-denominated cash products (including bonds). The guiding principles indicate, amongst other things, that continuing to reference EURIBOR in relevant contracts may increase the risk to the euro area financial system. On 12 March 2019, the ECB stated that the ESTER acronym is replaced with '€STR' with immediate effect. On 14 March 2019, the ECB announced that the first €STR will be published on 2 October 2019, reflecting the trading activity of 1 October 2019.

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

Risk associated with SONIA as a reference rate

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

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

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

Combination of fixed and floating rate Covered Bonds

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

Zero Coupon Covered Bonds

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

Covered Bonds with a Cap

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

Legality of Purchase

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

Meetings of Holders of Covered Bonds

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

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

Market value of Covered Bonds

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

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

Clearing Systems

Because the global covered bonds representing the Covered Bonds (each a "**Global Covered Bond**" and, together, the "**Global Covered Bonds**") may be held by or on behalf of Euroclear Bank SA/NV, with registered address at 1 Boulevard du Roi Albert II, 1210 Brussels, Belgium ("**Euroclear**") and/or Clearstream Banking S.A., with its registered address at 42 Avenue Kennedy, L-1855 Luxembourg, Luxembourg ("**Clearstream, Luxembourg**") or Clearstream Banking AG, Frankfurt, with its registered address at Mergenthalerallee 61, 65760 Eschborn Frankfurt am Main, Germany ("**Clearstream, Frankfurt**"), investors will have to rely on their procedures for transfer, payment and communication with the Bank.

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

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

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

Credit ratings

One or more independent credit rating agencies may assign credit ratings to the Bank and/or the Covered Bonds. The ratings may not reflect the potential impact of all risks related to the structure, market or additional factors discussed above, and other factors that may affect the value of the Covered Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. A credit rating agency may from time to time alter the methodology employed by it for rating the Covered Bonds, and such modification may affect ratings attributed to the Covered Bonds issued under the Programme. Any rating agency may lower its rating or withdraw its rating if, in the sole judgement of the rating agency, the credit quality of the Covered Bonds has declined or is in question. There is no obligation on the Bank to maintain the credit ratings in respect of any series of the Covered Bonds.

In the event that a credit rating assigned to the Covered Bonds or the Bank is subsequently lowered or withdrawn or qualified for any reason, no other person or entity is obliged to provide any additional support or credit enhancement with respect to the Covered Bonds. The Bank may be adversely affected, the market value of the Covered Bonds is likely to be adversely affected and the ability of the Bank to make payment under the Covered Bonds may be adversely affected.

In general, European regulated investors are restricted under Regulation (EC) No 1060/2009 (as amended, the "**CRA Regulation**") from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restrictions will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Eurosystem Eligibility

The applicable Final Terms will indicate whether the Covered Bonds are intended, or are not intended, to be held in a manner which is recognised as eligible collateral in accordance with Eurosystem's monetary policy and intra-day credit operations either upon issue or while still outstanding. However, such recognition will depend upon satisfying the Eurosystem's eligibility criteria, as applied from time to time by European Central Bank.

Taxation

General

Potential purchasers and sellers of the Covered Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Covered Bonds are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Covered Bonds. Potential investors are advised not to rely upon the tax summary contained in this document and/or in the Final Terms but instead to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Covered Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor. This investment consideration has to be read in connection with the section "*Taxation*" on pages 96 to 101 of this Base Prospectus.

The following risk factors should be read in conjunction with "*Taxation Poland*" below.

The Bank is subject to additional tax, levied on certain financial institutions (including mortgage banks)

On 1 February 2016, the Act on the Tax on Certain Financial Institutions (further called the "**Polish Banking Tax**") entered into force. This bill implemented a completely new tax burden in Poland applicable to the assets of financial institutions (including banks). In the case of banks, the Polish Banking Tax is calculated on the total assets of a bank, subject to a tax-free amount of PLN 4 billion. Own funds and treasury bonds are excluded from the Polish Banking Tax. The monthly tax rate is 0.0366 per cent. (0.44 per cent. p.a.). The tax is not deductible from corporate income tax. As the revenues from the Polish Banking Tax in 2016 were lower than the amount assumed in the state budget, it is not excluded that the changes to the Polish Banking Tax will be implemented. Any changes in the Polish Banking Tax, which increase the level of the tax payable by the Bank, may affect the financial results of the Bank and may have an adverse effect on its business, financial condition and results of operations.

Polish tax legislation is complex and subject to frequent changes, which might lead to additional tax burdens, increase of existing taxes and disputes with tax or tax audit authorities concerning the application of tax laws and regulations

Certain Polish tax law provisions are complex and subject to frequent amendments. This gives rise to uncertainty in the application of tax legislation and to the risk of errors or misinterpretations. Under the current Polish tax regime, it frequently happens that taxpayers and tax authorities follow different, and sometimes divergent, interpretations of the same provisions. This can lead to disputes between taxpayers and tax or tax audit authorities over the interpretations followed by the Bank and the Bank's application of tax laws. Adoption by tax authorities of a tax law interpretation different to that adopted by the Bank could adversely affect the Bank's financial standing and its ability to perform obligations under the Covered Bonds. Frequent amendments to tax legislation, including, in particular, those taking effect without sufficient time between promulgation of the legislation and the time it takes legal effect, could have a material adverse effect on the Bank's business and hinder its day-to-day operations. There is a risk that the implementation of new, or amendment of existing, tax laws might result in significant costs due to the need to adapt to such new or amended legislation or costs related to failure to adapt to such new or amended legislation. Additional tax burdens may be imposed on Polish banks or the existing taxes may be increased. Any further changes in tax laws may also have an impact on the business of the Bank and the value of the Covered Bonds.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Covered Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside the participating Member States. Generally, it would apply to certain dealings in the Covered Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional European Union Member States may decide to participate.

Prospective Covered Bond Holders are advised to seek their own professional advice in relation to the FTT. Although the effect of these proposals on the Bank will not be known until the legislation is finalised, the FTT may also adversely affect certain of its business.

Independent review and advice

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

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

A prospective purchaser should determine on its own or through consulting its own advisers if he is a Polish tax resident and, in consequence, should determine all relevant tax obligations connected with purchasing the Covered Bonds, including the obligation to pay income tax on the interest/discount derived from the Covered Bonds.

GENERAL DESCRIPTION OF THE PROGRAMME

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

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

Issuer: mBank Hipoteczny Spółka Akcyjna, a joint stock company (*spółka akcyjna*) with its registered office in Warsaw, Poland at al. Armii Ludowej 26, 00-609 Warsaw, entered into the register of entrepreneurs of the National Court Register (*Krajowy Rejestr Sądowy*) kept by the District Court for Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register, under KRS number 0000003753, REGON number 014953634 and NIP number 5262316250.

Issuer Legal Entity Identifier (LEI): 259400BX0JB4WFBARF57

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

Arranger: Commerzbank AG

Dealers: Commerzbank AG,
and any other Dealers appointed in accordance with the Programme Agreement.

Risk Factors: There are certain factors that may affect the Bank's ability to fulfil its obligations under Covered Bonds issued under the Programme. These are set out under "*Risk Factors*". In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme. These are also set out under "*Risk Factors*" and include certain risks relating to the structure of particular Series of Covered Bonds and certain market risks.

Certain Restrictions: Each issue of Covered Bonds in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale*") including the following restrictions applicable at the date of this Base Prospectus.

Covered Bonds having a maturity of less than one year

Covered Bonds having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (FSMA) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent; see "*Subscription and Sale*".

Under the Luxembourg Act, prospectuses for the listing of money market instruments having a maturity at issue of less than 12 months and complying also with the definition of securities are not subject to the approval provisions of Part II of such law. Money market instruments having a maturity at issue of less than 12 months will not be issued under this Base Prospectus.

Principal Paying Agent: Deutsche Bank Aktiengesellschaft

Programme Size: EUR 3,000,000,000 (or its equivalent in other currencies calculated as described under "*General Description of the Programme*") outstanding at any time. The Bank may increase the amount of the Programme in accordance with the terms of the Programme Agreement.

Distribution: Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis and subject to certain restrictions, as described under "*Subscription and Sale*".

Series and Tranches:	<p>Covered Bonds will be issued on a continuous basis in Tranches with no minimum issue size, each Tranche consisting of Covered Bonds which are identical in all respects.</p> <p>One or more Tranches, which are expressed to be consolidated and forming a single series and identical in all respects, but having different issue dates, interest commencement dates, issue prices and dates for first interest payments, may form a series ("Series") of Covered Bonds. Further Covered Bonds may be issued as part of an existing Series. The specific terms of each Tranche will be set forth in the applicable Final Terms.</p>
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the Bank and the relevant Dealer(s).
Maturities:	Such maturities as may be agreed between the Bank and the relevant Dealer(s), subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant Specified Currency.
Issue Price:	Covered Bonds may be issued only on a fully-paid basis and at an issue price which is at their nominal amount or at a discount to, or premium over, their nominal amount.
Type of Covered Bonds:	The Covered Bonds will be issued as mortgage covered bonds (<i>hipoteczne listy zastawne</i>)
Form of Covered Bonds:	The Covered Bonds will be issued in bearer form as described in " <i>Form of the Covered Bonds</i> ".
Fixed Rate Covered Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Bank and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Bank and the relevant Dealer.
Floating Rate Covered Bonds:	<p>Floating Rate Covered Bonds will bear interest at a rate determined:</p> <ul style="list-style-type: none"> • on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds of the relevant Series); or • on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or • on such other basis as may be agreed between the Bank and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Bank and the relevant Dealer for each Series of Floating Rate Covered Bonds.</p> <p>Floating Rate Covered Bonds may also have a maximum interest rate, a minimum interest rate or both.</p> <p>Interest on Floating Rate Covered Bonds in respect of each Interest Period (as defined in the Final Terms), as agreed prior to issue by the Bank and the relevant Dealer, will be payable on such Interest Payment Dates (as defined in the Final Terms), and will be calculated on the basis of such Day Count Fraction (as defined in the Final Terms), as may be agreed between the Bank and the relevant Dealer.</p>
Zero Coupon Covered Bonds:	Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	<p>The Covered Bond Holders are not entitled to request redemption of the Covered Bonds prior to the Maturity Date.</p> <p>Under the Polish Act on Bonds, if the Bank is subject to non-bankruptcy liquidation (<i>likwidacja</i>), the Bank shall redeem the Covered Bonds at par on</p>

the opening day of such non-bankruptcy liquidation (*likwidacja*) proceedings. If the Bank is subject to a merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*), and the entity that has taken over all or a portion of the Bank's obligations under the Covered Bonds pursuant to such merger (*połączenie*), division (*podział*) or transformation (*przekształcenie formy prawnej*) is not permitted under the Polish Covered Bonds Act to issue covered bonds, the Bank or its successor entity shall redeem such Covered Bonds at par. The terms non-bankruptcy liquidation (*likwidacja*), merger (*połączenie*), division (*podział*) and transformation (*przekształcenie formy prawnej*) in this paragraph shall have the meanings prescribed under Polish law.

Unless previously redeemed or purchased and cancelled and subject to Condition 5(c) "*Redemption of the Covered bonds in the event of the Bank's Bankruptcy*", each Covered Bond will be redeemed by the Bank at its Final Redemption Amount (which will be calculated as a percentage of the Calculation Amount specified in the applicable Final Terms, but which shall be at least equal to the nominal value of each Covered Bond) specified in the applicable Final Terms in the relevant Specified Currency on the Maturity Date specified in the applicable Final Terms.

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

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

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

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

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

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

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

In certain circumstances provided by Polish law, the claims of the Holders of the Covered Bonds for the payment of principal may be satisfied sooner than

the applicable extended maturity dates pursuant to pass-through procedures from the receivables in the Cover Pool.

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

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

Compulsory write-down or conversion (bail-in):

Pursuant to provisions of the Resolution Act the secured liabilities comprising the separate and secured pool, such as obligations of the Bank under the Covered Bonds, may not be subject to a compulsory write-down or conversion into equity up to the amount which is fully covered. It means however, that such compulsory write-down or conversion to equity may apply to such obligations of the Bank under the Covered Bonds but only to the extent the value of the Cover Pool is not sufficient to satisfy all claims under the Covered Bonds issued by the Bank.

Denomination of Covered Bonds:

Covered Bonds will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Covered Bond will be such as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above, and save that the minimum denomination of each Covered Bond will exceed EUR 100,000 (or, if the Covered Bonds are denominated in a currency other than euro, the equivalent amount in such currency).

Taxation:

All payments in respect of the Covered Bonds will be made without deduction for or on account of withholding taxes imposed by a Tax Jurisdiction, subject as provided in Condition 6 "*Taxation*" of the Terms and Conditions of the Covered Bonds unless such deduction is required by law. In the event that any such deduction is made, the Bank will, save in certain limited circumstances provided in Condition 6 "*Taxation*" of the Terms and Conditions of the Covered Bonds be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge:

The Terms and Conditions of the Covered Bonds will not contain a negative pledge provision.

Cross Default:

The Terms and Conditions of the Covered Bonds will not contain a cross-default provision.

Status of the Covered Bonds:

The Covered Bonds are direct, unconditional, unsubordinated obligations of the Bank and rank *pari passu* amongst themselves. The Covered Bonds are covered in accordance with the Polish Covered Bonds Act and rank *pari passu* with all other covered and unsubordinated present and future obligations of the Bank which have the same status as the Covered Bonds under the Polish Covered Bonds Act.

Subordination:

Covered Bonds may not be issued on a subordinated basis.

Rating:

Covered Bonds issued under the Programme may be rated or unrated. Where a Series of Covered Bonds is rated, such rating will be disclosed in the applicable Final Terms.

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

Listing and admission to trading:

Application may be made to list Covered Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and to admit to trading the Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange.

The Luxembourg Stock Exchange's Regulated Market is a regulated market for the purposes of the Market and Financial Instruments Directive 2014/65/EU. The Programme provides that Covered Bonds may be listed on further stock exchanges, as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series, as specified in the relevant Final Terms. Covered Bonds which are neither listed nor admitted to trading on any market may also be issued under the Programme.

The applicable Final Terms will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchange(s) and/or markets.

Clearing: The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg and Clearstream, Frankfurt and any other clearing system as may be specified in the relevant Final Terms. The Common Code and the International Securities Identification Number (ISIN) of each Series of Covered Bonds will be set out in the relevant Final Terms, as more fully described under "*Form of the Covered Bonds*" below.

Payments: Payments on Global Covered Bonds will be made to Euroclear or Clearstream, Luxembourg, as relevant, or Clearstream, Frankfurt, or to its order for credit to the relevant accountholders of Euroclear or Clearstream, Luxembourg or Clearstream, Frankfurt, as the case may be. The Bank will be discharged by payment to, or to the order of, Euroclear or Clearstream, Luxembourg, as relevant, or Clearstream, Frankfurt, and each Holder of Covered Bonds represented by a Global Covered Bond held through Euroclear or Clearstream, Luxembourg or Clearstream, Frankfurt must look solely to Euroclear or Clearstream, Luxembourg or Clearstream, Frankfurt for its share of any payments so made by the Bank.

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

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

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

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

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

Meetings of Covered Bond Holders

The Terms and Condition provide the meeting of the Covered Bond Holders that may consider any matter affecting their interests under the Covered Bonds, including the sanctioning by a resolution of a modification of the Conditions.

For further details, see Condition 12 "*Meetings of Covered Bond Holders Modification, Waiver And Substitution*" of the Terms and Conditions of the Covered Bonds.

Calculating the PLN equivalent of the Aggregate Nominal Amount

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

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

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

The Programme provides for the following initial agents:

Issuing and Principal Paying Agent: Deutsche Bank Aktiengesellschaft

Calculation Agent: Deutsche Bank Aktiengesellschaft

Luxembourg Listing Agent: Deutsche Bank Luxembourg S.A.

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

Information relating to Ratings

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

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

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

Based on the provisions of the CRA Regulation certain institutions as further determined pursuant to Article 4(1) of the CRA Regulation which are established in the European Union (the "**Regulated Institutions**") are subject to certain restrictions with regard to the use of ratings for regulatory purposes. Pursuant to Article 4 (1) of the CRA Regulation, Regulated Institutions may use credit ratings for regulatory purposes only if such credit ratings are issued by credit rating agencies established in the European Union and registered in accordance with the CRA Regulation (or for which the relevant registration procedure is still pending). The Bank is rated by Moody's, which is established in the European Union or has relevant subsidiaries which are established in the European Union and have been registered in accordance with the CRA Regulation.

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

The overview provided below shows the ratings assigned to the Bank by Moody's as at the date of this Base Prospectus. The current ratings of the Bank may be found on the Bank's website at: www.mhipoteczny.pl.

Prospectus

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

Final Terms

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

Cover Pool Monitor

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the English translation of the financial statements of the Bank audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. as at and for the year ended 31 December 2018:
 - (i) income statement – page 2;
 - (ii) statement of comprehensive income – page 3;
 - (iii) statement of financial position – page 4;
 - (iv) statement of changes in equity – page 5;
 - (v) statement of cash flow – page 6; and
 - (vi) explanatory notes to the stand-alone financial statements – pages 7-112;

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Commission Regulation (EC) 809/2004;

- (b) the English translation of the audit opinion prepared in connection with the financial statements of the Bank audited by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. as at and for the year ended 31 December 2018;

- (c) the English translation of the financial statements of the Bank audited by PricewaterhouseCoopers sp. z o.o. as at and for the year ended 31 December 2017:

- (i) income statement – page 2;
- (ii) statement of comprehensive income – page 3;
- (iii) statement of financial position – page 4;
- (iv) statement of changes in equity – page 5;
- (v) statement of cash flow – page 6; and
- (vi) explanatory notes to the stand-alone financial statements – pages 7-100;

Any other information incorporated by reference that is not included in the cross-reference list above is considered to be additional information to be disclosed to investors rather than information required by the relevant Annexes of the Commission Regulation (EC) 809/2004;

- (d) the English translation of the audit opinion prepared in connection with the financial statements of the Bank audited by PricewaterhouseCoopers Sp. z o.o. as at and for the year ended 31 December 2017; and
- (e) the terms and conditions set out on pages 45 to 59 under the heading "Terms and Conditions of the Covered Bonds" of the base prospectus of the Bank dated 6 July 2017.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for the investor or covered in another part of the Base Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

The Bank accepts responsibility as to the accuracy and completeness of any translations into English set out in any documents incorporated by reference in this Base Prospectus.

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

USE OF PROCEEDS

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

If, in respect of any particular issue, there is a particular identified use of proceeds other than using the net proceeds for the Bank's general corporate purposes, then this will be stated in the relevant Final Terms. In any case, the Bank is free in the use of the proceeds from each issue of the Covered Bonds. This also applies in the case of so-called "Green Covered Bonds" which serve the refinancing of eligible assets as further specified in the Final Terms.

FORM OF THE COVERED BONDS

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

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

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

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

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

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

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

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE. "

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

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

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Covered Bonds*"), the Agent (as defined under "*Terms and Conditions of the Covered Bonds*") shall arrange that, where a further Tranche of Covered Bonds is

issued which is intended to form a single Series with an existing Tranche of Covered Bonds at a point after the Issue Date of the further Tranche, the Covered Bonds of such further Tranche shall be assigned, if so required, a common code and ISIN which are different from the common code and ISIN assigned to Covered Bonds of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Covered Bonds of such Tranche.

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

FORM OF FINAL TERMS

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

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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Covered Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of [Directive 2014/65/EU (as amended, "MiFID II")][MiFID II]; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or re-enacted, the "**Prospectus Directive**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Covered Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Covered Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

[Date]

mBANK HIPOTECZNY S.A.

Legal entity identifier (LEI): 259400BX0JB4WFBARF57

a joint stock company (*spółka akcyjna*) with its registered office in Warsaw, Poland at al. Armii Ludowej 26, 00-609 Warsaw, entered into the register of entrepreneurs of the National Court Register (*Krajowy Rejestr Sądowy*) kept by the District Court for Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register, under KRS number 0000003753, REGON number 014953634 and NIP number 5262316250

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds] [(the "Covered Bonds")]

under the EUR 3,000,000,000

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

PART A – CONTRACTUAL TERMS

[Terms used herein shall be deemed to be defined as such for the purposes of the conditions (the "**Conditions**") set forth in the Base Prospectus dated 11 July 2019 [and the supplement[s] to it dated [●] [and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) as amended or re-enacted (the "**Prospectus Directive**") to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "**Base Prospectus**"). This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange website (www.bourse.lu), on the website of the Bank (www.mhipoteczny.pl), and is available for viewing at and collection from the registered office of mBank Hipoteczny S.A., at al. Armii Ludowej 26, 00-609 Warsaw, Poland and the office of Deutsche Bank Aktiengesellschaft (in its capacity as the Issuing and Principal Paying Agent) at Taunusanlage 12, 60325 Frankfurt am Main, Germany.]

The following alternative language applies if the first tranche of an issue which is being increased was issued under a base prospectus with an earlier date. The Conditions of the original issue being tapped should be reviewed to ensure that they would not require the final terms documenting the further issue to include information which is no longer permitted in final terms. Where the final terms documenting the further issue would need to include such information, it will not be possible to tap using final terms and a drawdown prospectus (incorporating the original Conditions and final terms) will instead need to be prepared.

[Terms used herein shall be deemed to be defined as such for the purposes of the "Terms and Conditions of the Covered Bonds" ("**Conditions**") set forth in the base prospectus dated 6 July 2017 and incorporated by reference in the Base Prospectus (as defined below). This document constitutes the Final Terms of the Covered Bonds described herein for the

purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) as amended or re-enacted (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated 11 July 2019 [and the supplement[s] to it dated [●] [and [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the "**Base Prospectus**"), save in respect of the Conditions which are extracted from the base prospectus dated 6 July 2017. Full information on the Bank and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus has been published on the Luxembourg Stock Exchange website (www.bourse.lu), on the website of the Bank (www.mhipoteczny.pl), and is available for viewing at and collection from the registered office of mBank Hipoteczny S.A., at al. Armii Ludowej 26, 00-609 Warsaw, Poland and the office of Deutsche Bank Aktiengesellschaft (in its capacity as the Issuing and Principal Paying Agent) at Taunusanlage 12, 60325 Frankfurt am Main, Germany.]

1. (a) Series Number: []
- (b) Tranche Number: []
- (c) Date on which the Covered Bonds will be consolidated and form a single Series: The Covered Bonds will be consolidated and form a single Series with [identify issue amount/ISIN/maturity date/issue date of earlier Tranche(s)] on [the Issue Date/the exchange date of the Temporary Global Covered Bond for interests in the Permanent Global Covered Bond which is expected to occur on or about [date]][Not Applicable]
2. Specified Currency: []
3. Aggregate Nominal Amount:
 - (a) Series: []
 - (b) Tranche: []
 - (c) Issue Price: [] per cent. of the Aggregate Nominal Amount of the Tranche [plus accrued interest amounting to [insert Specified Currency and amount of accrued interest] for [insert number of days] days for the period from, and including [the Interest Commencement Date][insert date] to, but excluding [the Issue Date] [insert date]]
(Zero Coupon Covered Bonds can be issued only at a discount.)
4. (a) Specified Denominations: []
(Covered Bonds of each Series must have only one Specified Denomination with a minimum denomination exceeding €100,000 (or equivalent)).
- (b) Calculation Amount: []
(Insert the relevant Specified Denomination.)
5. (a) Issue Date: []
- (b) Interest Commencement Date: (An Interest Commencement Date will not be relevant for certain Covered Bonds, for example Zero Coupon Covered Bonds.)
- Period to Maturity Date: [Specify/Issue Date/Not Applicable]
- Period from Maturity Date to Extended Maturity Date or Additionally Extended Maturity Date: [Specify/Maturity Date/Not Applicable]
6. Maturity Date: [Specify date or for Floating Rate Covered Bonds - Interest Payment Date falling in or nearest to [specify month and year]]
7. Interest Basis:
 - Period to Maturity Date: [] per cent. per annum Fixed Rate
[[[] month [WIBOR/LIBOR/EURIBOR/SONIA/SOFR]] +/- [] per cent.
Floating Rate]
[Zero Coupon]
(see paragraph [10]/[11]/[12(a)] below)
 - Period from Maturity Date to Extended Maturity Date or Additionally Extended Maturity Date: [] per cent. per annum Fixed Rate
[[[] month [WIBOR/LIBOR/EURIBOR/SONIA/SOFR]] +/- [] per cent.
Floating Rate]

- [Zero Coupon]
(see paragraph [10]/[11]/[12(a)] below)
8. Change of Interest Basis [For the period from (and including) the Interest Commencement Date, up to (but excluding) [date] paragraph [10/11] applies and for the period from (and including) [date], up to (and including) the Maturity Date, paragraph [10/11] applies] [Not Applicable]
9. Date of Management Board approval for issuance of Covered Bonds obtained: [] [and []], respectively]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

10. Fixed Rate Covered Bond Provisions [Applicable [until/from [] to []]/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (a) Rate(s) of Interest: [] per cent. per annum in arrears on each Interest Payment Date
 - (b) Interest Payment Date(s): [[] in each year up to and including the Maturity Date]
(Amend appropriately in the case of irregular coupons)
 - (c) Fixed Coupon Amount(s): [[] per Calculation Amount/Not Applicable]
 - (d) Broken Amount(s): [[] per Calculation Amount payable on the Interest Payment Date falling [in/on] []/Not Applicable]
 - (e) Day Count Fraction: [Actual/Actual (ICMA)]
[30/360]
 - (f) Determination Date(s): [] in each year] [Not Applicable]
(Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case insert regular interest payment dates, ignoring issue date or maturity date in the case of long or short, first or last coupon.)
 - (g) Party responsible for calculating amounts payable: [Agent/[if not the Agent, insert details of Calculation Agent]]
11. Floating Rate Covered Bond Provisions [Applicable [until/from [] to []]/Not Applicable]
(If not applicable, delete the remaining subparagraphs of this paragraph)
- (a) Specified Period(s)/Specified Interest Payment Dates: [] subject to adjustment in accordance with the Business Day Convention set out in (b) below/, not subject to adjustment, as the Business Day Convention in (b) below is specified to be Not Applicable]
 - (b) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention] [Not applicable]
 - (c) Relevant Business Centre(s): []
 - (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination]
 - (e) Party responsible for calculating the Rate of Interest and Interest Amount: [Agent/[if not Agent, insert details of Calculation Agent]]
 - (f) Screen Rate Determination:
 - Reference Rate: [] month
[[WIBOR]/[LIBOR]/[EURIBOR]/[SONIA]/[SOFR]].
 - Interest Determination Date(s): []
- (Second Warsaw business day prior to the start of each Interest Period if WIBOR, second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second*

day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR and the date falling "p" London Banking Days prior to the start of each Interest Period if SONIA))

Relevant Screen Page: []

(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately.

In the case of WIBOR, reference should be either to Reuters Screen WIBOR or WIBOR=.)

Observation Look-back Period [•]/[Not Applicable] (which shall not, without the prior written agreement of the [Calculation] Agent, be less than five [Banking Days])

(In the case of SONIA: "p" London Banking Days)

Reference Banks: []

(g) ISDA Determination:

Floating Rate Option: []

Designated Maturity: []

Reset Date: []

(In the case of a LIBOR or EURIBOR-based option, the first day of the Interest Period)

(N.B. The fallback provisions applicable to ISDA Determination under the 2006 ISDA Definitions are reliant upon the provision by reference banks of offered quotations for LIBOR and/or EURIBOR which, depending on market circumstances, may not be available at the relevant time)

ISDA Benchmarks Supplement: [Applicable/Not Applicable]

(h) Linear Interpolation [Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)]

(i) Margin(s): [+/-][] per cent. per annum

(j) Minimum Rate of Interest: [[] per cent. per annum]/[Not Applicable]

(k) Maximum Rate of Interest: [[] per cent. per annum]/[Not Applicable]

(l) Day Count Fraction: [Actual/Actual (ISDA)][Actual/Actual]

[Actual/365 [(Fixed)]]

[Actual/360]

[30/360][360/360][Bond Basis]

[30E/360][Eurobond Basis]

[30E/360 (ISDA)]

12. Zero Coupon Covered Bond Provisions [Applicable/Not Applicable]

(If not applicable, delete the remaining sub-paragraphs of this paragraph)

(a) Accrual Yield: [] per cent. per annum

(b) Reference Price: []

PROVISIONS RELATING TO REDEMPTION

13. Final Redemption Amount of each Covered Bond: [] per Calculation Amount

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

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

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

MISCELLANEOUS

15. Form of Covered Bonds:
- (a) Form: [Temporary Global Covered Bond exchangeable for a Permanent Global Covered Bond]
[Permanent Global Covered Bond]
 - (b) New Global Note (NGCB): [Yes/No]

Signed on behalf of the Bank:

By:
Duly authorised

By:
Duly authorised

MBANK HIPOTECZNY S.A.

By:
Duly authorised

COVER POOL MONITOR OF MBANK HIPOTECZNY S.A.

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- (i) Listing: [Luxembourg / None / *specify other*]
- (ii) Admission to trading: [Application has been made for the Covered Bonds to be admitted to trading on [the regulated market of the Luxembourg Stock Exchange / *specify other*] with effect from [].] [The Covered Bonds shall be consolidated, form a single series and be interchangeable for trading purposes with [The [*Name of the original series of Covered Bonds*] issued on [*date of the issue of the original series of Notes*] were admitted to trading on [the regulated market of the Luxembourg Stock Exchange / *specify other*] on [the Issue Date]/ [].] (*Include where documenting a fungible issue*)/ [Not Applicable.]

2. RATINGS

- Ratings: [The Covered Bonds to be issued [[have been]/[are expected to be]] rated [*insert details*] by [*insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms*]. Each of [*defined terms*] is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). The list of registered and certified rating agencies is published by the European Securities and Markets Authority on its website (<https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation.]/[Not Applicable.]
- (*The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUES

- [Save for the fees [of [*insert relevant fee disclosure*]] payable to the [Dealers], so far as the Bank is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer.] The [Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Bank and its affiliates in the ordinary course of business] [*Amend as appropriate if there are other interests*]
- [*(When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*]

4. REASONS FOR THE OFFER AND EXPENSES RELATING TO ADMISSION TO TRADING

- Reasons for the offer []/[Not Applicable.]
- (*See ["Use of Proceeds"] wording in Base Prospectus — if reasons for offer are different from Bank's general corporate purposes include those reasons here.*)
- Estimated expenses relating to the admission to trading []/[Not Applicable.]

5. YIELD (Fixed Rate Covered Bonds only)

- Indication of yield: []

6. OPERATIONAL INFORMATION

- (i) ISIN Code: []
- (ii) Common Code: []
- CFI []/[Not Applicable.]
- FISN []/[Not Applicable.]
- (iii) Clearing System:
- Any clearing system(s) other than Clearstream, Luxembourg [./and], Euroclear Bank S.A./N.V. or Clearstream, Frankfurt, the relevant

- identification number(s) and address(es): [Not Applicable/*give name(s), number(s) and address(es)*]
- Clearstream, Frankfurt: [Applicable/Not Applicable]
- (iv) Delivery: Delivery [free of/against] payment
- (v) Names and addresses of additional Paying Agent(s) (if any): [] / [Not Applicable]
- (vi) Intended to be held in a manner which would allow Eurosystem eligibility:
- In case of a New Global Note (NGCB): [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited with one of the ICSDs or Clearstream, Frankfurt, as the case may be, as common safekeeper and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
- [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs or Clearstream, Frankfurt, as the case may be, as common safekeeper. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] / [Not Applicable]
- In case of a Global Note delivered to Clearstream Banking AG, Frankfurt [Yes. Note that the designation "yes" simply means that the Covered Bonds are intended upon issue to be deposited directly with Clearstream Banking AG, Frankfurt and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/
- [No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with Clearstream Banking AG, Frankfurt. Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intraday credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] / [Not Applicable]
- 7. DISTRIBUTION**
- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers: [Not Applicable/*give names*]
- (iii) Date of Subscription Agreement: [Not Applicable/*insert date*]
- (iv) Stabilisation Manager(s) (if any): [Not Applicable/*give name and address*]
- (v) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]

- (vi) U.S. Selling Restrictions: [[Reg. S Compliance Category [1/2/3]; TEFRA D/TEFRA C/TEFRA not applicable]]
- (vii) Prohibition of Sales to EEA Retail Investors [Applicable/Not Applicable]
(If the Covered Bonds clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Covered Bonds may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified.)
- (viii) Prohibition of Sales to Belgian Consumers [Applicable/Not Applicable]

TERMS AND CONDITIONS OF THE COVERED BONDS

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

The Covered Bonds are mortgage covered bonds (*hipoteczne listy zastawne*) issued by mBank Hipoteczny Spółka Akcyjna, a joint stock company (*spółka akcyjna*) with its registered office in Warsaw at Al. Armii Ludowej 26, 00-609 Warsaw, Poland registered in the register of entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register under KRS number 0000003753, with share capital of PLN 336,000,000 paid in full, NIP number 5262316250, REGON number 014953634 with the corporate website www.mhipoteczny.pl pursuant to the resolution of the Management Board of the Bank No. 36/2017 dated 20 June 2017, the resolution of the Management Board of the Bank No. 68/2019 dated 5 June 2019 and the Agency Agreement (as defined below) and are issued in accordance with the Polish Act dated 29 August 1997 on Covered Bonds and Mortgage Banks (*Ustawa z dnia 29 sierpnia 1997 r. o listach zastawnych i bankach hipotecznych*), (the "**Polish Covered Bonds Act**") and the Polish Act dated 15 January 2015 on Bonds (*Ustawa z dnia 15 stycznia 2015 r. o obligacjach*) (the "**Polish Act on Bonds**").

The place of issue of the Covered Bonds is Warsaw, Poland.

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

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

The Covered Bonds have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 11 July 2019 and made between the Bank and Deutsche Bank Aktiengesellschaft as issuing and principal paying agent (the "**Agent**", which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents).

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

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

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

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

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

1. FORM, DENOMINATION AND TITLE

The Covered Bonds are in bearer form and are serially numbered, in the currency (the "**Specified Currency**") and in the denominations for each Series (the "**Specified Denomination(s)**") specified in the applicable Final Terms. Covered Bonds of one Specified Denomination may not be exchanged for Covered Bonds of another Specified Denomination.

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

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

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

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

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

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

2. STATUS OF THE COVERED BONDS

The Covered Bonds are direct, unconditional and unsubordinated obligations of the Bank and rank *pari passu* amongst themselves. The Covered Bonds are covered in accordance with the Polish Covered Bonds Act and rank *pari passu* with all other unsubordinated present and future obligations of the Bank which have the same status as the Covered Bonds under the Polish Covered Bonds Act.

3. INTEREST

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

(a) *Interest on Fixed Rate Covered Bonds*

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

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

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

If interest is required to be calculated for a period other than a Fixed Interest Period such interest shall be calculated in respect of such period by applying the Rate of Interest to the aggregate outstanding nominal amount of the Fixed Rate Covered Bonds represented by a Global Covered Bond and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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

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

In these Conditions:

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

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

(b) *Interest on Floating Rate Covered Bonds*

(i) Interest Payment Dates

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

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

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

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

- (A) in any case where Specified Periods are specified in accordance with Condition 3(b)(i)(B) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be

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

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

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

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

The rate of interest payable from time to time in respect of Floating Rate Covered Bonds will be determined in the manner specified in the applicable Final Terms (the "**Rate of Interest**").

- (A) ISDA Determination for Floating Rate Covered Bonds

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

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

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

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

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

Subject to Condition 3(b)(ix) (*Benchmark replacement*), where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, and if a Reference Rate and a Relevant Screen Page are so specified and the Reference Rate so specified is not SOFR or SONIA, the Rate of Interest for each Interest Period will, subject as provided below, be either:

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

(expressed as a percentage rate per annum) for the Reference Rate (being either LIBOR, EURIBOR or WIBOR, as specified in the applicable Final Terms) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 12:30 p.m. (Warsaw time in the case of WIBOR) on the Interest Determination Date in question plus or minus (as specified in the applicable Final Terms) the Margin (if any), all as determined by the Agent.

If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

In the event that the Relevant Screen Page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph, the Agent shall request each of the Reference Banks to provide the Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) or 12:30 p.m. (Warsaw time in the case of WIBOR) on the Interest Determination Date in question.

If two or more of the Reference Banks provide the Agent with offered quotations, the Rate of Interest for the Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Agent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"SOFR Determination Date" means, with respect to any SOFR Reset Date and with respect to (x) the Secured Overnight Financing Rate and (y) the Overnight Bank Funding Rate: (i) in the case of (x), the first U.S. Government Securities Business Day immediately preceding such SOFR Reset Date; and (ii) in the case of (y), the first New York City Banking Day immediately preceding such SOFR Reset Date;

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

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

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

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

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

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

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

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

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

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

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

If interest is required to be calculated by the Agent for a period other than an Interest Period or if no Fixed Coupon Amount or Broken Amount is specified in the relevant Final Terms, the amount of interest (the **"Interest Amount"**) payable per Calculation Amount shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product thereof by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

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

- (A) if "Actual/Actual (ISDA) " or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (B) if "Actual/365 (Fixed) " is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (C) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (D) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

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

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

- (E) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

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

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

- (F) if "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{DayCountFraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

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

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

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

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

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

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(v) Linear Interpolation

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

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

(vi) Notification of Rate of Interest and Interest Amounts

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

(vii) Certificates to be final

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

(viii) Accrual of interest

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

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

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

- (A) the Bank shall use reasonable endeavours to appoint, as soon as reasonably practicable, an Independent Adviser to determine (acting in good faith and in a commercially reasonable manner) no later than three Business Days prior to the Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") a Successor Rate or, alternatively, if there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest (or the relevant component part thereof) applicable to the Covered Bonds;
- (B) if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date, the Bank (acting in good faith and in a commercially reasonable manner) may determine a Successor Rate or, if there is no Successor Rate, an Alternative Reference Rate;
- (C) if a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) is determined in accordance with the preceding provisions, such Successor Rate or, failing which, an Alternative Reference Rate (as applicable) shall be the Reference Rate for each of the future Interest Periods (subject to the subsequent operation of, and to adjustment as provided in, this Condition 3(b)(ix)); provided, however, that if sub-paragraph (B) applies and the Bank is unable to or does not determine a Successor Rate or an Alternative Reference Rate prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Covered Bonds in respect of the preceding Interest Period (or alternatively, if there has not been a first Interest Payment Date, the rate of interest shall be the Rate of Interest for the initial Interest Period) (subject, where applicable, to substituting the Margin that applied to such preceding Interest Period for the Margin that is to be applied to the relevant Interest Period); for the avoidance of doubt, the proviso in this sub-paragraph (B) shall apply to the relevant Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, this Condition 3(b)(ix));
- (D) if the Independent Adviser or the Bank determines a Successor Rate or, failing which, an Alternative Reference Rate (as applicable) in accordance with the above provisions, the Independent Adviser or the Bank (as applicable), may also specify changes to these Conditions, including but not limited to, the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Day, Interest Determination Date, and/or the definition of Reference Rate applicable to the Covered Bonds, and the method for determining the fallback rate in relation to the Covered Bonds, in order to follow market practice in relation to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines that an Adjustment Spread is required to be applied to the Successor Rate or the Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to the Successor Rate or the Alternative Reference Rate (as applicable). If the Independent Adviser or the Bank (as applicable) is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread. For the avoidance of doubt, the Calculation Agent and/or Agent shall, provided that such amendments do not (without its consent) either increase its obligations or duties, or decrease its rights or protections, at the direction and expense of the Bank, agree and effect such consequential amendments to the Agency Agreement, and these Conditions as may be required in order to give effect to this Condition 3(b)(ix). Consent of the relevant Covered Bond Holders shall not be required in connection with effecting the Successor Rate or Alternative Reference Rate (as applicable) or such other changes, including for the execution of any documents or other

steps by the Calculation Agent and/or Agent (if required). Notwithstanding any other provision of this Condition 3, if in the Calculation Agent's or Agent's (as the case may be) opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 3, the Calculation Agent or Agent (as the case may be) shall promptly notify the Issuer thereof and the Issuer may (but shall not be obliged to) direct the Calculation Agent or the Agent (as the case may be) in writing as to which alternative course of action to adopt. If the Calculation Agent or Agent (as the case may be) is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent and Agent (as the case may be) shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so; and

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

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

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

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

"Benchmark Event" means:

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

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

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

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

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

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

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

4. PAYMENTS

(a) *Method of payment*

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

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

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

(b) *Payments*

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

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

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

- (i) the Bank has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars

at such specified offices outside the United States of the full amount of principal and interest on the Covered Bonds in the manner provided above when due;

- (ii) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and
- (iii) such payment is then permitted under United States law without involving, in the opinion of the Bank, adverse tax consequences to the Bank.

(c) *Payment Day*

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 7) is:

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

(d) *Interpretation of principal and interest*

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

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

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

5. REDEMPTION AND PURCHASE

(a) *Redemption at maturity*

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

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

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

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

- (i) In these Conditions:

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

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

"**Coverage Test**" means the coverage test (*test równowagi pokrycia*) as defined in the Polish Covered Bonds Act, performed by the Bankruptcy Receiver to determine whether the Separate Bankruptcy Asset

Pool is sufficient to satisfy all of the Bank's obligations towards holders of the outstanding covered bonds issued by the Bank in full;

"**Cover Pool**" means the assets which are the basis for the issuance of mortgage covered bonds by the Bank and are entered into the cover pool register (*rejestr zabezpieczenia listów zastawnych*) created for mortgage covered bonds;

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

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

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

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

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

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

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

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

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

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

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

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

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

- (B) If the Coverage Test confirms that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards holders of the outstanding covered bonds issued by the Bank in full, but the Liquidity Test fails to confirm that the Separate Bankruptcy Asset Pool is sufficient to satisfy the Bank's obligations towards holders of the outstanding covered bonds issued by the Bank in full, taking into account the maturity of the outstanding covered bonds issued by the Bank extended by 12 months, the Maturity Date of the Covered Bonds shall be extended by three years from the latest maturity date of an Underlying Receivable entered into the cover pool register (the "**Additionally Extended Maturity Date**").

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

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

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

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

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

- c. an entity which is not a bank, with respect to assets the possession of which is not restricted to banks, without the transfer of the obligations of the Bank under the Bank's outstanding covered bonds,

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

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

This Condition 5(c) replicates mandatory provisions of Polish law, in particular the Polish Bankruptcy Law, as at the date of this Base Prospectus. In the event of a conflict between Condition 5(c) and mandatory provisions of Polish law, if, and as amended from time to time, mandatory provisions of Polish law shall prevail. Changes (if any) in the mandatory provisions of Polish law which affect the provisions of this Condition 5(c) shall not create an obligation for the Bank to notify the Holders thereof unless otherwise required under applicable Polish law.

(d) *Purchases*

The Bank may purchase Covered Bonds at any price in the open market or otherwise for the purpose of redemption or depositing them under the care of the Cover Pool Monitor insofar it is connected with the Bank's fulfilment of the requirements referred to in Article 18 of Polish Covered Bonds Act.

(e) *Cancellation*

Except for the Covered Bonds purchased for the purpose of depositing them under the care of the Cover Pool Monitor, all Covered Bonds which are redeemed or purchased by the Bank will forthwith be cancelled. All Covered Bonds so cancelled cannot be reissued or resold.

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

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

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

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

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

Pursuant to provisions of the Resolution Act, the secured liabilities comprising the separate and secured pool, such as obligations of the Bank under the Covered Bonds, may not be subject to a compulsory write-down or conversion into equity up to the amount which is fully covered. It means, however, that such compulsory write-down or conversion to equity may apply to such obligations of the Bank under the Covered Bonds but only to the extent that the value of the Cover Pool is not sufficient to satisfy all claims under the Covered Bonds issued by the Bank.

6. TAXATION

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

- (a) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Covered Bond by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Covered Bond; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day, assuming that day to have been a Payment Day (as defined in Condition 4(c)); or
- (c) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Covered Bond to another Paying Agent in a Member State of the European Union.

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

As used herein:

- i. "**Tax Jurisdiction**" means Poland or any political subdivision or any authority thereof or therein having power to tax; and
- ii. the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Covered Bond Holders in accordance with Condition 9.

7. PRESCRIPTION

Claims against the Bank for payment under the Covered Bonds become time-barred after 10 years (except for claims for payment of interest which become time-barred after three years) and may not be prescribed unless otherwise permitted by Polish law.

8. PAYING AGENTS

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

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

- (a) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent, which may be the Agent, with a specified office in

such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

- (b) the Bank undertakes that it will ensure that it maintains a Paying Agent in a jurisdiction within Europe, other than the jurisdiction in which the Bank is incorporated.

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

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

9. NOTICES

All notices regarding the Covered Bonds will be deemed to be validly given if published in a daily newspaper of general circulation in Luxembourg. It is expected that such publication will be made in the *Luxemburger Wort* in Luxembourg, so long as the Covered Bonds are admitted to trading on, and listed on the Official List of, the Luxembourg Stock Exchange, a daily newspaper of general circulation in Luxembourg and/or the Luxembourg Stock Exchange's website, www.bourse.lu. It is expected that any such publication in a newspaper will be made in the *Luxemburger Wort* in Luxembourg. The Bank shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant regulatory authority on which the Covered Bonds are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. The Bank will deliver printouts of all information published on the Bank's website in accordance with the Polish Act on Bonds to the public notary – Paweł Cupriak, Marcin Łaski i Partnerzy Notariusze Spółka Partnerska, Grzybowska St. 2/26B, Warsaw 00-131.

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

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

10. FURTHER ISSUES

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

11. GOVERNING LAW AND SUBMISSION TO JURISDICTION

- (a) *Governing law*

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

- (b) *Submission to jurisdiction*

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

(c) *Enforcement*

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

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

The meeting of the Covered Bond Holders may consider any matter affecting their interests under the Covered Bonds, including the sanctioning by a resolution of a modification of the Conditions. Such a meeting may be convened for each Series by the Bank and shall be convened by the Bank if required in writing by Covered Bond Holders holding not less than 10 per cent. in nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 section 1 item 44 of the Polish Accounting Act). The meeting of the Covered Bond Holders shall be convened by an announcement made at least 21 days before the date of the meeting published in accordance with Condition 9. The meeting of the Covered Bond Holders shall be held at the seat of the entity operating the regulated market (in the event that the Covered Bond Holders are admitted to trading on a regulated market) or (in all other cases) in Warsaw, Poland. Unless otherwise provided below, the quorum at any such meeting for passing a resolution is one or more persons holding or representing not less than 50 per cent. of the nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 section 1 item 44 of the Polish Accounting Act), except that at any meeting the business of which includes the modification of the provisions of the Covered Bonds, as described in this paragraph 12, items (a) and (b) below, the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Covered Bonds of that Series for the time being outstanding (excluding the Covered Bond Holders who are members of the Bank's capital group within the meaning of Article 3 section 1 item 44 of the Polish Accounting Act). A resolution passed at any meeting of the Covered Bond Holders of a particular Series shall be binding on all the Covered Bond Holders of that Series for which the meeting was held, whether or not they are present at the meeting. The resolutions shall be passed:

- (a) in case of reduction of the nominal value of the Covered Bonds – by unanimous vote of all Covered Bond Holders present;
- (b) in case of:
 - i. modifications to the methods of calculating interest, and terms of payment (including reduction or cancellation) of interest;
 - ii. modifications as to the time, place or method of satisfying the claims of the Covered Bond Holders, including date, as at which entitlement to these benefits is established; and
 - iii. the principles of convening, holding or adopting resolutions by the meeting of the Covered Bond Holders,by a unanimous vote of all present Covered Bond Holders (in case the Covered Bonds are admitted to trading on a regulated market); or by a majority of 75 per cent. of all Covered Bond Holders present (in case the Covered Bonds are not admitted to trading on a regulated market); and
- (c) in all other cases – by a majority vote.

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

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

MARKET OVERVIEW

The Polish economy

The Polish economy is one of the fastest developing economies in the EU. Poland, with 38.0 million residents, remains the largest accession member of the EU and the sixth largest EU country by population. With a GDP of EUR 496.5 billion in 2018 (according to Eurostat), it is the eighth largest EU economy and the 21st largest economy globally (by GDP, according to data from the International Monetary Fund). The Polish economy has expanded consistently, with real GDP growing at a compound annual growth rate of approximately 3.6 per cent. over the six-year period ending on 31 December 2018 (according to OECD). In 2018, the GDP growth rate in Poland was 5.1 per cent., substantially higher than the average for the EU, which recorded a 1.9 per cent. increase in GDP. The economic growth is expected to remain stable. Domestic demand will continue to be a main driver of economic growth. Domestic consumption is expected to be supported by a tight labour market and investment is expected to be fuelled by the disbursements of EU structural funds and a favourable environment of low interest rates. The European Commission forecast for Poland is also positive for 2019 and 2020: GDP growth in Poland is expected to remain stable at 4.2 per cent. in 2019 and 3.6 per cent. in 2020. These figures are above the growth forecast for the EU as a whole, which, according to the European Commission, in 2019 is expected to grow by 1.4 per cent. and in 2020 by 1.6 per cent.

In recognition of its strong economic performance, Poland is assessed highly by international rating agencies and in September 2018 was upgraded to developed market status by the index provider FTSE Russell. Poland's upgrade to developed market status represents an acknowledgement of the progress of the Polish economy and capital markets. With the upgrade, Poland is classified as one of the 25 most advanced global economies, including the USA, the UK, Germany, France, Japan and Australia. Furthermore, Poland was the first country in almost a decade, and the first Central and Eastern European country, to be upgraded to developed market status.

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

	For the year ended 31 December		
	2018	2017	2016
Real GDP growth (%).....	5.1	4.9	3.1
Individual consumption growth (%).....	4.54	4.5	3.9
Public sector spending growth (%).....	4.7	6.40	2.0
Investment expenditures growth (%).....	8.7	6.5	(8.2)
CPI Inflation rate on a year-on-year basis (%).....	1.6	2.0	(0.6)
Average wage growth (%).....	5.3	5.6	4.0
Harmonised unemployment rate (%).....	3.8	4.5	5.5
Exports growth (%).....	5	8.2	6.7
Imports growth (%).....	5.9	10.45	6.4
Budget deficit / GDP (domestic definition, %).....	0.4	1.5	2.2
Government debt / GDP (domestic definition, %).....	48.90	50.6	54.2
Reference rate (%).....	1,5	1.5	1.5
PLN / EUR (average).....	4.26	4.25	4.36

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

The Polish banking sector

Structure of the Polish banking sector

According to the KNF, as at 31 December 2018, the total number of banks and branches of foreign credit institutions operating in Poland was 612: there were 32 domestic commercial banks, 31 branches of foreign credit institutions and 549 co - operative banks operating in Poland.

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

	2018	2017	2016
Total, including:	612	616	621
Domestic commercial banks.....	32	35	36
Branches of foreign credit institutions.....	31	28	27
Cooperative banks.....	549	553	558

Source: KNF's monthly data on the banking sector – December 2018.

The Polish banking sector is characterised by a significant presence of international banks, and currently five out of the 10 largest commercial banks (by assets) are controlled by foreign parents. According to KNF data, in 2018, the share of banks controlled by foreign investors in the assets of the Polish banking sector was 46.4 per cent.

The level of concentration in the Polish banking sector is relatively high. According to the KNF data as at 31 December 2018, the share of the top 10 banks in total banking assets stood at 73.5 per cent. (compared to 70.1 per cent. as at the end of December 2017), while their share in deposits amounted to 78.8 per cent. (compared to 74.6 per cent. as at the end of 2017).

Amongst the other factors having an impact on competition is a consolidation trend in recent years. For example, in 2013, the merger of BZ WBK S.A. and Kredyt Bank S.A., the acquisition of Dexia Kommunalkredit Bank Polska S.A. by Getin Noble Bank S.A., and the acquisition of the retail operations of DnB Nord Polska S.A. by Getin Noble Bank S.A.; in 2014, the merger of Nordea Bank Polska S.A. with PKO Bank Polski SA, the taking of control over Santander Consumer Bank by Bank Zachodni WBK S.A.; and, in 2015, the merger of Bank BGŻ S.A. with BNP Paribas S.A. and the acquisition of Meritum Bank ICB S.A. by Alior Bank S.A.; in 2016, the merger of BGŻ BNP Paribas S.A. with Sygma Bank Polska S.A. and the merger of Alior Bank S.A. with core business of BPH. Finally, in December 2017 Deutsche Bank AG sold its Polish retail operations (core DB Polska without CHF portfolio and DB Securities) to BZ WBK. On 10 April 2018, Raiffeisen Bank International AG agreed to sell the core banking operations of Raiffeisen Bank Polska S.A. by way of demerger to Bank BGŻ BNP Paribas S.A. In November 2018, Millennium Bank, majority owned by Portugal's BCP, agreed to buy Euro Bank S.A., the Polish business of France's Société Générale.

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

As a result of changes in the shareholding structure of Polish commercial banks, in particular the takeover of Bank Pekao SA by Polish capital (PZU S.A. and PFR S.A.) in 2017, the share of foreign ownership in the banking assets in the country has declined markedly. As at 31 December 2018, 46.4 per cent. of the total assets of the Polish banking sector belonged to foreign-owned banking groups compared to 47.8 per cent. at the end of 2017 and 65.0 per cent. at the end of 2011 (Source: KNF data).

Financial situation of the Polish banking sector

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

	As at 31 December			Change	
	2018	2017	2016	2018/2017	2017/2016
	<i>(in PLN billion)</i>			<i>(%)</i>	
Polish banks' aggregate assets.....	1,895.9	1,776.8	1,706.5	6.7	4.1
Deposits from the non-financial sector...	1,161.4	1,070.4	1,028.1	8.2	4.1
Loans to the non-financial sector	1,088.8	1,026.7	994.0	6.0	3.3

Source: KNF

Total assets

The main structural driver for significant growth, both in the value of deposits and customer loans, is the low level of banking intermediation in Poland compared with other EU Member States. The aggregate assets of banks in the Polish banking sector as at 31 December 2018 amounted to 93 per cent. of Poland's GDP compared with the Eurozone average of approximately 236 per cent.

As at 31 December 2018, total assets of the Polish banking sector were 1.1 per cent. higher than at the end of 2016 and amounted to PLN 1,895.9 billion.

Loans

In 2018, the credit growth rate for both businesses and households accelerated, partly due to a general improvement in economic conditions, including the decrease of unemployment, as well as prevailing low interest rates.

	As at 31 December			Change (%)	
	2018	2017	2016	2018/2017	2017/2016
	<i>(in PLN billion)</i>				
Loans to the non-financial sector, of which:	1,088.8	1,026.7	994.0	6.0	3.3
to businesses and non-commercial institutions	373.1	347.9	326.8	7.2	6.5

to households (including housing loans)	708.4	671.9	660.7	5.4	1.7
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Source: KNF

Amounts due from households constitute the majority of the amounts due from non-financial entities. As at the end of 2018, amounts due from households comprised 34 per cent. of the gross amounts due from the non-financial sector and 20 per cent. of the banks' total assets. In 2018 and 2017, amounts due from households also constituted the majority of the amounts due from non-financial entities.

In 2018, the growth rate of the loans to households was higher than in 2017 (5.4 per cent. in 2018, as compared to 1.7 per cent. in 2017). The value of housing loans increased by PLN 18.5 billion in 2018 (6.9 per cent. growth). This is mainly a result of the weakening Polish currency which compensated for the slightly declining growth rate regarding housing loans in PLN.

Deposits

Despite prevailing low interest rates, the value of deposits has grown since 2016. The main reason for this growth was the increase in salaries, which had a positive influence on the financial condition of households and businesses. The table below presents the deposit base of the non-financial sector:

Deposits of the non-financial sector	As at 31 December (in PLN billion)			Change (%)	
	2018	2017	2016	2018/2017	2017/2016
Deposits of the non-financial sector, of which:	1,161.4	1,070.4	1,028.1.1	8.5	4.1
from businesses	295.6	285.0	274.9.	3.7	3.6
from households	839.5	761.3	730.8	10.3	4.2
from non-commercial institutions.....	26.3	24.1	22.4	9.0	7.7

Source: KNF

Financial results

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

	For the year ended 31 December (in PLN billion)			Change (% , pp)	
	2018	2017	2016	2018/2017	2017/2016
Profit on banking activities.....	65.1	64.0	61.7	1.7	3.7
Net profit/(loss)	14.5	13.7	13.9	5.8	(1.4)
ROE (% , pp).....	7.18	7.1%	7.8%	N/A	N/A

Source: KNF

In 2017, the net profit of the banking sector decreased to PLN 13.6 billion, 2.3 per cent. lower than in 2016. The decrease in the results was a consequence of overestimating the statistical base in 2016 as a result of the sale of shares in VISA Europe and one-month shorter period of collecting the banking tax. According to KNF, these two factors led to an increase in the income of the banking sector, as compared to 2017, by PLN 2.5 billion and PLN 0.3 billion, respectively. According to the KNF, if these two factors were excluded, the net financial result in 2017 would have been almost 20 per cent. higher than the net financial result in 2016.

In 2018, despite the pressure driven by the changes in the regulatory environment (contributions to the Bank Guarantee Fund and possible statutory intervention into foreign-exchange mortgage loans), the net profit of the Polish banking sector increased to PLN 14.5 billion constituting a 6.2 per cent. growth in comparison to the previous year.

Key trends in the Polish banking sector

Convergence in the Polish banking sector

The Bank believes there is strong potential for further growth of the banking industry in Poland. The aggregate assets of banks in the Polish banking sector as at 31 December 2018 amounted to 93 per cent. of Poland's GDP as compared with the Eurozone average of approximately 265 per cent. (ECB data as at Q3 2018).

Shift away from FX mortgage lending

The KNF recommendations, coupled with a higher awareness of exchange rate risks on the part of clients and banks and the Swiss National Bank's decision to abandon the minimum EUR/CHF exchange rate, caused a decline in the volume of housing loans granted in foreign currencies in the years 2015-2018. New sales are dominated by loans denominated in

PLN, while sales of foreign-exchange mortgage loans are offered to selected customers only as banks seek to avoid potential difficulties in gathering foreign-exchange funding. In October 2015, the KNF published individual capital requirements for banks most exposed to mortgage loans denominated in foreign currencies. These capital buffers were intended to cover additional risks arising from exposures in foreign currencies and were set out as the total capital ratio and the Tier 1 capital ratio. Even though the structure of the mortgage loans denominated in foreign currencies changed significantly, as at 31 December 2018, mortgage loans denominated in foreign currencies still constituted 31.4 per cent. of the residential loans' portfolio and the majority of these loans are denominated in CHF.

Capital adequacy

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

	As at 31 December			Change	
	2018	2017	2016	2018/2017	2017/2016
Total capital ratio	19.1%	19.0%	17.7%	n/a	n/a
Own funds for capital adequacy (in PLN billion)	204.6	197.6	175.5	3.5%	12.6

Source: KNF

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

Higher minimum capital requirements have been applicable since January 2016. The Tier 1 capital ratio was raised to 10.25 per cent. from 9 per cent. and the total capital ratio was raised to 13.25 per cent. from 12 per cent. Additionally, in 2016, the minimum capital requirements increased due to the introduction for certain banks of the following buffers: capital conservation buffer and other systemically important institutions buffer. In 2017, the growth of the banks' own funds was higher than the growth of total amount of risk exposures. As at 31 December 2018, the total capital ratio for the Polish banking sector was 17.2 per cent., as compared to 19 per cent. as at 31 December 2017.

Asset quality

In 2017, the quality of the loan portfolio improved with a total NPL ratio decreasing to 6.8 per cent. (as compared to 7.0 per cent. in 2016). This is mainly due to the sale of non-performing loan portfolios (mainly comprising consumer loans), acceleration in economic growth and the increase in granted loans. As at 31 December 2018, the NPL ratio was still 6.8 per cent., although the value of non-performing loans was higher.

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

	As at 31 December			Change (pp)	
	2018	2017	2016	2018/2017	2017/2016
NPL ratio of households (%)	5.9	6.1	6.0	-3.3	1.6
Total NPL ratio (%)	6.8	6.8	7.0	0	-2.9

Source: KNF

Inflation rate and interest rates

Inflation in Poland (as measured by the consumer price index) dropped in 2018 (prices rose by 1.6 per cent. year on year on average) and in December 2018 reached 1.1 per cent. year on year. Inflation is expected to accelerate through 2019 but is not expected to exceed the monetary policy target. The main reasons for the increase of the consumer price index were the increase of prices of food by 4.6 per cent. and prices of transport by 3.8 per cent.

Margins

The fall in market interest rates following the decisions of the Monetary Policy Council (*Rada Polityki Pieniężnej*, the "MPC") taken in the years 2015-2018 had a significant effect on interest rates for deposits and loans extended to clients.

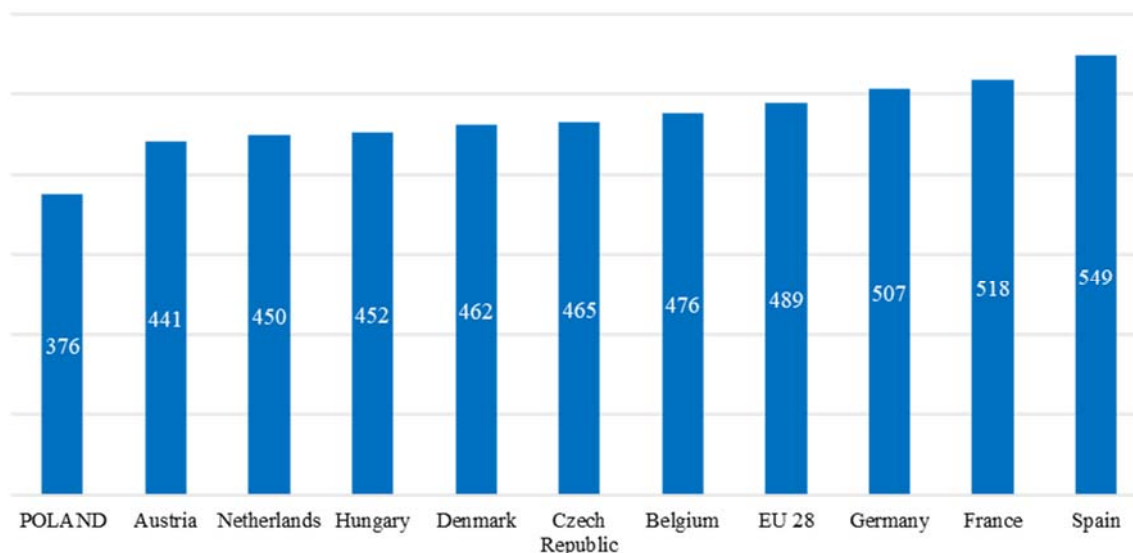
	As at 31 December			Change (pp)	
	2018	2017	2016	2018/2017	2017/2016
Average interest on total retail mortgage loans					
- outstanding amounts total retail mortgage loans					
- outstanding amounts	3.7	3.7	3.6	0	+0,1pp
Average margin on total retail mortgage loans					
- outstanding amounts total retail mortgage loans					
- outstanding amounts	1.99	1.97	1.9	+0.02 pp	+0.07 pp

3M WIBOR (eop) 1.72 1.52 1.53 +0.2 pp -0.01 pp
 Source: NBP, Margins are calculated as a difference to average 3-month WIBOR rate (ask)

Residential market

The Polish residential property market is still in the development phase. According to the Deloitte "Property Index" report published in 2018, the number of dwellings per 1,000 citizens in Poland reached 4.6 in 2017. Even though this number has been gradually improving, it is still much lower than the European Union average of 486 and one of the lowest in Europe.

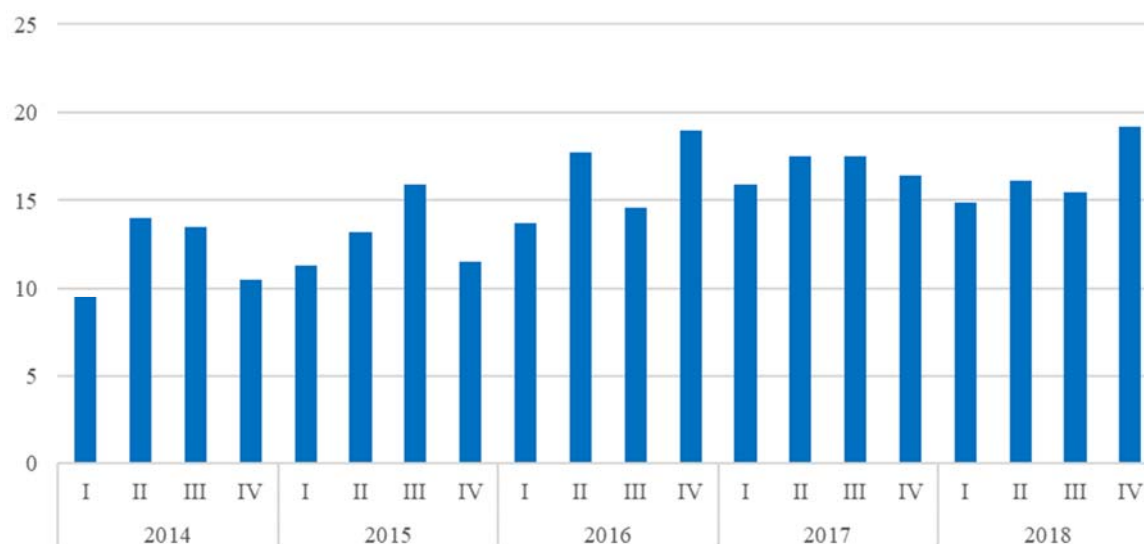
Number of initiated dwellings per 1,000 inhabitants in selected EU countries for 2018



Source: Based on the Deloitte "Property Index" report of 2018

According to GUS, the total number of dwellings in Poland as at the end of 2017 was approximately 14.44 million.

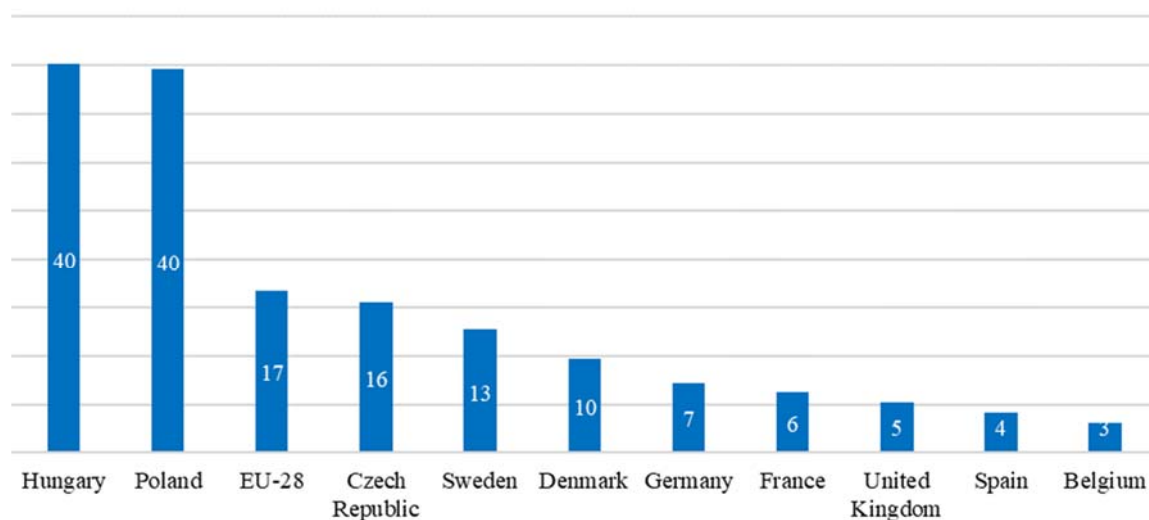
Number of dwellings put on the market (thousands)



Source: REAS

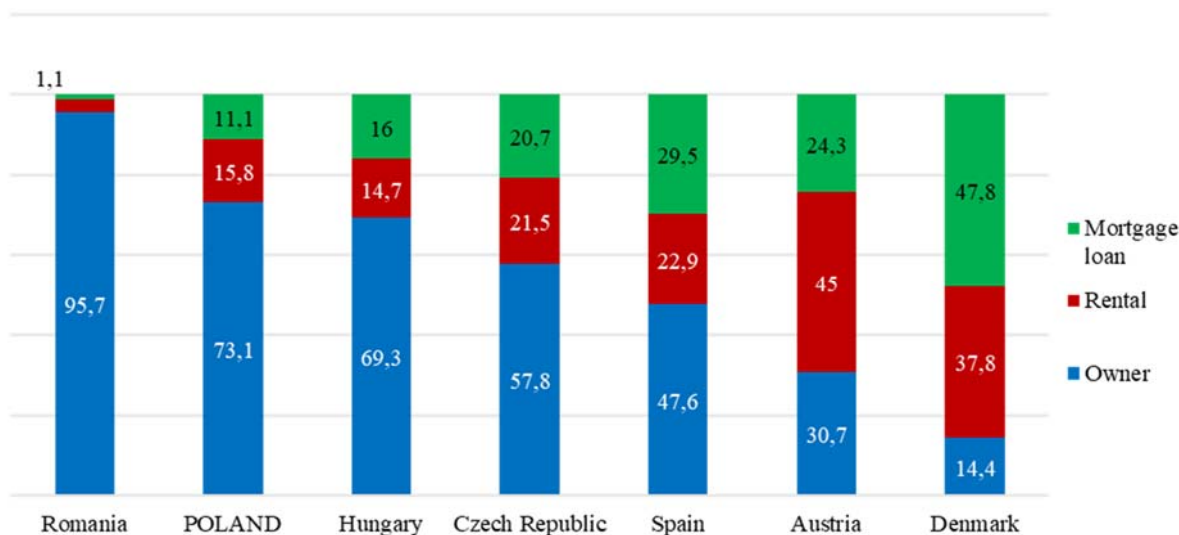
One of the indicators of housing conditions is the overcrowding rate, which is the proportion of people living in an overcrowded dwelling, as defined by the number of rooms in the household, the size of the household, the age of the household members and their family situation. As at the end of 2017, Poland's overcrowding rate was 40 per cent. The overcrowding rate is one of the highest in the EU, where the average overcrowding rate is 17 per cent. The Bank believes that the high overcrowding rate will be one of the principal factors for increasing demand for new houses and apartments and, as a consequence, increasing demand for residential loans.

Overcrowding rate in selected European countries and Poland for 2017



Source: Based on Eurostat data.

Dwellings tenure status 2017



Source: Based on Eurostat data.

According to GUS, 185,100 dwellings were completed in 2018, i.e. 3.9 per cent. higher as compared to 2017. 36 per cent. of dwellings were built by individual investors and 61 per cent. of dwellings were built by real estate developers. 257,671 construction permits were granted or filed with the construction project in 2018, which is higher by 2.7 per cent. as compared to the same period of the previous year. The number of new dwellings under construction increased in 2018 by 4.8 per cent. to 796,100 (in comparison to 3.8 per cent. growth in 2017).

Certain fiscal and monetary stimuli provided by the state encourage selected groups of buyers to purchase residential property and take out loans to finance such purchases.

The 'Mieszkanie dla Młodych' (Apartment for the Young) governmental programme was launched in early 2014 and lasted to the end of 2018 (with the deadline for submission of applications being 30 September 2018). According to the data published by Bank Gospodarstwa Krajowego (the "BGK"), the number of accepted applications for financial support under the 'Mieszkanie dla Młodych' programme from 2014 to 2018 amounted to 110,711 and the amount of funding granted is equal to 2,928,077,760 PLN.

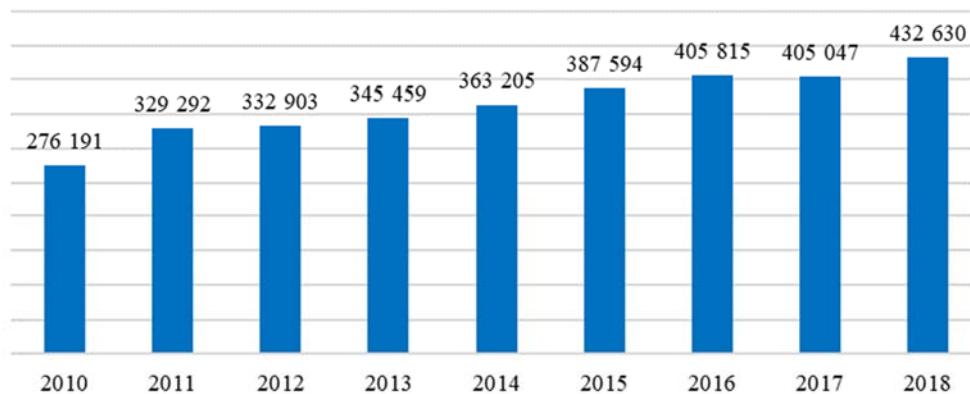
In June 2016, the Polish Prime Minister announced the establishment of the new programme 'Mieszkanie+' (Apartment+) aimed at improving the accessibility of dwellings through the development of apartments for rent with an affordable rent level which is aimed to be lower than the market rate. The apartments are available to low- and medium-wage earners. The programme also supports social housing and savings programmes for housing needs. As at 1 June 2019, 480 dwellings were given to tenants and more than 27,000 are being built. On 20 July 2017, the Act on National Real Estate Pool (*Ustawa o Krajowym Zasobie Nieruchomości*) was adopted. This act introduced the concept of a National Real Estate Pool (*Krajowy*

Zasób Nieruchomości). The National Real Estate Pool has enabled to use of real estate for the purpose of building flats and houses within the programme. Also, on the basis of the act dated 20 July 2018 on the state aid regarding rent costs in the first years of flat rental, from 1 January 2019, it is possible to apply for a subsidy on rent payments.

The Polish mortgage loan market

As at 31 December 2018, people in Poland had PLN 432 billion of outstanding mortgage loans, of which 70 per cent. were denominated in PLN.

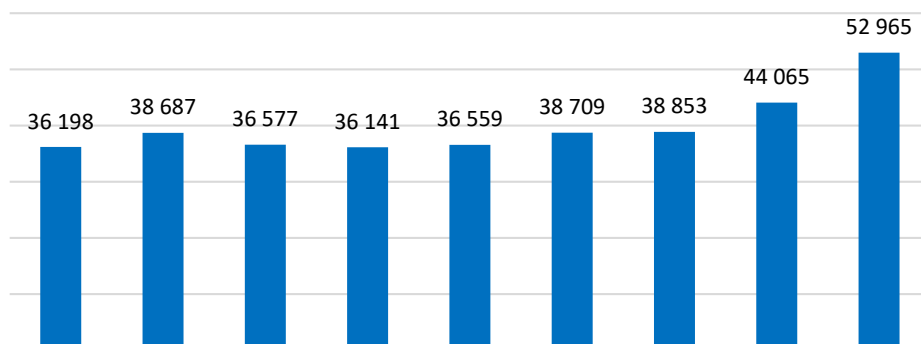
Outstanding value of residential mortgage loans (PLN billion)



Source: NBP

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

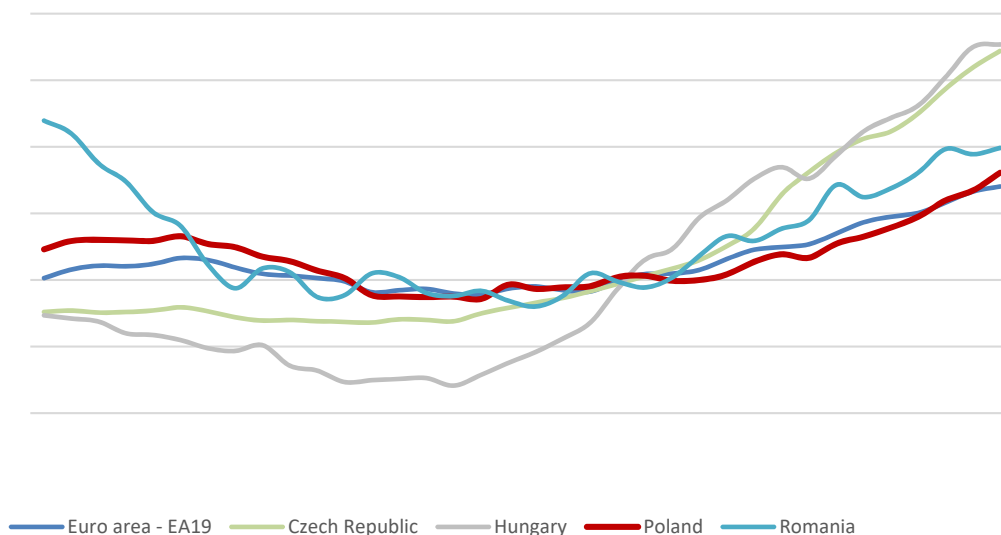
(Value of newly signed residential mortgage loans (PLN billion)



Source: Polish Banking Association

Low volatility of new dwellings price combined with strong demand and supply is a potential for future growth.

House price dynamics in the CEE – very low volatility in Poland



index, 2015=100;
Source: Eurostat

Covered bonds and mortgage banks market

The Polish covered bonds market is relatively small and is characterised by moderate liquidity. As at 31 December 2018, the aggregate principal amount of outstanding covered bonds issued by Polish mortgage banks was approximately PLN 21,03 billion, a PLN 4,7 billion increase as compared to 31 December 2017. As at 31 December 2018, the principal amount of outstanding covered bonds issued by Polish mortgage banks represented 5.4 per cent. of mortgage loans granted by Polish banks.

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

The establishment of new mortgage banks and amendments to regulations concerning covered bonds and mortgage banks should positively affect the size and liquidity of the Polish covered bonds market. The increase in the number of mortgage banks in Poland may result in boosting the supply of covered bonds. This will, on one the hand, enhance the availability of covered bonds to investors and increase their role in investment portfolios, but, on the other hand, it may increase competition between issuers in the Polish covered bonds market.

DESCRIPTION OF THE BANK

History and general introduction

mBank Hipoteczny Spółka Akcyjna is a Polish specialist mortgage bank (*bank hipoteczny*) with the longest history as a covered bonds issuer on the Polish capital market. The outstanding mortgage covered bonds issued by the Bank amounted to approximately PLN 7.2 billion as at 31 December 2018, and represented, based on the Bank's estimation, a 34 per cent. share in the total number of outstanding Polish mortgage covered bonds market. The mortgage covered bonds issued by the Bank were assigned an "A" rating by Fitch. On 28 May 2019 the Bank delivered to Fitch a notice of termination of the agreement on providing ratings of the Covered Bonds. The ratings of the Covered Bonds are subject to analytical review prior to withdrawal and, in addition, Fitch will be providing approximately 30 days' notice to the market of the rating withdrawal. On 27 May 2019, Moody's assigned an Aa3 rating to the mortgage covered bonds issued by the Bank.

The Bank focuses on providing mortgage loans for private individuals and business entities.

In 2012, the Bank ceased providing loans for local government units due to the risk profile of this segment, and inadequate capital margins. However, as at 31 December 2018, the Bank still has a portfolio in this segment with a total value of PLN 181 million (down by 10 per cent. compared with the end of 2017).

The loans in the Bank's loan portfolio are denominated in EUR, PLN and USD (for details on the Bank's loan portfolio, see "*Business overview of the Bank*" and "*The Bank's loan portfolio*" below). Taking into consideration that covered bonds in Poland can only be issued by mortgage banks, the Bank is the sole entity in the Group authorised to issue covered bonds under Polish law. Since its establishment, the Bank has issued mortgage and public sector covered bonds with an aggregate nominal value of PLN 14,103.5 million, 74 series in private and public offerings, including: (i) PLN 9,800 million with respect to PLN-denominated covered bonds; (ii) PLN 4,052.9 million with respect to EUR-denominated covered bonds; and (iii) PLN 250.6 million with respect to USD-denominated covered bonds as at 31 May 2019. On 26 August 2016, the Bank established a domestic mortgage covered bond programme with a total value of PLN 15 billion. As at 31 May 2019, the Bank has completed: (i) five transactions involving issuance of PLN-denominated covered bonds with a target issue size from PLN 100 million to PLN 1,000 million, and (ii) four transactions involving issuance of EUR-denominated covered bonds with a target issue size from EUR 25 million to EUR 100 million. On 6 July 2017, the Bank established an international mortgage covered bond programme with a size of PLN 3 billion which allows for the public offering of mortgage covered bonds. As at 26 April 2018, the Bank had issued EUR 300 million in aggregate principal amount of covered bonds under the international mortgage covered bond programme. For further details on the covered bonds issued by the Bank, see "*Covered bonds portfolio*" below.

The Bank was established on 18 March 1999 for an indefinite period. The Bank is entered into the register of entrepreneurs of the National Court Register maintained by XVI Commercial Division of the District Court for the Capital City of Warsaw under KRS number 3753, formerly under the business name BRE Bank Hipoteczny SA, until the Group's announcement concerning the strategic process of rebranding in 2013, transforming "BRE Bank" into the common "mBank" brand for all of the companies within the Group. The Bank is authorised to operate as a mortgage bank under the Polish Covered Bonds Act and is supervised by the KNF. Its operating permit was issued by the Banking Supervisory Authority (*Komisja Nadzoru Bankowego* – the KNF's predecessor) on 1 December 1999. The Bank's registered office is in Warsaw, at Al. Armii Ludowej 26, 00-609, Warsaw, Poland, and its telephone number is +48 22 579 75 00/01. Although the Bank is a member of the Group and closely cooperates with mBank in its business operations, the Bank is an independent legal entity with separate corporate bodies. The Bank has no subsidiaries.

As at the date of this Base Prospectus, the share capital of the Bank is PLN 336,000,000, which comprises 3,360,000 ordinary registered shares each with a nominal value of PLN 100 each. All of the Bank's share capital is owned by mBank.

Ratings assigned to the Bank

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

Category	Rating	Outlook
Mortgage covered bonds rating (refers to cover pool)	Aa3	N/A
Long-term Bank's rating	Baa2	stable
Short-term Bank's rating	Prime-2	N/A
Long-term counterparty risk assessment	A3_cr	N/A
Short-term counterparty risk assessment	Prime-2_cr	N/A

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

Overview of the Group

According to KNF data included in the Report on the Situation in the Banking Sector in 2018, the Group is the fourth largest financial institution in Poland in terms of total assets. It provides retail, corporate and investment banking, as well as other financial services, including leasing, factoring, commercial real estate financing, brokerage, wealth management, corporate finance, and capital market advice. mBank is the parent company of the Group. Commerzbank AG is a major shareholder in mBank and, as at the date of this Base Prospectus, held 69.33 per cent. of the share capital and 69.33 per cent. of the votes at the general meeting of mBank. The Group consists of entities controlled by mBank with different functional areas: (i) strategic – shares and equity interests in companies supporting mBank's particular business lines (corporates and financial markets segment, retail banking, and others) with an investment horizon no shorter than three years; and (ii) others – shares of companies acquired in exchange for receivables resulting from settlements and agreements with debtors in order to recover partial or total loans and advances, and companies in liquidation or bankruptcy.

Historically, mBank developed its operations from corporate banking, which has historically been its strength. Since its establishment in 1986, mBank has served some of Poland's largest companies involved in foreign trade on export markets. Its longstanding experience in corporate banking services set the stage for mBank's further expansion into the small and medium-sized corporate client segment. In 1994, mBank signed a strategic partnership agreement with Commerzbank, which purchased 21 per cent. of mBank's shares. Subsequently, Commerzbank's stake of mBank's share capital was increased up to 69.42 per cent. of mBank's share capital, which represents 69.42 per cent. of the total number of votes at mBank's General Shareholders' Meeting.

In 2000, mBank started its retail operations by launching a fully Internet-based bank in Poland. This was a pioneering project in the local market, which was based on the Internet with direct services through call centres and, later, mobile banking and other new technology-based solutions. In 2001, mBank also launched a high street bricks-and-mortar bank, offering a broad range of products and services targeted at affluent customers and micro-businesses seeking access to high-quality, personalised service at their branches.

mBank is the only Polish bank with a successful track record of rolling out its domestic business model into foreign markets. In 2007, mBank launched retail operations in the Czech Republic and Slovakia, focusing initially on transactional banking and deposit products, then further expanding into mortgage and consumer loans as the bank established and developed strong client relationships. mBank also offers a convenient mobile application to its Czech and Slovak clients.

As a result, mBank's client base has grown almost entirely organically, reaching 5,685,000 retail clients and 23,700 corporate customers by the end of 2018.

Favourable demographics – mBank's unique value proposition in the retail banking segment, anchored in an attractive and forefront business model, has been developed to target young, aspiring and tech-savvy clients who quickly adapt to innovative solutions. Consequently, mBank's customer base has an advantageous demographic profile as compared to the Polish market.

Half of mBank's retail clients are under the age of 35 and are expected to reach their highest personal income levels in the coming years, positioning mBank to reap the benefits from additional cross-selling opportunities of banking and insurance products. The maturing of the customer base provides a natural source for revenue growth, as well as supporting the asset quality of the Group and the responsiveness of its clients to cross-selling initiatives.

Overview of the Bank and its position within the Group

The Bank is a member of the Group solely owned and controlled by mBank which, as at 31 May 2019, is 69.33 per cent. owned by Commerzbank. Commerzbank is able to exercise corporate control over mBank, and therefore indirectly over the Bank, due to its share in the capital of mBank and in the total number of votes at the General Meeting of mBank. Commerzbank has majority voting power at the General Meeting of mBank, and thus has a decisive voice regarding major corporate actions, such as the amendment of the Articles of Association, issuance of new shares of mBank, decrease of mBank's share capital, issuance of convertible bonds or payment of dividends. In addition, Commerzbank holds a sufficient number of votes to appoint a majority of the members of the Supervisory Board, which, in turn, appoints the members of the Management Board. As a result, Commerzbank has the ability to exercise considerable control over mBank and indirectly over the Bank.

The Bank has no subsidiaries. As at 31 December 2018, the average number of people employed in the Bank is 170.

mBank set up the Bank in order to:

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

Business overview of the Bank

Main business activities

The Bank's business activities as a Polish mortgage bank are subject to the Polish Covered Bonds Act. From 1 January 2019, the core business of the Bank is to issue covered bonds, i.e. the basic functionality of a mortgage bank. Loans financing commercial real estate and projects carried out by housing developers are granted exclusively by mBank.

In 2012, the Bank ceased providing financing for local governments, or any other entities with a guarantee from local governments. However, the Bank owns a portfolio of loans in this segment which was the basis for its issuing of public covered bonds.

The Bank's business activities also include: (i) the acquisition of other banks' claims under mortgage-backed loans originated by these banks and claims under non-mortgage-backed loans; (ii) the issuance of mortgage covered bonds; and (iii) the issuance of public covered bonds. In addition, the Bank can: (i) draw loans and borrowings; (ii) issue bonds; (iii) hold securities; (iv) purchase or acquire shares or equity interests in other entities whose legal form limits the Bank's liability to the funds invested, provided that it is conducive to the Bank's activities; (v) deliver consultancy and advisory services related to the real estate market; and (vi) manage the Bank's claims and other banks' claims under the loans referred to in the preceding sentence and originate these loans on behalf of other banks, provided that any funds acquired as specified in items (i)-(ii) can only be used by the Bank to refinance its activities referred to in the preceding sentence.

The Bank can use any free funds to: (i) place deposits and acquire securities within the scope specified in Article 16, Section 1, items (1), (3) and (4) of the Polish Covered Bonds Act; (ii) purchase covered bonds issued by the Bank on the terms and conditions defined in Article 16, Section 1 item (2) of the Polish Covered Bonds Act; and (iii) purchase covered bonds issued by other mortgage banks. The Bank can purchase real estate only to prevent losses under mortgage-backed loans originated by the Bank and only if it is necessary for the purposes of the Bank's operations.

As at the date of this Base Prospectus, the Bank does not acquire commercial mortgage loans, and the Bank does not purchase loans from banks other than mBank.

In 2018, the Bank granted commercial loans with a total value of PLN 1,824 million (including PLN 679 million granted to residential developers). As at 31 December 2018, the outstanding balance of retail mortgage loans in the agency model (which amounted to PLN 4,613.484 million) were supplemented with a pooling model under which the Bank acquires mortgages granted by mBank (six retail mortgage loans pooling transactions the outstanding balance of which amounted to PLN 1,557.000 million) that can constitute the basis for issuing covered bonds. Since 1 January 2019, the Bank has been focusing on the issuance of covered bonds and has ceased to provide loans under the agency model.

Cooperation between the Bank and mBank in mortgage loan origination and the acquisition of mortgage loans

The Bank's operations are based on the maximum possible operational integration with mBank. The Bank benefits from the Group's leading position in the Polish residential mortgage loan market and the Group's extensive distribution network which ensures a stable flow of mortgage loans to the Bank. Additionally, the Bank has access to mBank's know-how resources relating to granting of mortgage loans to individuals and to the risk models developed by the Group. The Bank closely cooperates with mBank in originating new mortgage loans and acquiring mortgage loans from mBank. Since 1 January 2019, this cooperation has been based on the pooling model (transfer of existing loans) only. In its business activity, the Bank benefits from mBank's know-how and resources, made available to the Bank under the Cooperation Agreement.

Additionally, the Bank and mBank are parties to a framework agreement dated 28 August 2014 (as amended) (the "**Framework Agreement**") relating to the acquisition of portfolios of mortgage loans for the purpose of refinancing by issuing covered bonds.

The Cooperation Agreement

The Bank and mBank cooperate with each other in accordance with the Cooperation Agreement. The Cooperation Agreement sets out the rules under which mBank provides the Bank with comprehensive services related to credit product maintenance and the terms of cooperation between the Bank and mBank in the organisation of joint credit sale channels. mBank's activities within the framework of the Cooperation Agreement (entrusted to mBank by the Bank) do not include risk management activities related to conduct of business operations by the Bank (including asset and liability management, assessing creditworthiness and credit risk analysis, or internal audit).

The Cooperation Agreement covers various areas of cooperation between the Bank and mBank. In particular, under the Cooperation Agreement, mBank is obliged to: (i) perform credit intermediation activities; (ii) accept payments and utilise loans granted by the Bank; (iii) monitor the repayment of loans; (iv) carry out other activities connected to the servicing of credit products (including the generation of schedules, notifications, insurance servicing, termination of credit contracts, and the release of security interests); (v) monitor security interests (including drafting documents for the establishment of security interests, verification services, real estate inspections, registrations, and reporting systems); (vi) monitor other contractual conditions (including the registration of clients and contracts); (vii) conduct customer services (including the

preparation and registration of annexes); (viii) handle customer complaints; and (ix) provide IT and data tools related to the existing contracts. The key partners are: mBank, mFinanse and the brokers (Open Finance, Expander and DK Notus).

mBank supports the Bank in operational aspects only. Both mBank and the Bank run risk management independently and use separate database instances to estimate and create write-offs due to the impairment of assets. The Bank independently makes all decisions relating to its business activities and its credit process. The Bank offers mortgage loans in cooperation with mBank.

In accordance with the Cooperation Agreement, mBank provides the Bank with a group model documentation and risk modelling tools (retail client risk), as well as asset valuation models, and a validation methodology for these models. The Bank provides mBank with procedures and documents (marketing materials, templates and documentation, terms and conditions of contracts, terms of pricing, offers, and interest rates, etc.) to enable mBank to run its sales and post-sales operations.

The pooling model

Under the pooling model, which was introduced in 2014, the Bank's residential mortgage loans were originated by mBank. The purchase of residential mortgage loans from mBank is governed by the Framework Agreement. The mortgage loans which the Bank acquires from mBank must satisfy the following criteria:

The principal amount of the loan to the mortgage lending	maximum 100% value:
Property:	located on Polish territory
Remaining term of the loan:	over three years
Security interest:	first rank joint contractual ordinary mortgage on all property pledged as collateral
Currency:	PLN
Purpose of the loan:	financing the purchase of real estate
Rating:	suitable internal rating
Other:	no delays or defaults

Under the Framework Agreement, in 2018 the Bank entered into six receivables purchase agreements. As at 31 December 2018, the outstanding balance of housing loans transferred between mBank and the Bank amounted to PLN 612.641 million in total fair value. In addition, according to the Bank's management accounts (unaudited and unreviewed), from 1 January 2019 until 31 May 2019, mBank and the Bank entered into the receivables purchase agreements with a total fair value of PLN 1,273.5 million.

Post-sale and support services

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

The Bank's Cover Pool

The total value (i.e. including supplementary collateral and excluding substitute assets) of the Bank's Cover Pool as at 31 December 2018 was PLN 9,349.4 million. Since 2014, the Bank has identified an increasing share of residential real estate in the mortgage Cover Pool, constituting 56.29 per cent. as at 31 December 2018, whereas commercial real estate constituted 43.71 per cent. Amongst the commercial real estate in the Cover Pool, 39.75 per cent. were office buildings, 37.20 per cent. were shopping malls, 8.62 per cent. were residential development projects, 5.84 per cent. were logistic centres/warehouses, 2.53 per cent. were other commercial projects, 3.34 per cent. were hotels, and 1.71 per cent. were property developers and buildings under construction and other were 1.01 per cent. The largest number of financed projects is concentrated in Mazowieckie province, where 33.36 per cent. of all credit resources are involved. In Dolnośląskie, Małopolskie and Pomorskie provinces, the total balance sheet exposure accounts for 35.51 per cent.

All of the loans in the Cover Pool are floating rate loans, with an interest rate of the vast majority of these loans based on the WIBOR for three months. As at 31 December 2018, the average contractual maturity of the loans in the Cover Pool was 17 years (weighted average).

Since 2014, the currency structure of the loan portfolio in the mortgage Cover Pool was subject to change resulting from the systematic growth in the portfolio of retail loans granted only in PLN. As at 31 December 2018, the share of EUR - denominated loans in the Cover Pool was 33.13 per cent., whereas the share of PLN - denominated loans was 66.59 per cent. and 0.28 per cent. for USD - denominated loans.

The Bank did not grant any loans denominated in CHF, hence its Cover Pool does not contain any CHF-denominated loans.

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

The Polish Covered Bonds Act sets out the detailed eligibility criteria for a loan to be included in the Cover Pool. For a description of these criteria, see "*Overview of the Polish covered bonds legislation – Composition of cover pools*".

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

Covered bonds portfolio

Historically, most EUR-denominated covered bonds were issued under the Bank's mortgage covered bond issuance programme approved by the PFSA in 2009, with a total maximum value of PLN 6 billion (already closed).

However, in the Bank's long history there have been crucial milestones for the Group and the entire financial market, including the first issue of mortgage covered bonds in Poland in 2000, the first listed covered bonds in Poland on the Catalyst market (formerly, CeTO) in 2003 and the first issue of public covered bonds in Poland in 2007. Moreover, in February 2012, the Bank issued 15-year mortgage covered bonds which were amongst the longest maturity instruments issued by a Polish commercial entity in history at the time, and on 24 April 2016, the Bank issued the first fixed rate covered bonds denominated in PLN.

Amongst the Bank's main investors have been the European Bank for Reconstruction and Development, which purchased three series of mortgage covered bonds denominated in USD for a total amount of USD 15 million and two series of covered bonds denominated in EUR for the amount of EUR 20 million as well as the European Investment Bank, which purchased two series of public covered bonds denominated in PLN with a total amount of PLN 300,000,000. With the covered bonds acquired by major investors, the Bank built its strategic position as an issuer on the domestic market.

On 26 August 2016, the Bank established a domestic mortgage covered bond programme with a total maximum value of PLN 15 billion which allows for the public offering of mortgage covered bonds (also in EUR).

On 6 July 2017, the Bank established an international mortgage covered bond programme with a size of PLN 3 billion which allows for the public offering of mortgage covered bonds. On 26 April 2018, the Bank issued EUR 300 million under this international mortgage covered bond programme.

The following table shows the nominal value of EUR and PLN - denominated outstanding mortgage covered bonds issued by the Bank as at the date of the Base Prospectus:

Issues of mortgage covered bonds in public offerings

Series	Currency	Principal	Issue date	Maturity date	Coupon	Listing
HPA21	PLN	80,000,000	20 June 2013	21 June 2019	WIBOR6M +1%	Warsaw
HPA22	PLN	300,000,000	28 July 2014	28 July 2022	WIBOR6M +0.93%	Warsaw
HPA23	PLN	200,000,000	4 August 2014	20 February 2023	WIBOR6M +0.93%	Warsaw
HPA24	PLN	200,000,000	20 February 2015	28 April 2022	WIBOR6M +0.78%	Warsaw
HPA25	PLN	250,000,000	15 April 2015	16 October 2023	WIBOR6M +0.87%	Warsaw
HPA26	PLN	500,000,000	17 September 2015	10 September 2020	WIBOR3M +1.1%	Warsaw
HPA27	PLN	255,000,000	2 December 2015	20 September 2021	WIBOR3M +1.15%	Warsaw
HPA28	PLN	300,000,000	9 March 2016	5 March 2021	WIBOR3M +1.2%	Warsaw
HPA29	PLN	50,000,000	28 April 2016	28 April 2020	(fixed) 2.91%	Warsaw
HPA30	PLN	100,000,000	11 May 2016	28 April 2020	(fixed) 2.91%	Warsaw
HPA31	PLN	500,000,000	29 September 2017	10 September 2022	WIBOR3M+0.75%	Warsaw
HPA32	PLN	1,000,000,000	11 October 2017	15 September 2023	WIBOR3M+0.82%	Warsaw
HPA33	PLN	300,000,000	22 June 2018	10 June 2024	WIBOR3M +0.58%	Warsaw
HPA34	PLN	10,000,000	15 October 2018	10 June 2024	WIBOR3M +0.58%	Warsaw
HPA35	PLN	100,000,000	22 February 2019	20 December 2028	WIBOR3M +0.80%	Warsaw
HPE2	EUR	30,000,000	26 July 2013	28 July 2020	(fixed) 2.75%	Warsaw
HPE5	EUR	8,000,000	28 February 2014	28 February 2029	(fixed) 3.50%	Warsaw

Series	Currency	Principal	Issue date	Maturity date	Coupon	Listing
HPE6	EUR	15,000,000	17 March 2014	15 March 2029	(fixed) 3.50%	Warsaw
HPE7	EUR	20,000,000	30 May 2014	30 May 2029	(fixed) 3.20%	Warsaw
HPE9	EUR	50,000,000	28 November 2014	15 October 2019	EURIBOR3M +0.87%	Warsaw
HPE10	EUR	20,000,000	25 February 2015	25 February 2022	(fixed) 1.135%	Warsaw
HPE11	EUR	11,000,000	24 April 2015	24 April 2025	(fixed) 1.285%	Warsaw
HPE12	EUR	50,000,000	24 June 2015	24 June 2020	EURIBOR3M +0.69%	Warsaw
HPE13	EUR	50,000,000	23 March 2016	21 June 2021	EURIBOR3M +0.87%	Warsaw
HPE14	EUR	13,000,000	28 September 2016	20 September 2026	(fixed) 1.18%	Warsaw
HPE15	EUR	35,000,000	26 October 2016	20 September 2026	(fixed) 1.183%	Warsaw
HPE16	EUR	24,900,000	01 February 2017	01 February 2024	(fixed) 0.94%	Warsaw
HPE17	EUR	100,000,000	30 October 2017	22 June 2022	(fixed) 0.612%	Warsaw
1	EUR	300,000,000	26 April 2018	5 March 2025	(fixed) 1.073%	Luxembourg Stock Exchange

As at the date of this Base Prospectus, there are no outstanding public covered bonds issued by the Bank. The last public-sector covered bonds issued by the Bank matured on 28 September 2016. As at the date of this Base Prospectus, the Bank does not plan to issue any further public-sector covered bonds.

Overcollateralisation

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

Other sources of financing

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

- credit facilities;
- unsecured bonds under the Bank's PLN 1.2 billion private placement programme.

Under the Polish Covered Bonds Act, the Bank's obligations under outstanding bonds and loans and credit facilities cannot exceed 10 times the Bank's own funds within five years from the date the Bank commenced its operations, and six times the Bank's own funds after this five-year period.

As at 31 December 2018, the principal amount of outstanding loans and credit facilities was PLN 3,342 million.

The Bank raises funds for lending activity predominantly through the issuing of covered bonds and subsequently through received loans and term deposits, mainly from the interbank market. As at 31 December 2018, the Bank had the following refinancing structure (calculated as a percentage of the total financing liabilities):

- Covered bonds: 64.84%
- Long term loans received: 27.39%
- Coupon bonds: 5.70%
- Subordinated loan: 1.80%
- Renewable credit facilities: 0.27%

Alternative Performance Measures

The Base Prospectus includes certain data which the Bank considers constitute alternative performance measures ("**APMs**") for the purposes of the ESMA Guidelines on Alternative Performance Measures.

These APMs are not defined by, or presented in accordance with, IFRS. The APMs are not measurements of the Bank's operating performance under IFRS and should not be considered as alternatives to any measures of performance under IFRS or as measures of the Bank's liquidity.

Bank's performance indicators	31 December 2018	31 December 2017
Return on assets gross (ROA gross)	0.49%	0.30%
Return on equity gross (ROE gross)	5.85%	3.46%
Cost to income ratio (C/I)	36.78%	45.99%
Net interest margin	1.44%	1.36%
Cost of risk	0.19%	0.20%
Total capital ratio	16.25%	15.79%

Performance indicator	Definitions	Calculation methodology	Justification for the use of the indicator (reasons for the use of specific Alternative Performance Measure)
Return on assets gross (ROA gross)	ROA gross = gross profit / average assets	Average assets (as at 31 December 2018) – calculated as the sum of the value of assets as at 31 December 2017, and as at the last day of each month in the period from 1 January 2018 to 31 December 2018 / 13 months Average assets (as at 31 December 2017) – calculated as the sum of the value of assets as at 31 December 2016 and as at the last day of each month in the period from 1 January 2017 to 31 December 2017 / 13 months	Basic indicator of the bank's effectiveness. Changes in the value of the indicator in time illustrate trends in the capacity of assets to generate income. Commonly used for comparative analysis of the competition. The indicator is also presented in the periodic Directors' Reports.
Return on equity gross (ROE gross)	ROE gross = gross profit / average equity	Average equity (as at 31 December 2018) – calculated as the sum of the value of equity as at 31 December 2017 and as at the last day of each month in the period from 1 January 2018 to 31 December 2018 / 13 months Average equity (as at 31 December 2017) – calculated as the sum of the value of equity as at 31 December 2016 and as at the last day of each month in the period from 1 January 2017 to 31 December 2017 / 13 months	Basic indicator of the bank's effectiveness. Changes in the value of the indicator in time illustrate trends in the rate of return on capital invested by the shareholders. Commonly used for comparative analysis of the competition. The indicator is also presented in the periodic Directors' Reports.
Cost to income ratio (C/I)	C/I (Cost to income ratio) = (overhead costs + amortisation and depreciation) / total income	Total income = net interest income + net fee and commission income + net trading income + other income - other expenses	Basic indicator of cost-effectiveness. Changes in the value of the indicator in time illustrate trends in the amount of costs incurred in relation to income earned and allow a comparison of different banks in terms of cost-effectiveness. The indicator is also presented in the periodic Directors' Reports.
Net interest margin	Net interest margin = net interest income / average interest-earning assets	Average interest-earning assets (as at 31 December 2018) – calculated as the sum of the value of interest-earning assets as at 31 December 2017 and as at the last day of each month in the period from 1 January 2018 to 31 December 2018 / 13 months Average interest-earning assets (as at 31 December 2017) – calculated as the sum of the value of interest-earning assets as at 31 December 2016 and as at the last day of each month in the period from 1 January 2017 to 31 December 2017 / 13 months	Basic indicator to assess effectiveness of the bank's operations at the net interest income level, which is of key importance due to the mortgage bank business profile. The indicator is also presented in the periodic Directors' Reports.
Cost of risk	Cost of risk = net impairment write-downs on loans and advances / average balance of loans and advances to clients	Average loans and advances to clients (as at 31 December 2018) – calculated as the sum of the value of loans and advances to clients as at 31 December 2017, and as at the end of each month in the period from 1 January 2018 to 31 December 2018 / 13 months Average loans and advances to clients (as at 31 December 2017) – calculated as the sum of the value of loans and advances to clients as at 31 December 2016, and as at the end of each month in the period from 1 January 2017 to 31 December 2017 / 13 months	Basic indicator illustrating the level of impairment write-downs; given the mortgage bank business profile, it is the second, after net interest income, key driver of the bank's overall result. The indicator is also presented in the periodic Directors' Reports.
Total capital ratio	Total capital ratio = own funds / total risk exposure amount)	The total risk exposure amount calculated as at 31 December 2018 is the sum of: (i) risk weighted exposures for credit risk, established based on the IRB approach and with the use of supervisory slotting approach to assign specialised lending exposures to risk categories; (ii) the operational risk	Basic regulatory indicator. The indicator is also presented in the periodic Directors' Reports.

Performance indicator	Definitions	Calculation methodology	Justification for the use of the indicator (reasons for the use of specific Alternative Performance Measure)
		<p>requirement multiplied by 12.5; (iii) risk-weighted exposures in relation to counterparty risk with respect to derivatives.</p> <p>The total risk exposure amount calculated as at 31 December 2017 is the sum of: (i) risk-weighted exposures for credit risk, established based on the IRB approach and with the use of supervisory slotting approach to assign specialised lending exposures to risk categories; (ii) the operational risk requirement multiplied by 12.5; (iii) risk-weighted exposures in relation to counterparty risk with respect to derivatives.</p>	

The Bank believes that the above measures provide useful information to investors for the purposes of evaluating the financial condition and results of operations of the Group, the quality of its assets and the fundamentals of its business.

In particular:

- (i) the ratios presented by the Bank are aimed at quantifying certain aspects of the Bank's business and its strengths within the context of the Polish banking system; and
- (ii) the alternative performance measures, although not required by law in the preparation of financial statements, allow for comparisons with other banks, over different periods of time and between the Bank and the average industry standards.

Risk Management

Introduction

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

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

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

- the risk management process, including the loan process, is defined and regulated by the strategies, policies and procedures adopted by the Bank's Management Board and Supervisory Board;
- the Bank manages all identified types of banking risks and performs an ICAAP (Internal Capital Adequacy Assessment Process) wherein:
 - the risk management process is appropriate to the scale of operations and to the significance, scale and complexity of a given risk, and tailored to new risk factors and sources on a current basis; and
 - the risk management methods (in particular the models and their assumptions) and the risk measurement systems are tailored to the scale and complexity of the risk, and are periodically verified and validated;
- having an organisational structure that ensures the independence of the risk area, including the separation of the real estate valuation, and the credit decision-making processes from the Bank's business activities;
- integration with the planning and controlling systems and supporting the implementation of the Bank's strategy in compliance with the risk management strategy, particularly in terms of risk tolerance levels; and
- the risk management process is consistent with the Group's principles of risk management, including the usage of the Group's risk models, modified to reflect the nature of activities of the Bank and approved by the Bank's Management Board and Supervisory Board.

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

Risk management process

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

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

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

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

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

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

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

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

- the function of the second line of defence in creating systematic solutions is independent of the function of the first line of defence;
- the function of the third line of defence is independent of the functions of the first and second lines of defence; and
- the function of managing compliance risk reports directly to the President of the Management Board of the Bank.

Mortgage lending value

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

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

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

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

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

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

<u>Stage</u>	<u>Description</u>
Preparing the mortgage lending value valuation	The valuation is prepared by an external expert who has demonstrated to the Bank sufficient experience and skills in estimating banking risk associated with securing mortgage loans.
Valuation and post-sale analysis and monitoring	The Bank's Policy of Mortgage Lending Value (the "MLV", pol. <i>"bankowo-hipoteczna wartość nieruchomości"</i> i.e. value reflecting the level of risk associated with the relevant real estate which comprises collateral for mortgage loans) calculation applies the rules specified in Polish Financial Supervision Commission (FSA) Recommendation F, the Polish Covered Bonds Act, and other regulations.

The professional evaluation of the MLV contains the assessment of collateral risks, as well as presenting the Real Estate long-term market analysis from the credit risk point of view. The MLV is valued on the basis of the property's attributes that during a rational exploitation have a permanent character and can be obtained by each property manager. The minimal and maximal level of parameters are determined by the internal bank's regulation. A long-term analysis takes into consideration the capitalization period depending on the remaining period of economic and functional Real Estate use.

The process of the MLV's proposition and determination is as follows:

- (a) legal due diligence; and
- (b) valuation based on:
 - for commercial real estate – on income and additional value based on construction costs (construction projects);
 - for residential real estates (developers) – on a price comparison (quasi-market value) and additional value based on construction costs;
 - for residential mortgage (retail lending) – on a price comparison (quasi-market value); or
 - the MLV is adjusted by anticipated a macroeconomic decrease factor (minimum 5 per cent.).

The process of the MLV for both commercial and residential real estate (developers) is conducted internally by the Bank Experts and for residential mortgages (retail lending) is outsourced to two independent external companies operating in the real estate valuation market.

The valuation process, with the exception of the expertise of the MLV's proposition and the MLV's determination for the retail mortgage (as described above) are performed internally by the Bank.

Post-sale analyses and monitoring

The Bank performs the process of collateral value review for all collateral whose valuation dates are older than 12 months and comprise of either:

- providing an update to the market value for each property, being the collateral (if the current exposure volume is greater or equal to € 3.5m or is between € 1.5m and € 3.5m and the LTV ratio is greater than 70 per cent.); or
- a statistical estimation of the value for the collateral portfolio (other cases).

The Bank can conduct or order the conducting of a revaluation of the collaterals, including the constituting the mortgage collateral, provided that, within the period from the previous valuation, events had occurred that could have a significant influence on the value of a given collateral, or, in the case of a property which constitutes a collateral of loans for which the loss of value was recognised.

Final review of the valuation, and determining the mortgage lending value of the property

The Collateral Valuation Department, a separate unit of the Bank, conducts a final review of the valuation and determines the final mortgage lending value of the property.

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

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

Trend information

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

Material Contracts

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

MANAGEMENT OF THE BANK

General

The Bank is a joint-stock company (*spółka akcyjna*) operating under Polish law. The Bank, its management, and the Bank's corporate setup are governed by the Statutes of the Bank. The business address of all the members of the Bank's Management Board is Al. Armii Ludowej 26, 00-609, Warsaw, Poland. The business address of all the members of the Bank's Supervisory Board (except for Mariusz Tokarski) is ul. Senatorska 18, 00-950, Warsaw, Poland. The business address of Mariusz Tokarski is ul. Kasprzaka 3, 85-321, Bydgoszcz, Poland.

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

Management structure and committees

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

Management Board

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

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

Name	Year of birth	Position	Commencement of membership in the Management Board	Commencement of current term of office	Date of expiration of current term of office	Principal outside interests
Piotr Cyburt	1956	President of the Management Board	18 March 1999	2 April 2019	2 April 2022	Hochtief Polska S.A., Member of the Supervisory Board, Pekabex S.A., Member of the Supervisory Board, Związek Banków Polskich, Member of the Association Council
Marcin Wojtachnio	1974	Member of the Management Board	1 August 2012	2 April 2019	2 April 2022	None
Andrzej Kulik	1963	Member of the Management Board	17 August 2017	2 April 2019	2 April 2022	None
Krzysztof Dubejko	1977	Member of the Management Board	26 March 2019	2 April 2019	2 April 2022	None

Piotr Cyburt

Piotr Cyburt has held the position of President of the Management Board of the Bank since 1999 when it was established as the first post-war specialist mortgage bank in Poland (then under the name RHEINHYP-BRE Bank Hipoteczny S.A.).

His many years' experience in banking and real estate market financing stem from having worked for the most important financial institutions in Poland. Between the years 1995 and 1998, he was the Vice-President of the Management Board of Polski Bank Rozwoju. Between 1992 and 1995, he held executive posts in PBK S.A. where, as at 1994, he acted as a member of the Management Board and Bank Director. Between 1990 and 1992, he was one of the founders and first employees of Deloitte and Touche in Poland.

In 1987, he obtained a PhD in Economics from the Institute of National Economy. He graduated from the Department of Foreign Trade at the Warsaw School of Economics (SGH, former SGPiS) and also studied at Harvard University, and INSEAD.

Since 2011, he has been a member of the Supervisory Board of the Polish Bank Association. For many years, he has been the Vice-Chairman of the Programme Council of the Mortgage Credit Foundation. Between 2005 and 2006, he acted as the Vice-President of the European Mortgage Federation, with its seat in Brussels. At present he is also a member of the European Covered Bond Council which was set up under the auspices of the Federation.

Since 2009, he has been the Chairman of the Supervisory Board of mLocum and, since 2004, a member of the Supervisory Board of Hochtief Polska S.A.

On various occasions in the past he has been a member of supervisory boards of financial sector institutions, as well as companies listed on the Warsaw Stock Exchange.

Marcin Wojtachnio

Marcin Wojtachnio has been a member of the management board of the Bank since 2012, responsible for the Accounting, IT, and Retail Loan Departments.

He has worked in the banking industry since 2001. From 2002 to 2009, he worked in BRE Bank S.A. (now mBank). His experience also includes management positions in the Law, Collection and Loan Administration, and Risk Management areas.

Marcin Wojtachnio graduated from the University of Łódź with a degree in Law and Administration and holds an MBA diploma from the University of Maryland.

Andrzej Kulik

Andrzej Kulik joined the Management Board of the Bank in September 2017, responsible for supervising risk management – approved by the Polish Financial Supervisory Authority as at 27 March 2018. His career in finance started in 1996 as an equity trader. Shortly after that, he switched to risk management and worked in this role for various financial institutions. In 2004, he joined mBank.

Between 2011 and 2017, he was Chief Audit Executive of the mBank Group. In 2002, he was one of the founders of Professional Risk Manager's International Association and served as a board member of this international organisation for two terms. He holds a Ph.D. in experimental physics from the University of Amsterdam (The Netherlands). Likewise, he is a holder of the right to use the Chartered Financial Analyst designation and Professional Risk Manager designation.

Krzysztof Dubejko

Krzysztof Dubejko graduated from Warsaw School of Economics with a specialisation in Banking and Finance.

During his professional career, Mr. Dubejko gained considerable experience in the scope of risk and treasury management in numerous institutions in Poland, including subsidiaries and branches of foreign credit institutions. Starting in 2015, Mr. Dubejko was the Director for Treasury Department at mBank Hipoteczny. His duties included asset and liability management, market risk management and liquidity management at specialised banks, as well as arrangement of mortgage asset pool refinancing by domestic and international issuance of covered and senior bonds. Since 2010, as the Head of Risk Management at Warsaw Branch of Espirito Santo Investment Bank, he was responsible for the management and control of financial risk and performance of investment activities. He also held the position of interim Head of Treasury Operations, supervising back office process automation and compliance with market standards governing payment, clearing and settlement tasks. Prior to joining BESI, Mr Dubejko worked for Bank BGŻ, since 2005, as Market Risk Unit manager responsible for monitoring of trading and banking book risk positions and implementation of MIS and risk engine infrastructure.

Mr Dubejko started his career in the Treasury Department of Rheinhyp-BRE Bank Hipoteczny in March 2000, soon after the bank received its operating licence as the first mortgage bank in Poland. He was appointed Member of the Management Board, Head of Financial Markets as at 2 April 2019.

Supervisory Board

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

The Supervisory Board has established an Audit Committee and a Risk Committee. The Audit Committee is responsible for monitoring: (i) the financial reporting process; (ii) the effectiveness of internal control systems; (iii) internal audit and risk management, and the performance of financial audits; and (iv) the independence of the auditor and the entity authorised to audit financial statements. The Risk Committee is responsible for: (i) the overall opinion on the current and future ability of the Bank to take risks; (ii) giving opinions on risk management strategy in the Bank's operations, and information on the implementation of this strategy submitted by the Management Board; (iii) support of the Supervisory Board in overseeing

the implementation of the risk management strategy of the Bank's activities by senior management, (iv) the verification as to whether the prices of assets and liabilities offered to the Bank's clients fully respect the Bank's business model and its strategy in scope of risk, and in the situation where these prices do not appropriately reflect the risk types in accordance with the model and the strategy – proposing appropriate solutions to the Management Board in order to ensure the consistency of the assets and liabilities' prices with those risks; (v) recommending to the Management Board the acceptance or rejection of transactions between the Bank and members of the Bank's bodies; (vi) support of the Supervisory Board in overseeing the Bank's risk management; (vii) supporting the Supervisory Board to exercise supervision over the compliance of any implemented changes in the credit policy strategy and financial plan of the Bank, and the Group; (viii) verification of the quality of assets; and (ix) support of the Supervisory Board in the Bank's cooperation with the Commerzbank AG group in terms of the consolidated supervision of risk and exchange of information.

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

<u>Name</u>	<u>Year of birth</u>	<u>Position</u>	<u>Commencement of membership</u>	<u>Commencement of current term</u>	<u>Date of expiration of current term</u>	<u>Principal outside interests</u>
Frank Bock	1967	Chairman of the Supervisory Board	29 May 2017	21 March 2018	21 March 2021	mBank S.A., Vice President of the Management Board, Head of Financial Markets
Lidia Jabłonowska - Luba	1963	Vice-chairman of the Supervisory Board	30 October 2013	21 March 2018	21 March 2021	mBank S.A., Vice-President of the Management Board, Chief Risk Officer, mLeasing sp. z o.o., Member of the Supervisory Board, <i>Stowarzyszenie Mariański Komitet Gospodarczy</i> , Member of the Supervisory Board, <i>Stowarzyszenie Wspierania Edukacji i Rodziny STERNIK</i> , Member of the Supervisory Board.
Cezary Kocik	1971	Member of the Supervisory Board	25 April 2012	21 March 2018	21 March 2021	mBank S.A., Vice-President of the Management Board, Head of Retail Banking, mFinanse S.A., Member of the Supervisory Board, mBox sp. z o.o., Vice-chairman of the Supervisory Board, Krajowa Izba Rozliczeniowa S.A., Member of the Supervisory Board
Andreas Boeger	1973	Member of the Supervisory Board	14 July 2017	21 March 2018	21 March 2021	mBank S.A., Vice-President of the Management Board, Chief Financial Officer, mLeasing sp. z o.o., Member of the Supervisory Board, BDH Development Sp. z o.o., Member of the Supervisory Board
Michał Popiołek	1972	Member of the Supervisory Board	25 April 2012	21 March 2018	21 March 2021	mBank S.A., Managing Director for Global and Investment Banking, mFinanse S.A., Vice-President of the Supervisory Board, Vectra S.A., Member of the Supervisory Board
Mariusz Tokarski	1954	Member of the Supervisory Board	3 July 2014	29 March 2018	21 March 2021	None
Paweł Graniewski	1956	Member of the Supervisory Board	21 March 2018	21 March 2018	21 March 2021	None
Paweł Przybyłek	1978	Member of the Supervisory Board	28 May 2019	28 May 2019	21 March 2021	mBank S.A., Director of Credit Products Department, Biuro Informacji Kredytowej S.A., Member of the Supervisory Board

Cezary Kocik

Cezary Kocik graduated from the University of Łódź with a degree in Banking and Finance. In 2015, he completed the Advanced Management Program (AMP 189) at Harvard Business School. He holds a securities broker licence.

Cezary has been working in the banking industry since the beginning of his professional career. From 1994 to 1996, he worked as a securities broker at the Brokerage House of PBG Bank. In 1996, he joined PBG Bank's Investment Banking Department as a chief specialist in charge of the arrangement and execution of the acquisitions of strategic companies. From 1997 to 2000, he successfully carried out a number of corporate loan restructuring processes in PBG Bank and then in its successor – Bank Pekao SA. Between 2000 and 2004, he was a director of Pekao SA's branch in Łódź, the then fifth largest branch in the bank's network.

He has been shaping mBank's retail banking since 2004: first in the retail credit risk area (where he introduced the Bank's first guaranteed limits for retail clients), then in the sales and business processes area, contributing to the successful implementation of the CRM system and substantially improving the effectiveness of key sales processes in direct channels. He was appointed Vice President of the mBank Management Board in 2012.

Lidia Jabłowska-Luba

Lidia Jabłowska-Luba graduated from the Mathematics Institute of the University of Gdańsk. Between 1994 and 2001, Ms Jabłowska-Luba was Vice-President of Schroder Salomon Smith Barney Poland, where she advised a number of clients, and financial institutions in particular, on M&A and public equity transactions. In 2002, Ms Jabłowska-Luba joined Citigroup in Poland, first as the Head of the Financial Institutions & Public Sector Division and then, from November 2003, as the Member of the Management Board in charge of finance and operational risk management, capital management, and the implementation of the New Capital Accord. From 2008 to 2010, she served as Vice-President of the Management Board of Kredyt Bank and Adviser to the CEO of Warta S.A. and TUnŻ Warta S.A., acting as the Chief Finance and Risk Officer. From 2010 to 2012, Ms Jabłowska-Luba was the Senior General Manager at the KBC Group in Brussels. Additionally, Ms Jabłowska-Luba held the position of Vice Chairman of the Group Risk Management Committee and also served as a member of the Group Risk and Capital Oversight Committee and ALCO at the KBC Group. In 2012, she served as a member of the Supervisory Board of Kredyt Bank.

On 11 April 2013, Ms Jabłowska-Luba was appointed as Vice-President of the Management Board of the Bank; and approved as Vice-President of the Management Board responsible for risk management, and Chief Risk Officer, by the KNF on 17 September 2013.

Michał Popiołek

Michał Popiołek is Head of Structured and Mezzanine Finance at mBank (former BRE Bank), in the Commerzbank Group and Head of the Commercial Real Estate Group Committee at mBank. Michał has been working in the investment banking sector for the past 21 years, the last 18 of which at mBank. He was responsible for private equity investments of mBank and the sale of portfolio investments. Since 2006, he has been responsible for launching the mezzanine activity of mBank. He has held his current position since 2008. Over this period, mBank has received four awards as a best bank working with Private Equity Sponsors. Prior to joining mBank, Michał worked in consulting companies (corporate finance, controlling systems), and other banks (e.g. Citibank). He was involved in several M&A transactions. Michał Popiołek has been a Supervisory Board member for many companies (mBank Hipoteczny, eCard, Duda, Vectra, BBI, and Mennica). He holds a Master's Degree in finance and banking from the Warsaw School of Economics, and completed an Advanced Management Program at the IESE Business School in Barcelona, as well as executive programmes organised by the Darden Business School and HBR.

Mariusz Tokarski

Mariusz Tokarski graduated from the University of Technology and Science in Bydgoszcz, where he worked as a lecturer and research scientist in the Telecommunications Department from 1978 to 1990.

In 1990, he started his career at Bank Handlowy w Warszawie (currently a member of Citigroup). During his 18-year employment at the bank, he was responsible for establishing and developing the Bydgoszcz branch and the Northern Poland region. He held the positions of branch director, regional executive director, and later the executive director in the bank's head office responsible for organising corporate syndicated loans, and local and European market debt issues.

From 2013 to 2016, he was CEO and President of the Management Board of Bazy i Systemy Bankowe, an IT company, which is owned by the National Bank of Poland.

During his career, Mariusz Tokarski has been a member of supervisory boards of a wide range of companies from various industries: 1992 to 1995 Celuloza Świecie (currently Mondi Świecie, paper industry), 1996 to 2001 Organika Zachem (chemical industry), and from 1997 to 2001 Apator (metering equipment manufacturer, listed company) as the chairman of the board. In 2014, he was appointed as an independent member of the supervisory board of the Bank and a member of the audit committee. In November 2016, he became an independent member of the supervisory board of Sygnity (listed IT company), and the chairman of the audit committee.

Frank Bock

Frank Bock has held the position of a Managing Director and Member of the Management team of Group Treasury at Commerzbank AG since the beginning of 2009. His responsibilities include Asset and Liability Management, Funds-Transfer-Pricing, Market Risk Management as well as Liquidity Management for Central and Eastern Europe in Frankfurt, Prague, Budapest and Moscow as well as covering the Treasury functions for the strategic subsidiaries comdirect, Commerz Real and mBank via functional lead.

Previously, he was responsible for the market risk management of the banking books and the management of the liquidity portfolio as Head of Asset and Liability Management in the Group Capital Management & Treasury at Dresdner Bank AG in Frankfurt am Main.

He joined Dresdner Bank AG from WestLB AG in Düsseldorf, where he held the position of Head of Credit Treasury in the Group Treasury and Member of the Divisional Board Risk Management.

During his career, Frank Bock held various Treasury and Risk Management positions at different institutions in Germany, New York and London.

Frank Bock graduated as Diplom-Wirtschaftsingenieur (industrial engineer) from Technische Universität Karlsruhe/Germany, majoring in financial engineering and computer science.

Pawel Graniewski

Pawel Graniewski is a lawyer and investment banker with over 25 years of experience in the investment banking industry. He started his professional career in 1983 as an Analyst at the Research Institute for Problems for Capitalism. From 1985, he continued his research and academic career as a Senior Assistant at the Institute for Social and Economic Sciences, Warsaw University of Technology.

From 1990 to 1992, he was Visiting Attorney at the New York law firm Willkie Farr & Gallagher.

In 1992, he began his investment banking career as Assistant Director in the UK investment bank Barclays de Zoete Wedd, based in London and Warsaw.

From 1993 to 1995, he was the Chief Legal Counsel for the Mass Privatisation Programme, the country's largest privatisation scheme at the Polish Ministry of the State Treasury.

From 1995 to 1996, he was the President & CEO of Investment Fund Services Company Ltd. (OFI Ltd.; today, Atlantic Fund Services), a mutual fund administrator and transfer agent, a joint venture of Bank Handlowy and Forum Financial Group, Inc., a US mutual fund services company.

From 1996 to 1999, he was the President & CEO of Daiwa Europe Polska Sp. z o.o., a Polish branch of Daiwa Securities, a Japanese investment bank.

From 1999 to 2009, he worked for Morgan Stanley as Senior Adviser, representing the bank in Poland.

From 2010 to 2013, he was Managing Director in Citibank, Head of Investment Banking, Poland.

From 2013 to 2015, he was the Vice-President of the Management Board of the Warsaw Stock Exchange, responsible for business development, external relations, including government, issuers and investors and derivative market.

From September 2015 to September 2016, he was the Senior Adviser to the CEO, Warsaw Stock Exchange.

Supervisory Board membership:

From 1998 to 2000, he was an independent member of the Supervisory Board of DOM Pension Fund,

From 2011 to 2013, he was an independent member of the Supervisory Board of the Warsaw Stock Exchange.

In 2016, he was an independent member of the Supervisory Board of the mBank Brokerage House.

Education: Pawel Graniewski received his Master Degree in Law from the Faculty of Law and Administration of the University of Warsaw in 1983.

Andreas Boeger

Before his appointment to the Management Board of mBank S.A., Andreas Böger headed the Corporate Finance division within Group Development & Strategy of Commerzbank. His responsibilities included strategic balance sheet and capital management for Commerzbank Group and various further tasks concerning financial and regulatory bank steering.

He joined Commerzbank in 2013 and was previously Managing Director in Global Capital Markets and Co-Head of Capital Solutions Europe & CEEMEA at Deutsche Bank in London (2007-2013). Prior to joining Deutsche Bank in Frankfurt in 2003, Andreas was Head of Asset, Liability & Capital Advisory at HypoVereinsbank in Munich, where he started his career in 1994.

Andreas Böger studied in Frankfurt and San Diego, graduated from Frankfurt School of Finance & Management and is a CFA charterholder.

He is the Vice-President of the Management Board, and Chief Financial Officer of mBank since 1 July 2017.

Paweł Przybyłek

Paweł Przybyłek is a senior manager with more than 15 years of experience in financial services. He is a skilled team leader, with a strong track record of developing innovative growth strategies, creating unique customer value propositions and leading complex projects.

His scope of responsibility covers developing a lending strategy for retail clients by implementing innovative solutions in the field of quick access to additional funds and took responsibility for businesses with EUR 200 million revenue.

Before the appointment to the supervisory board of the Bank, he co-created strategic initiatives and was responsible for, amongst other things, transforming the Bank from an organisation focused exclusively on sales results into an organisation that manages comprehensively clients' experience as well as the financial result.

In his career, he has also been responsible for the deposit and investment area. Amongst other things, he created a holistic approach to managing client assets based on segmentation algorithms which facilitate the preparation of an offer tailored to their needs. Thanks to this methodology, within three years from its implementation, revenues of the Bank had been tripled.

Cover Pool Monitor

As at the date of this Base Prospectus, upon the application by the Supervisory Board, the KNF appointed Piotr Czyżewski as cover pool monitor ("**Cover Pool Monitor**"), and Waldemar Nowak as the deputy cover pool monitor ("**Deputy Cover Pool Monitor**") in relation to the cover pools maintained by the Bank. Their responsibilities are described in the "*Overview of Polish Covered Bonds Legislation*" below.

RELATED PARTY TRANSACTIONS

The Bank and mBank cooperate in offering mortgage loans and providing post-sales services. This cooperation is governed by the Cooperation Agreement and the Framework Agreement.

Pursuant to the provisions of the Cooperation Agreement, mBank provides to the Bank a comprehensive service for mortgage loans. The Cooperation Agreement also sets out rules and conditions of cooperation between the Bank and mBank regarding the organisation of a common sales network in offering mortgage loans. The Framework Agreement relates to the acquisition of portfolios of mortgage loans with the purpose of refinancing by issuing covered bonds. The above-mentioned agreements do not relate to activities related to the risk management operations of the Bank, including assets and liabilities management, credit rating and credit risk analysis and internal audit. See also "*Description of the Bank – Business overview of the Bank*".

Under the Framework Agreement, the following significant agreements have been concluded between the Bank and mBank in 2017 and 2018:

- portfolio of mortgage loans transfer agreement dated 6 July 2017, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of EUR 8,488,000;
- portfolio of mortgage loans transfer agreement dated 6 July 2017, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of EUR 12,791,000;
- portfolio of mortgage loans transfer agreement dated 28 February 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 83,529,000;
- portfolio of mortgage loans transfer agreement dated 28 February 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 83,529,000;
- portfolio of mortgage loans transfer agreement dated 30 May 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 226,990,000;
- portfolio of mortgage loans transfer agreement dated 31 July 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 74,241,000;
- portfolio of mortgage loans transfer agreement dated 31 August 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 43,092,000;
- portfolio of mortgage loans transfer agreement dated 28 September 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 71,474,000; and
- portfolio of mortgage loans transfer agreement dated 30 November 2018, on the basis of which the Bank has purchased from mBank a secured portfolio of mortgage loans with a total fair value of PLN 113,315,000.

In addition, the Bank and mBank entered into an up to PLN 1,100,000,000 loan agreement dated 29 May 2017 and an up to PLN 100,000,000 subordinated loan agreement dated 12 July 2018 for the purpose of financing the Bank's own funds for capital adequacy (Tier II). The Arranger is an arranger and a dealer under this Programme.

Since the end of 2018, the Bank has not maintained any accounts for clients due to the amendments to the Polish Covered Bonds Act.

The following tables set forth the outstanding balances of the Bank's related party transactions as at 31 December 2017 and 31 December 2018:

Management and Supervisory Board and key workers of the Bank/mBank		Other persons and entities related*		Group companies**		mBank		Commerzbank Group companies***		
As at the end of the period										
31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	
<i>(PLN '000)</i>										
Statement of financial position										
Assets.....	2 074	2 355	642	105	-	54	94 756	65 010	-	-
Liabilities	-	-	-	-	-	169 606	3 880 031	4 873 131	933 822	1 041 983
Contingent liability										
Liability received.....	-	-	-	-	-	-	1 080 690	1 079 820	-	-
Commitment granted	-	-	-	-	394	-	4 321	271****	-	-
Derivatives (purchase, sales)										
IRS contracts..	-	-	-	-	-	-	1 194 400	1 334 383	-	-
FX SWAP contracts	-	-	-	-	-	-	1 498 271	2 067 594	-	-
Management and Supervisory Board and key workers of the Bank/mBank		Other persons and entities related*		Group companies**		mBank		Commerzbank Group companies***		
Year ended										
31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	
<i>(PLN '000)</i>										
Income statement										
Interest income.....	62	72	22	3	356	398	19 877	22 597	-	-
Interest expense	-	-	-	-	-	(2 044)	(105 020)	(113 496)	(5 987)	(5 258)
Fee and commission income	-	-	-	-	(2)	4	-	-	-	-
Fee and commission expenses	-	-	-	-	(126)	(1 530)	(3 693)	(3 125)	-	-
Net trading income.....	-	-	-	-	-	-	(13 221)	11 319	-	-
Other operating income.....	-	-	-	-	-	-	472	414	-	-
Other operating expenses	-	-	-	-	-	-	-	(3)	-	-
Overhead costs amortisation and depreciation ...	-	-	-	-	(898)	(1 220)	(4 034)	(3 907)	-	-

#All transactions entered into by the Bank with related parties are on arm's-length term

* Other persons and related parties encompass the loan extended to a close relative of a member of Supervisory Board of mBank.

** The item "Group Companies" includes transactions with the following mBank Group companies: mFinanse S.A., mCentrum Operacji Sp. z o.o., mCorporate Finance S.A., mLeasing Sp. z o.o.

*** The item "Commerzbank Group companies" includes transactions of acquisition of mortgage covered bonds on the secondary market by Commerzbank AG and Comdirect Bank AG.

**** The comparative number included in the audited financial statements of the Bank for the year ended 31 December 2018.

OVERVIEW OF LEGAL REGULATIONS CONCERNING THE BANKING SECTOR

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

Specific legal requirements for banks

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

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

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

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

Banking supervision exercised by the KNF

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

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

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

Other supervisory authorities

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

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

Deposit Guarantee Fund and Resolution Fund

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

The Resolution Act sets a new methodology for the calculation of the bank contributions to the BFG.

The amount of contributions to the Deposit Guarantee Fund and the Resolution Fund is calculated by the BFG individually for each bank. Contributions to the Deposit Guarantee Fund are paid quarterly. The basis for the calculation of fees for a

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

The Deposit Guarantee Fund covers the monetary assets deposited in bank accounts or receivable in respect of claims confirmed by documents issued by banks with a guarantee system. Participation in the Deposit Guarantee Fund is mandatory for all Polish banks and, in certain instances, for branches of foreign banks operating in Poland. Mortgage banks are excluded from mandatory participation in the Deposit Guarantee Fund.

Banks covered are obliged to set up a guaranteed funds protection fund until 31 December 2024; however, this fund does not need to be set up to cover the assets obtained as a result of issuing of the Covered Bonds. The mandatory guarantee system ensures that if a bank becomes insolvent, the funds deposited in bank accounts, up to an amount specified in the regulations, are returned. As at the date of this Base Prospectus, funds up to the amount equivalent to EUR 100,000 per single person in respect of deposits in all accounts in a given bank are fully covered by the guarantee system. Funds deposited, in particular, by government administration authorities, other banks, credit institutions, insurance companies, and investment and pension funds are not covered by the guarantee system.

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

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

The contributions to the Resolution Fund are set to achieve the minimum level of funds for financing the restructuring of banks and investment firms by 31 December 2024 and the target level by 31 December 2030. The target level is 1,2% of the amount of guaranteed funds in banks, investment firms and branches of foreign banks.

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

Implementation of BRRD into Polish law

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

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

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

Nevertheless, on 16 April 2019 the European Parliament adopted a BRRD 2, which, amongst other things, amended the BRRD. According to BRRD 2, mortgage credit institutions shall be exempted from the MREL requirement at the consolidated level. As at the date of the Base Prospectus, the draft BRRD II is still under review and there is no clarity as to when and whether BRRD 2 will enter into force.

Regulations of mortgage loans

The Mortgage Credit and Supervision on Mortgage Intermediaries and Brokers Act dated 23 March 2017 ("**Mortgage Credit Act**"), which implements the Directive (EU) 2014/17 ("**Mortgage Credit Directive**") into Polish law, came into force on 22 July 2017. The general purpose of the Mortgage Credit Act is to improve the position of borrowers who

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

Moreover, Polish Civil Code provides a cap for the maximum interest rates that may be charged by a bank under a loan agreement. As at the date of this Base Prospectus, this cap is twice the sum of the applicable reference rate of the NBP and 3.5 per cent. The maximum interest rate on overdue principal is twice the sum of the applicable reference rate of the NBP and 5.5 per cent.

Personal data protection

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

The Regulation of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data (the "**GDPR**") was adopted in April 2016 and entered into force on 25 May 2018. It imposes new obligations and guidelines on companies in the management and processing of personal data. This requires the companies to change significantly their approach to the security of data storage, and making data available to relevant employees.

The key challenges resulting from the GDPR implementation result from:

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

OVERVIEW OF THE POLISH COVERED BONDS LEGISLATION

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

Introduction

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

Mortgage banks

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

Mortgage banks' lending activity

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

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

Covered bonds

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

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

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

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

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

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

Composition of the cover pools

General

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

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

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

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

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

Core assets

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

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

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

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

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

Substitute assets

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

Liquidity buffer

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

Derivatives

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

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

Valuation of assets in the cover pool

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

The role of the cover pool monitor

The Polish Covered Bonds Act governs the appointment and the responsibilities of the cover pool monitor and the deputy cover pool monitor.

The cover pool monitor monitors whether:

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

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

Deputy cover pool monitor helps cover pool monitor in performance of its tasks and may replace it in his absence. According to the Polish Covered Bonds Act there must be one cover pool monitor and at least one deputy cover pool monitor at a mortgage bank. Additional deputy cover pool monitors may be appointed if they are required due to the scale of the mortgage bank's operations. Cover pool monitors and deputy cover pool monitors are individuals who are citizens of an EU member state, have a university degree and can guarantee the proper performance of their obligations. Provisions of this Base Prospectus referring to cover pool monitor shall be applied accordingly to deputy cover pool monitors.

Cover pool monitors and deputy cover pool monitors are appointed by the KNF, upon application from the mortgage bank's supervisory board, for a six-year term and may be appointed for one additional term.

Cover pool monitors and deputy cover pool monitors are independent in performing their duties.

Monitoring the cover pool

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

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

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

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

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

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

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

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

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

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

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

Covered bonds directive

As at the date of the Prospectus, the process of the adoption of Directive of the European Parliament and of the Council on the issuance of covered bonds and covered bond public supervision and amending Directive 2009/65/EC and Directive 2014/59/EU ("**Covered Bonds Directive**") is at an advanced stage. This proposal is the first regulation harmonising covered bonds regulation in EU and covers, in particular, the following areas:

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

In addition to the Covered Bonds Directive, the regulation of the European Parliament and of the Council on amending Regulation (EU) No 575/2013 as regards exposures in the form of covered bonds is processed. This proposal aims to amend article 129 of CRR by the addition of minimum over-collateralisation requirement and clarification of the criteria that allows inclusion of covered bonds in the capital on preferred rules.

BANKRUPTCY AND INSOLVENCY

Centre of main interest

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

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

Recovery Plan

If a mortgage bank is in breach of the capital adequacy requirements, there is a threat that a mortgage bank might breach the capital adequacy requirements, the financial position of the mortgage bank might deteriorate materially, the mortgage bank demonstrates a loss; and there is a threat that the mortgage bank may demonstrate a loss, and a risk that the mortgage bank might become insolvent or illiquid, that the leverage ratio increase, the value of non-performing loans or the concentration of exposure increase, the mortgage bank should notify the KNF and BFG and implement a recovery plan (*plan naprawczy*).

The KNF may:

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

The KNF may also appoint a trustee (*kurator*) to oversee the execution of the recovery plan. The trustee may participate in the meetings of the mortgage bank's governing bodies and has access to all information necessary to perform its duties. The trustee may also file with the relevant court an objection against the decisions of the mortgage bank's management board and supervisory board. The trustee may also bring an action against the resolution of general meeting of shareholders of the mortgage bank if such resolution adversely affects the interests of the mortgage bank.

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

Liquidation

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

The liquidation of a bank is conducted by a liquidator (*likwidator*) appointed by the KNF. Upon the liquidator's appointment, the management board of the bank is dismissed, and the supervisory board is suspended. The liquidator takes over the management of the bank and represents the bank in all matters. The purpose of the liquidation proceedings is to collect the bank's outstanding claims, liquidate its assets, and terminate its operations. The claims of holders of the covered bonds and the counterparties to eligible hedging are satisfied on a *pro-rata* basis from the assets in the cover pool ahead of claims of other creditors of the mortgage bank. The claims of the bank's shareholders are satisfied after the satisfaction of the claims of the other creditors of the bank. Once the liquidator completes the liquidation, the liquidator files a report with the KNF and applies to the court maintaining the register of entrepreneurs (*rejestr przedsiębiorców*) to delete the bank from the register of entrepreneurs. The bank ceases to exist on the day it is deleted from the register of entrepreneurs.

Compulsory Restructuring

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

Under the Resolution Act, the BFG became the applicable resolution authority, and was granted broad powers with respect to the Polish banks and other financial institutions (a "**Resolution Entity**"). The BFG can either initiate compulsory restructuring proceedings concerning a Resolution Entity or decide to apply the bail-in tools concerning its capital instruments if (1) the threat of that Resolution Entity's insolvency cannot be ruled out by steps taken by it or its supervisory authorities, or (2) initiating such BFG's actions are in the public interest.

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

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

The above tools may be applied separately, or in any combination, save that asset separation can only be applied in conjunction with another resolution tool.

In addition to the resolution tools, the Resolution Act grants certain resolution powers to BFG, including:

- the right to suspend the termination rights of a party to an agreement with the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs;
- the right to suspend the termination rights of a party to an agreement with a subsidiary of the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs, provided that certain conditions are met;
- the right to suspend the performance of any due obligations of the Resolution Entity under an agreement until midnight on the business day following the date on which the publication notice of that suspension occurs; and
- the right to suspend the rights of a secured creditor to enforce a security interest concerning any assets of the Resolution Entity until midnight on the business day following the date on which the publication notice of that suspension occurs.

The above suspension rules do not apply to certain types of claims specified in detail in the Resolution Act.

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

A party to an agreement with the Resolution Entity cannot terminate that agreement due to BFG's declaration of the initiation of the Resolution Proceedings or due to BFG's performance of its rights within the resolution proceedings, assuming that all the principal obligations under that agreement to make payments or deliveries, or provide collateral, continue to be performed by the applicable Resolution Entity.

Bankruptcy

General

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

If, according to the balance sheet prepared as at the last day of the relevant reporting period, the assets of the bank are not sufficient to satisfy the bank's obligations, the management board, the receiver or the liquidator must promptly notify the KNF. The KNF will take a decision on whether to suspend the bank's operations, and appoint a receiver, if a receiver was

not previously appointed, and will file a petition to the relevant court for the commencement of bankruptcy proceedings. The KNF will also suspend the bank's operations and appoint a receiver, and will file a petition for the commencement of bankruptcy proceedings if, for reasons directly connected with the financial situation of the bank, the bank fails to satisfy its obligations to pay the guaranteed funds specified in Article 2 item 68 of the Resolution Act.

KNF is not permitted to file a petition to the relevant court for the commencement of bankruptcy proceedings if BFG has commenced compulsory restructuring in respect of the bank. However, under the Resolution Act, the BFG is also authorised to file a motion to declare a mortgage bank bankrupt if, in the course of compulsory restructuring, the application of certain resolution tools, i.e. sale of business, bridge institution, and/or asset separation, did not result in the sale of the bank and subject to the proceedings and according to the balance sheet prepared as at the last day of the relevant reporting period, the assets of the bank were not sufficient to satisfy the bank's obligations.

Before declaring a bank's bankruptcy, the bankruptcy court will question a representative of the KNF, a representative of the BFG, the members of the bank's management board and receiver, and the liquidator regarding the grounds for declaring the bank bankrupt and the candidates for the bankruptcy receiver (*syndyk*).

On the day the bank is declared bankrupt, the management and supervisory bodies of the bank are dissolved. The receivership and the appointment of the liquidator shall expire. Additionally, the rights of the members of the bank's corporate bodies to receive severance payments and remuneration for the period after the declaration of bankruptcy, will expire.

Additionally, on the day a bank is declared bankrupt:

- bank account agreements will be terminated and interest on deposits will be calculated until the date of declaration of bankruptcy; and
- loan agreements will be terminated if the funds are not disbursed prior to the date of declaration of bankruptcy.

Position of holders of covered bonds

On the declaration of a mortgage bank's bankruptcy separate bankruptcy asset pool for covered bonds will be created. separate bankruptcy asset pool will consist of the following assets:

- the assets in the cover pool, including the rights under the hedging arrangements which comply with the requirements described in "*Overview of the Polish covered bonds legislation – Composition of cover pools -Derivatives*" above;
- the assets in the liquidity buffer;
- proceeds from payments under receivables in such cover pool;
- assets acquired by the mortgage bank in exchange for assets in such cover pool.

If there is any doubt as to whether a mortgage bank's asset should be included in the separate bankruptcy asset pool, for the purpose of the bankruptcy proceedings it will be included in the bankruptcy estate up to its value as indicated in the cover pool register.

If there is any surplus left in the separate bankruptcy asset pool after satisfying the claims of the holders of covered bonds, it is added to the general bankruptcy estate of the mortgage bank.

In principle, the mortgage bank's creditors cannot set off their claims against the mortgage bank with the mortgage bank's claims against these creditors as included in the separate bankruptcy asset pool. The only exceptions are:

- set off of claims under hedging transactions indicated in the cover pool register; and
- settlement of claims between the mortgage bank and the payment and settlement system, of which the mortgage bank is a member, as well as settlement of financial collateral granted by the mortgage bank.

The rules concerning satisfaction of claims of the holders of covered bonds on a mortgage bank's bankruptcy also apply to satisfaction of claims of counterparties to hedging transactions entered into by the mortgage bank, which are entered in the cover pool register.

The bankruptcy court will appoint, upon consultation with the KNF, a trustee (*kurator*) who will represent the holders of covered bonds in the bankruptcy proceedings. The holders of covered bonds may also participate in the bankruptcy proceedings after receiving consent from the judge-commissioner (*sędzia komisarz*) conducting the proceedings.

The bankruptcy court will also appoint a bankruptcy receiver. The bankruptcy receiver takes over the management of the mortgage bank's assets from the bank's management and should liquidate the bankrupt bank's assets. From his appointment, the bankruptcy receiver acts in his own name, but on behalf of the bankrupt bank.

Within 21 days from the day of declaration of the mortgage bank's bankruptcy, the trustee will report to the bankruptcy estate:

- the aggregate principal amount of the outstanding covered bonds which became due before the date of declaration of bankruptcy;
- the aggregate amount of all interest outstanding under such covered bonds; and
- the aggregate principal amount and the outstanding covered bonds due after the date of declaration of bankruptcy, and interest due after the date of declaration of bankruptcy, and any applicable premiums.

On the date of declaration of bankruptcy, the maturity of the outstanding covered bonds is extended by 12 months. The obligations towards holders of covered bonds which became due before the declaration of bankruptcy and which were not paid are satisfied within 12 months from the date of the declaration of bankruptcy, but no earlier than the day falling after the results of the coverage test and the liquidity test are announced. Due interest under covered bonds is paid in the manner set out in the terms and conditions of covered bonds.

Within three months from the date the bank is declared bankrupt, the bankruptcy receiver is required to conduct the coverage test and the liquidity test (for a detailed description of the tests, please see "*Overview of the Polish Covered Bonds Legislation – Monitoring the cover pool*"). The results of the tests are positive if the separate bankruptcy asset pool is sufficient to satisfy the claims of holders of the outstanding covered bonds. The test results are published by the judge-commissioner.

If the results of both tests are positive, the claims under covered bonds are satisfied in accordance with the terms and conditions of covered bonds, taking into account the extension of maturity of covered bonds by 12 months. In this scenario the bankruptcy receiver may enter into hedging transactions.

Within two months from the date the test results are announced, a meeting of holders of covered bonds may request the bankruptcy receiver, by way of resolution adopted with a majority of two-thirds of votes of holders of the outstanding covered bonds, to sell all receivables and rights in the separate bankruptcy asset pool:

- to another mortgage bank together with transferring to the purchaser all obligations of the bankrupt bank under covered bonds; or
- to another bank or another mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under covered bonds.

A meeting of the holders of covered bonds may be convened if a request for convening the meeting is made within a month from the date the test results are announced. If this resolution is adopted, interest under covered bonds until the date of sale of the assets is paid from the assets in the relevant separate bankruptcy asset pool.

If the proceeds from the sale of assets in the separate bankruptcy asset pool, reduced by the interest under the outstanding covered bonds payable in the next six months and the amount of claims of holders of covered bonds which became due before the date of declaration of bankruptcy and which were not paid before that date, are at least five per cent. of the principal amount of the outstanding covered bonds, the claims of the holders of covered bonds may be satisfied pro rata before the extended maturity date. These proceeds will be paid to the holders of covered bonds on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the bankruptcy receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

If the results of the coverage test are positive and the results of the liquidity test are negative, the maturity date of covered bonds, including covered bonds which became due before the date of declaration of bankruptcy, is extended to the date falling three years after the latest maturity date of a mortgage bank's receivables in the cover pool. If there is an excess in proceeds under the loans received by the bank, after deducting interest payable in the next six months and the costs of bankruptcy proceedings of at least five per cent. of the principal amount of the outstanding covered bonds, the holders of covered bonds shall receive payments under covered bonds before the extended maturity date. These payments will be made pro rata on the next interest payment date, but not earlier than 14 days after the day on which the decision of the judge-commissioner approving the bankruptcy receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

A meeting of the holders of covered bonds may, within three months from the date of announcing the results of the tests, adopt a resolution on disapplying the extension of the maturity date or on sale of the assets in the cover pool. The assets in the cover pool may be sold to another bank which is not a mortgage bank, without transferring to the purchaser the obligations of the bankrupt bank under covered bonds. The assets in the cover pool, possession of which is not restricted to banks, may also be sold to an entity which is not a bank.

If the results of the coverage test are negative, the maturity date of covered bonds, including covered bonds which became due before the date of declaration of bankruptcy, is extended to the date falling three years after the latest maturity date of a mortgage bank's receivable in the cover pool. If there is an excess in proceeds under the loans received by the bank, after deducting interest payable in the next six months and the costs of bankruptcy proceedings, of at least five per cent. of the principal amount of the outstanding covered bonds, the holders of covered bonds shall receive payments under covered bonds before the extended maturity date. These payments will be made on the next interest payment date, but not earlier

than 14 days after the day on which the decision of the judge-commissioner approving the bankruptcy receiver's report on the progress of the bankruptcy proceedings becomes final and binding.

A meeting of the holders of covered bonds may, however, adopt a resolution on disapplication of the extension of the maturity date or on sale of the assets in the cover pool. The assets in the cover pool may be sold to another bank which is not a mortgage bank without transferring to the purchaser the obligations of the bankrupt bank under covered bonds. The assets in the cover pool, possession of which is not restricted to banks, may also be sold to an entity which is not a bank.

The order of priority of satisfaction of claims from the separate bankruptcy asset pool is as follows:

- costs of liquidating the separate bankruptcy asset pool which include the trustee's fee, interest and other ancillary payments under covered bonds; and
- the outstanding principal amount of covered bonds.

If the separate bankruptcy asset pool is not sufficient to satisfy the claims of the holders of covered bonds, these claims will be satisfied from the general bankruptcy estate. The funds from the general bankruptcy estate designated for satisfying the claims of the holders of covered bonds will be transferred to the separate bankruptcy asset pool.

TAXATION

Poland

General information

The following is a discussion on certain Polish tax considerations relevant to an investor who is a resident of Poland or otherwise subject to Polish taxation. This statement must not be understood as tax advice. It is based on the Polish tax laws and their interpretation in effect as at the date of this Base Prospectus which may be subject to change. Such changes may also be retroactive and may adversely affect the tax treatment described below. This description does not purport to be complete with respect to the tax information that may be relevant for investors due to their personal circumstances. Prospective purchasers of the Covered Bonds are advised to consult their professional tax adviser regarding the tax consequences of the purchase, ownership, disposal, redemption or transfer without consideration of the Covered Bonds. The information provided below does not cover tax consequences concerning income tax exemptions applicable to specific taxable items or specific taxpayers (e.g. domestic or foreign investment funds). References to "interest" and to any other terms in the paragraphs below mean "interest" or any other term, respectively, as understood in Polish tax law.

Taxation of Polish tax resident individuals (natural persons)

Under Article 3 clause 1 of the Polish Personal Income Tax Act of 26 July 1991, as amended (the "**PIT Act**"), natural persons are subject to tax on their worldwide income (revenues) regardless of the location of the source of such revenues (unlimited tax liability) if their place of residence is in the Republic of Poland. Under Article 3 clause 1a of the PIT Act, a person whose place of residence is in the Republic of Poland means a natural person who:

- has his/her centre of personal or economic interests (centre of life interests) in the Republic of Poland; or
- is present in the Republic of Poland for more than 183 days in a tax year (Article 3 clause 1a of the PIT Act).

Withholding tax on interest (including discount) income

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

If a Polish tax resident individual holds the Covered Bonds as a business asset, in principle interest should not be subject to withholding tax but taxed in the same way as other business income. The tax, at the 19 per cent. flat rate or the progressive rate of 18 per cent. to 32 per cent., depending on the choice of and certain conditions being met by the individual, should apply.

Capital gains from disposal of the Covered Bonds

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

In principle, if individuals hold Covered Bonds as a business asset, the income should be taxed in the same way as other business income. This will either be tax at the 19 per cent. rate or the 18 per cent. to 32 per cent. progressive tax rate, depending on the individual's choice and certain conditions being met.

Taxation of a Polish tax resident corporate income taxpayer

Under Article 3 clause 1 of the Corporate Income Tax Act of 15 February 1992 (the "**CIT Act**"), the entire income of taxpayers who have their registered office or management in Poland is subject to the tax obligation in Poland, irrespective of where the income is earned (unlimited tax liability).

The appropriate tax rate is the same as the tax rate applicable to business activity, i.e. 19 per cent. (save for a preferential 9 per cent. tax rate which can be applied in general by small taxpayers whose annual gross value of revenue from sales does not exceed EUR 1.2 million (EUR 2 million in 2020)).

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

PLN 5,000,000 is allowed – any tax loss over that amount may be deducted according to the general rules – within a period of five tax years).

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

Covered Bonds held by a non-Polish tax resident individual or corporate

Non-Polish tax residents means:

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

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

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

Polish source income

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

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

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

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

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

Interest and discount

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

Capital gains

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

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

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

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

Tax remitter's obligations

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

However, pursuant to Article 41 clause 24 point 1) of the PIT Act and Article 26 clause 1aa point 1) of the CIT Act, tax remitters are not obliged to withhold tax on interest or discount on the Covered Bonds.

Obligations of the Polish tax resident Bondholders

Under Article 45 clause 3b of the PIT Act, the individual must disclose tax in his/her annual tax return if tax was not withheld by the tax remitter, which basically means that the individual must settle tax himself/herself in cases where the tax remitter was not obliged to do so (*a contrario* to Article 30 paragraph 4 of the Tax Ordinance Act of 29 August 1997, as amended (the "**Tax Ordinance**")). Under Article 45 clause 1 of the PIT Act, the annual tax return should be filed by 30 April of the following year.

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

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

Civil Law Activities Tax

Neither an issue of Covered Bonds nor redemption of Covered Bonds is subject to the Civil Law Activities Tax (the "**CLAT**").

Under Article 1 clause 1 point 1) a) of the Act on the Civil Law Activities Tax of 9 September 2000 (the "**CLAT Act**"), agreements for the sale or exchange of assets or proprietary rights are subject to the CLAT. The Covered Bonds should be considered as representing proprietary rights. Transactions are taxable if the following are the subject thereof:

- assets located in Poland or proprietary rights exercisable in Poland;

- assets located abroad or proprietary rights exercisable abroad if the acquirer's place of residence or registered office is located in Poland and the civil law transaction was effected in Poland.

Although this is not clearly addressed in the law, in principle the Covered Bonds should be considered rights exercisable in Poland.

The CLAT on the sale of the Covered Bonds (which, as a rule, are considered rights) is 1 per cent. of their market value and is payable by the purchaser within 14 days after the sale agreement is entered into. If an exchange agreement is concluded, the CLAT is payable jointly and severally by both parties to the agreement. However, if such agreement is entered into in notarial form, the CLAT due should be withheld and paid by the notary public.

However, under Article 9 clause 9 of the CLAT Act, a CLAT exemption applies to the sale of proprietary rights that are financial instruments (including the Covered Bonds):

- to investment firms or foreign investment firms;
- through the intermediary of investment firms or foreign investment firms;
- in organised trading; or
- outside organised trading by investment firms or foreign investment firms if the proprietary rights were acquired by those firms in organised trading,

within the meaning of the provisions of the Act on Trading in Financial Instruments.

Tax on inheritance and donations

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

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

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

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

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

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

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

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

Notwithstanding the repeal of Council Directive 2003/48/EC (as amended by Directive 204/48/EU), equivalent measures continue to apply in Poland pursuant to the Act on the Exchange of Tax Information with other countries of 9 March 2017.

Luxembourg

The following information is of a general nature only and is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. The information contained within this section is limited to Luxembourg withholding tax issues and prospective investors in the Covered Bonds should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Please be aware that the residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a withholding tax or a tax of a similar nature, or to any other concepts, refers to Luxembourg tax law and/or concepts only.

Withholding Tax

Non-resident Covered Bond Holders

Under Luxembourg general tax laws currently in force, there is no withholding tax on payments of principal, premium or interest made to non-resident Covered Bond Holders, nor on accrued but unpaid interest in respect of the Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Covered Bonds held by non-resident Covered Bond Holders.

Resident Covered Bond Holders

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005, as amended (the "**Relibi Law**"), there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident Covered Bond Holders, nor on accrued but unpaid interest in respect of Covered Bonds, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Covered Bonds held by Luxembourg resident Covered Bond Holders.

Under the Relibi Law, payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of currently 20%. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Covered Bonds coming within the scope of the Relibi Law will be subject to a withholding tax at a rate of currently 20%.

Other

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

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

SUBSCRIPTION AND SALE

Subject to the provisions of the programme agreement dated 11 July 2019 (the "**Programme Agreement**") between the Bank and Commerzbank Aktiengesellschaft (together with any further financial institution appointed as a dealer under the Programme Agreement, the "**Dealers**"), the Covered Bonds may be sold by the Bank to the Dealers, who shall act as principals in relation to such sales. However, the Bank has reserved the right to issue Covered Bonds directly on its own behalf to subscribers who are not Dealers, and who agree to be bound by the restrictions set out below. The Programme Agreement also provides for Covered Bonds to be issued in Tranches which are jointly and severally underwritten by two or more Dealers or such subscribers.

The Bank has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Covered Bonds. The Dealer Agreement may be terminated in relation to all the Dealers, or any of them, by the Bank or, in relation to itself and the Bank only, by any Dealer, at any time on giving not less than ten business days' notice.

United States of America

The Covered Bonds have not been, and will not be, registered under the U.S. Securities Act of 1933 as amended (the "**Securities Act**"), or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except certain transactions exempt from, or not subject to, the registration requirements of the Securities Act. Each Dealer has represented and agreed that it has not offered nor sold the Covered Bonds of any identifiable Tranche, and will not offer nor sell the Covered Bonds of any identifiable Tranche (i) as part of their distribution at any time, nor (ii) otherwise until 40 days after completion of the distribution of such tranche as determined, and such completion is notified to each relevant Dealer, by the Issuing and Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager, within the United States or to, or for the account of or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Accordingly, each Dealer has represented and agreed that neither it, its affiliates nor any persons acting on its or their behalf have engaged, or will engage, in any directed selling efforts with respect to the Covered Bonds, and it and they have complied, and will comply, with the offering restrictions requirement of Regulation S. Each Dealer has agreed to notify the Issuing and Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager when it has completed the distribution of its portion of the Covered Bonds of any identifiable Tranche so that the Issuing and Principal Paying Agent or, in the case of a Syndicated Issue, the lead manager, may determine the completion of the distribution of all Covered Bonds of that Tranche and notify the other relevant Dealers (if any) of the end of the restricted period. Each Dealer agrees that, at or prior to confirmation of sale of Covered Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Covered Bonds from it during the restricted period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), or the securities laws of any state or other jurisdiction of the United States, and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of this tranche of Securities as determined, and notified to the Relevant Dealer, by the Issuing and Principal Paying Agent, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used above have the meanings given to them by Regulation S.

Each Dealer has represented and agreed that it has not entered, and will not enter, into any contractual arrangement with respect to the distribution or delivery of Covered Bonds within the United States of America, except with its affiliates or with the prior written consent of the Bank.

Covered Bonds in bearer form are subject to U.S. tax law requirements, and may not be offered, sold or delivered within the United States or its possessions, or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Covered Bonds, other than Covered Bonds with an initial maturity of one year or less, will be issued in accordance with the provisions of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(D) or substantially identical provisions (the "**D Rules**"), or in accordance with the provisions of U.S. Treasury Regulation Section 1.163-5(c)(2)(i)(C) or substantially identical provisions (the "**C Rules**"), as specified in the Final Terms.

In addition, in respect of Covered Bonds issued in accordance with the D Rules, each Dealer has represented and agreed that:

- (i) to the extent permitted under D Rules, (a) it has not offered or sold, and during the restricted period will not offer or sell, Covered Bonds in bearer form to a person who is within the United States or its possessions, or to a United States person, and (b) such Dealer has not delivered and will not deliver within the United States or its possessions definitive Covered Bonds in bearer form that are sold during the restricted period;

- (ii) it has and, throughout the restricted period, will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Covered Bonds in bearer form are aware that such Covered Bonds may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;
- (iii) if such Dealer is a United States person, it has represented that it is acquiring the Covered Bonds in bearer form for purposes of resale in connection with their original issuance and if such Dealer retains Covered Bonds in bearer form for its own account, it will do so only in accordance with the requirements of D Rules;
- (iv) with respect to each affiliate that acquires Covered Bonds in bearer form from such Dealer for the purpose of offering or selling such Covered Bonds during the restricted period, such Dealer either (a) has repeated and confirmed the representations and agreements contained in sub-clauses (i), (ii) and (iii) on such affiliate's behalf or (b) has agreed that it will obtain from such affiliate for the benefit of the Bank the representations and agreements contained in sub-clauses (i), (ii) and (iii); and
- (v) if it enters into a written contract with any distributor (as described in U.S. Treas. Reg. § 1.163-5(c)(2)(i)(D)(4)(ii)) that acquires Covered Bonds in bearer form from it pursuant to such written contract, it will obtain from the distributor, for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of clauses (i), (ii), (iii), (iv) and (v).

Terms used in the above paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the D Rules.

In addition, where the C Rules are specified in the relevant Final Terms as being applicable to any Tranche of Covered Bonds, Covered Bonds in bearer form must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, Covered Bonds in bearer form within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed in connection with the original issuance of Covered Bonds in bearer form, that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either such Dealer or purchaser is within the United States or its possessions, and will not otherwise involve its U.S. office in the offer or sale of Covered Bonds in bearer form. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder, including the C Rules.

Each issuance of index- or currency-linked Covered Bonds shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Bank as a term of the issuance and purchase or, as the case may be, subscription of such Covered Bonds. Each Dealer agrees that it shall offer, sell and deliver such Covered Bonds only in compliance with such additional U.S. selling restrictions.

The Bank may agree with one or more Dealers for such Dealers to arrange for the sale of Covered Bonds under procedures and restrictions designed to allow such sales to be exempt from the registration requirements of the Securities Act.

Each Dealer has agreed that it will comply with all relevant laws, regulations and directives in each jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or has in its possession, or distributes, the Base Prospectus or any other offering material.

Prohibition of Sales to EEA Retail Investors

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

- (a) the expression "**retail investor**" means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
 - (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the "**Insurance Mediation Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in the Prospectus Directive;
- (b) the expression "**an offer**" means the communication in any form and by any means of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds.

If the Final Terms in respect of any Covered Bonds specify "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), it has not made, and will not make, an offer of Covered Bonds which are the subject of the offering contemplated by this Base Prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State, except that it may, with effect from, and including, the Relevant Implementation Date, make an offer of such Covered Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Bank for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Covered Bonds referred to in (a) to (c) above shall require the Bank or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Covered Bonds to the public**" in relation to any Covered Bonds in any Relevant Member State means the communication in any form, and by any means, of sufficient information on the terms of the offer and the Covered Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Covered Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State; and the expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Covered Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business, and (ii) it has not offered or sold, and will not offer or sell, any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the FSMA by the Bank;
- (b) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and
- (c) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Italy

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

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

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

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

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

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

Belgium

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

General

No action has been taken in any jurisdiction that would permit a public offering of any of the Covered Bonds, or possession or distribution of the Base Prospectus or any other offering material or any Final Terms, in any country or jurisdiction where action for that purpose is required.

Each Dealer has represented and agreed that it will comply with all relevant laws and directives in each jurisdiction in which it purchases, offers, sells, or delivers Covered Bonds or has in its possession, or distributes, the Base Prospectus or any other offering material, and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Covered Bonds under the laws and directives in force in any jurisdiction to which it is subject, or in which it makes such purchases, offers or sales, in all cases at its own expense, and neither the Bank, nor any other Dealer, shall have responsibility therefor.

The Covered Bonds are not intended for investment by retail investors, and this Prospectus has not been prepared for distribution to retail investors.

These selling restrictions may be modified by the agreement of the Bank and the Dealers, inter alia, following a change in a relevant law, regulation or directive. Any such modification will be set out in the Final Terms issued in respect of the issue of Covered Bonds to which it relates, or in a supplement to this Base Prospectus.

GENERAL INFORMATION

Authorisation

No governmental consents, approvals or authorisations in Poland in connection with the issue of the Covered Bonds, and the performance by the Bank of its obligations under the Covered Bonds, will be required to be complied with.

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by the resolution of the Management Board of the Bank No. 36/2017 dated 20 June 2017 and the resolution of the Management Board of the Bank No. 68/2019 dated 5 June 2019. The issuance of each Series of the Covered Bonds will be authorised by a separate resolution of the Management Board of the Bank.

Listing and admission to trading of Covered Bonds

Application may be made to list Covered Bonds issued under the Programme on the Official List of the Luxembourg Stock Exchange and to admit to trading the Covered Bonds on the Regulated Market of the Luxembourg Stock Exchange (*Bourse de Luxembourg*). The Luxembourg Stock Exchange's Regulated Market is a regulated market for the purposes of the MiFID II. The Programme provides that Covered Bonds may be listed on further stock exchanges, as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series, as specified in the relevant Final Terms. Covered Bonds may further be issued under the Programme without being listed on any stock exchange.

Covered Bonds which are unlisted or to be listed or admitted to trading, as the case may be, on another stock exchange or market may be issued under this Programme but only, in the case of Covered Bonds listed or admitted to trading on another stock exchange or market, if the Bank ensures that all laws and regulations are complied with, including, amongst others, any applicable requirements for notifications of competent authorities and other requirements as implemented from the Prospectus Directive in the relevant Member State of the EEA.

The applicable Final Terms will state whether or not the relevant Covered Bonds are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Documents Available

For a period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available during normal business hours (in the case of (c) below, for inspection only) from the registered office of the Bank and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the constitutional documents (with English translations thereof) of the Bank;
- (b) the audited financial statements of the Bank for the year ended 31 December 2017 and for the year ended 31 December 2018 (with English translations thereof), together with the audit reports prepared in connection therewith;
- (c) the Agency Agreement;
- (d) a copy of this Base Prospectus;
- (e) any future base prospectuses, offering circulars, prospectuses, information memoranda, supplements and Final Terms (save that the Final Terms relating to a Covered Bond which is neither admitted for trading on a regulated market in the European Economic Area, nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive, will only be available for inspection by a Holder of such Covered Bond, and such Holder must produce evidence satisfactory to the Bank and the Paying Agent as to its holding of Covered Bonds and identity) to this Base Prospectus, and any other documents incorporated herein or therein by reference; and
- (f) in the case of each issue of Covered Bonds listed on an EEA Stock Exchange and subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

For the avoidance of doubt, the content on the websites available via hyperlinks included in this Base Prospectus does not form a part of this Base Prospectus, with the exception of hyperlinks to the electronic addresses where information incorporated by reference is available.

Clearing Systems

The Covered Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg and Clearstream, Frankfurt. The Common Code, the International Securities Identification Number (ISIN) and the alphabetical code of each Series of Covered Bonds will be set out in the relevant Final Terms.

If the Covered Bonds are to clear through an additional or alternative clearing system, the appropriate information will be specified in the applicable Final Terms.

Conditions for determining price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Bank, and each relevant Dealer, at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial position or prospects of the Bank since 31 December 2018, and there has been no material adverse change in the financial position or prospects of the Bank since 31 December 2018.

Litigation

The Bank is not, and has not been, involved in any governmental, legal or arbitration proceedings relating to claims or amounts that are material in the context of the issue of the Covered Bonds (including any such proceedings which are pending or threatened of which the Bank is aware) in the 12 months preceding the date of this Base Prospectus which may have, or have, in such period had a significant effect on the financial position or profitability of the Bank.

Independent Auditors

On 2 March 2018, the Bank appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. to act as the Bank's external auditor for the years ended 31 December 2018 and 31 December 2019.

The Bank's financial statements as at and for the financial year ended 31 December 2017 have been audited by Agnieszka Accordi-Krawiec, certified auditor, member of the National Chamber of Certified Auditors (*Krajowa Izba Biegłych Rewidentów*), licence no. 11665, acting on behalf of PricewaterhouseCoopers Polska Sp. z o.o. Audyt sp. k., an entity authorised to audit financial statements entered on the list kept by the National Chamber of Certified Auditors under no. 144, and PricewaterhouseCoopers Polska Sp. z o.o. Audyt sp. k rendered an unqualified audit report on such accounts of the Bank.

The Bank's financial statements as at and for the financial year ended 31 December 2018 have been audited by Maja Mandela, certified auditor, and member of the National Chamber of Certified Auditors (*Krajowa Izba Biegłych Rewidentów*), licence no. 11942, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., an entity authorised to audit financial statements entered on the list kept by the National Chamber of Certified Auditors under licence no. 130, and by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. who also rendered an unqualified audit report on such accounts of the Bank.

Yield

In relation to any Tranche of Fixed Rate Covered Bonds, an indication of the yield in respect of such Covered Bonds will be specified in the applicable Final Terms. The yield is calculated at the Issue Date of the Covered Bonds on the basis of the relevant Issue Price. The yield indicated will be calculated as the yield to maturity as at the Issue Date of the Covered Bonds, and will not be an indication of future yield.

Dealers transacting with the Bank

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to, the Bank and its affiliates in the ordinary course of business. Except as discussed in the relevant Final Terms, certain Dealers and their affiliates may be customers of, and borrowers from, the Bank and its affiliates. In addition, certain Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Bank and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments, and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank or the Bank's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Bank routinely hedge their credit exposure to the Bank consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions, which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Post-issuance information

In connection with the issuance of mortgage covered bonds by the Bank and in accordance with Article 129 section 7 of the CRR, the Bank publishes regular disclosure reports (*raporty ujawnień*) detailing the Bank's issuances of the mortgage covered bonds and cover pool register. The above-mentioned disclosure reports (*raporty ujawnień*) are published on the Bank's website <http://mhipoteczny.pl/en/investor-relations>.

BANK

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Poland

ARRANGER and DEALER

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**ISSUING AND PRINCIPAL PAYING AGENT AND
CALCULATION AGENT**

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Trust & Security Services
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LISTING AGENT

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To the Bank**

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For the financial year 2018

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