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## State budget borrowing requirements' financing plan and its background:

in the fourth quarter of 2012

in October 2012

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### THE MOST IMPORTANT INFORMATION:

|   | <i>(page)</i> |
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| ➤ Detailed issuance calendar in the fourth quarter.....         | 2             |
| ➤ Detailed issuance calendar in October.....                    | 3             |
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**1 General assumptions:**

- T-bond sale auctions are planned according to following agenda:
  - in October – two sale auctions are planned: the first one instead of switch auction, the second with settlement date on the day of zero-coupon T-bonds' redemption and coupon payments for fixed rate T-bonds,
  - in November – one sale auction and one switch auction will be held,
  - in December – sale auction and switch auction are conditional, holding an auction will depend on the market situation,
- offer of T-bonds on the domestic market will depend on the market situation,
- T-bill sale auctions are not planned,
- foreign financing will be determined by the situation on the international financial market,
- auctions of bonds issued by BGK for the National Road Fund are not planned,
- announced plan may be modified depending on the market situation.

**2 T-bond auctions on the domestic market:**

- sale auctions

| Month    | Auction date | Settlement date | Series   | Planned offer (PLN m) |
|----------|--------------|-----------------|--|-----------------------|
| October  | 04-10-2012*  | 08-10-2012      | WZ0117 / PS0417 / WZ0121                                   | 3,000-5,000           |
|          | 23-10-2012** | 25-10-2012      | OK0714 / DS1023  | 5,000-9,000           |
| November | 08-11-2012*  | 12-11-2012      | PS / DS / WS / WZ / IZ***                                  | 2,000-4,000           |
| December | 12-12-2012   | 14-12-2012      | <i>Conditional auction - depending on market situation</i> |                       |

\* auction on Thursday

\*\* auction on Tuesday

\*\*\* choice depending on market situation

- switch auctions

| Month    | Auction date | Settlement date | Series   |
|----------|--------------|-----------------|--|
| November | 21-11-2012   | 23-11-2012      | PS / DS / WS / WZ / IZ*                                    |
| December | 06-12-2012** | 10-12-2012      | <i>Conditional auction - depending on market situation</i> |

\* choice depending on the market situation and the offer structure on the T-bond sale auction

\*\* auction on Thursday

- T-bonds to be repurchased may be securities maturing from January to April/July 2013,

**3 5. T-bill auctions:**

- T-bill sale auctions are not planned.

**4 Foreign financing:**

- possible issuance of bonds on the core international markets depending on the market situation,
- possibility of additional financing by structured coupon bonds' issuance in the private placement system.

**1 T-bond auctions**

| Auction date  | Settlement date | Series                   | Planned offer (PLN m) |
|---------------|-----------------|--------------------------|-----------------------|
| 4 OCT 2012*   | 8 OCT 2012      | WZ0117 / PS0417 / WZ0121 | 3,000-5,000           |
| 23 OCT 2012** | 25 OCT 2012     | OK0714 / DS1023          | 5,000-9,000           |

\* auction on Thursday

\*\* auction on Tuesday

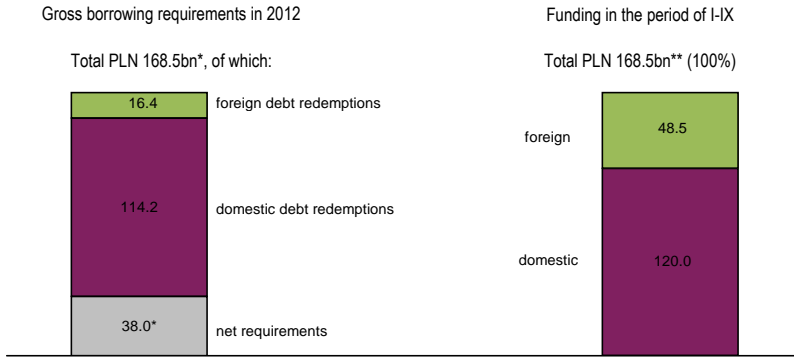
The final offer and the supply will be announced 2 days before the auction and will result from the market situation and consultations with investors.

The Minister of Finance is entitled to organize non-competitive auctions where bonds will be sold at a minimum price of bids accepted at the sale auction.

**2 Offer on retail market**

| T-bond  | Issue price                                | Coupon   |
|---------|--|--|
| DOS1014 | 100.00 PLN<br>(99.90 PLN for rolling-over) | Fixed, 4,30%   |
| TOZ1015 | 99.90 PLN                                  | Floating (1.00 * WIBOR 6M),<br>5,00% in the first coupon period        |
| COI1016 | 100.00 PLN<br>(99.90 PLN for rolling-over) | Floating (inflation rate + 2.00%),<br>5.50% in the first coupon period |
| EDO1022 | 100.00 PLN                                 | Floating (inflation rate + 2.50%),<br>5.80% in the first coupon period |

**1 Gross borrowing requirements in 2012**

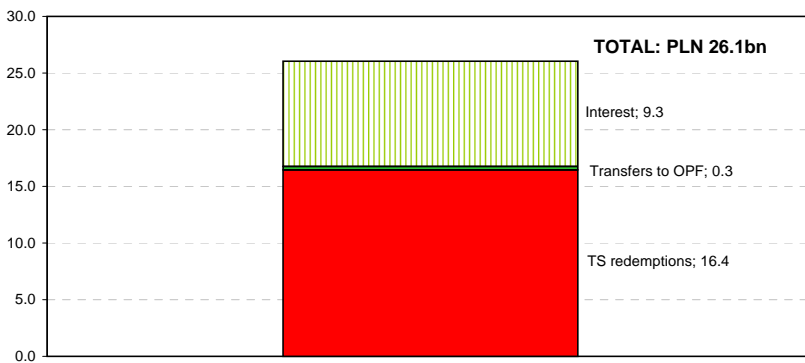


\* expected execution acc. to assumptions set in the draft Budget Act for 2013  
 \*\* includes T-bond issuance on EUR market on October 2, 2012

Funding of borrowing requirements was a result of:

- T-bills buyback in 2011: PLN 4.5bn,
- rolling over of T-bonds by switch auctions in 2011: PLN 15.2bn,
- T-bonds buyback on foreign markets in 2011: PLN 0.2bn,
- higher than planned financial resources at the end of 2011: PLN 11.9bn,
- T-securities sale on domestic market: PLN 100.1.0bn,
- T-bonds issuance on foreign markets: PLN 31.1bn,
- and loans incurred from IFIs: PLN 5.5bn.

**2 Flows of funds into the market related to T-bonds and T-bills and transfers to Open Pension Funds in October 2012 (PLN bn, as of September 30, 2012)**

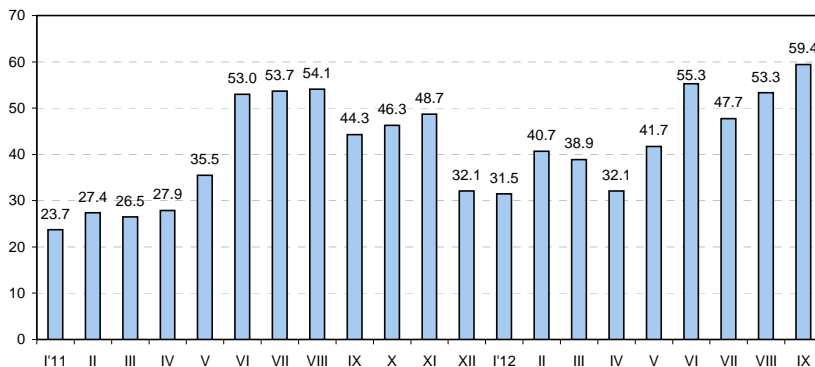


As of September 30, 2012 flow of funds due to redemptions of T-securities, interest payments and transfers from State budget to Open Pension Funds shall amount to ca. PLN 26.1bn.

**3 Sale and redemption of T-bills in October 2012**

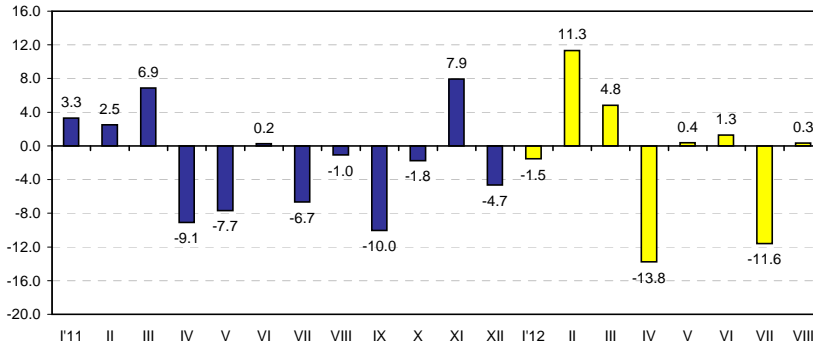
No T-bill auctions are planned in October. Simultaneously there are no such securities maturing in the given month - thus no change in T-bills outstanding. No T-bills sales result from the good actual State budget stance.

**4 Funds in PLN and in foreign currency held by the MoF at the end of month (foreign currency funds include funds from debt issuance and received from the European Commission, PLN bn)**



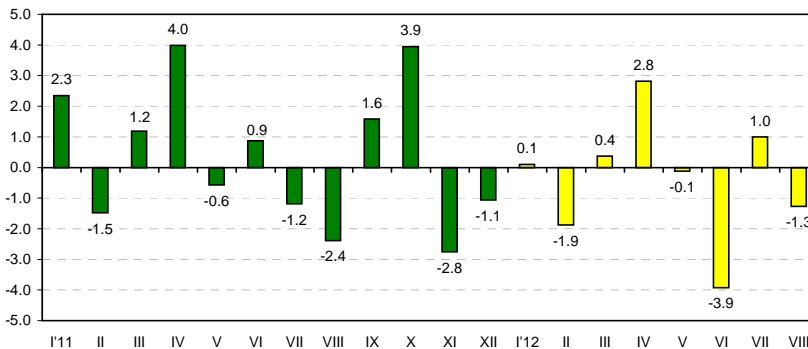
The funds ensure liquidity in borrowing needs financing.

**5 Change of debt in domestic T-securities held by banks  
(without BSB transactions with MoF; PLN bn)**



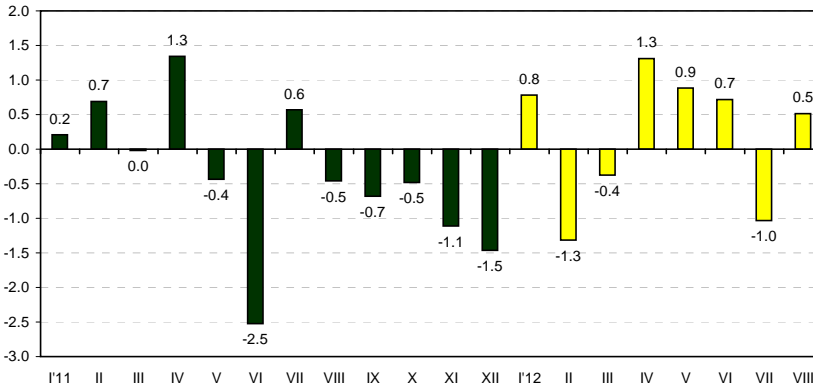
In the period of I-VIII 2012 debt held by domestic banks decreased by PLN 8.8bn comparing to PLN 11.6bn decrease during the same period of 2011.

**6 Change of debt in domestic Treasury securities held by pension funds  
(PLN bn)**



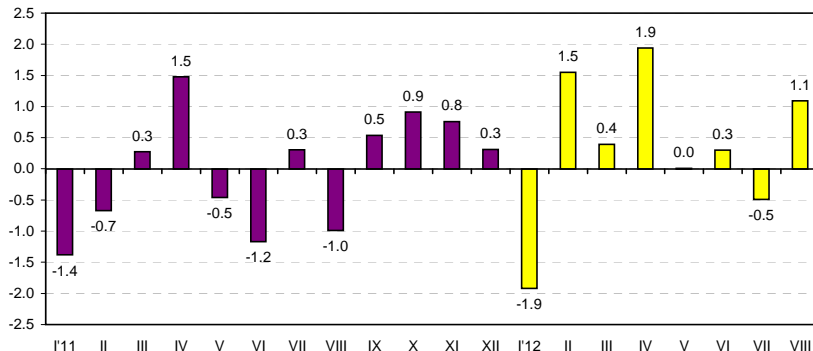
In the period of I-VIII 2012 debt held by pension funds decreased by PLN 2.9bn comparing to PLN 2.8bn increase during the same period of 2011.

**7 Change of debt in domestic Treasury securities held by insurance companies  
(PLN bn)**



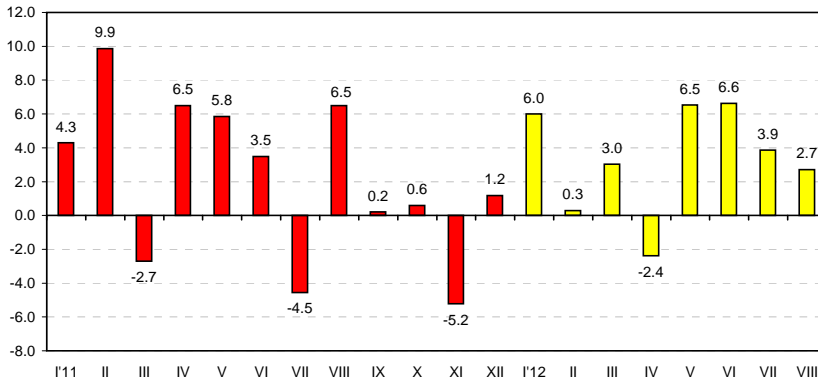
In the period of I-VIII 2012 there was an increase of PLN 1.5bn in debt held by insurance companies. During the same period of 2011 there was a decrease of PLN 0.6bn.

**8 Change of debt in domestic Treasury securities held by investment funds  
(PLN bn)**



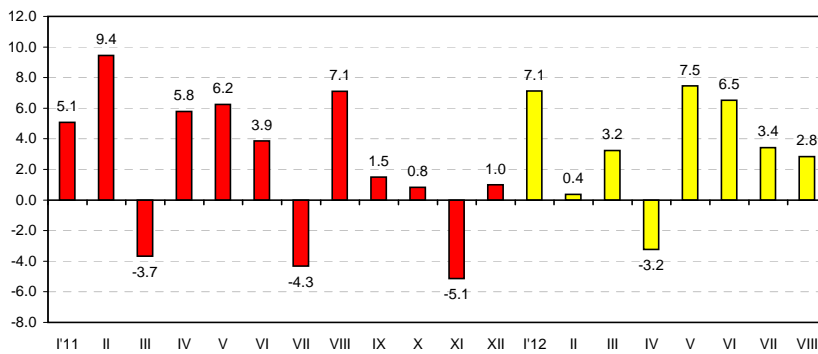
In the period of I-VIII 2012 there was an increase of PLN 2.9bn in debt held by investment funds. During the same period of 2011 there was a decrease of PLN 2.6bn.

**9 Change of debt in domestic Treasury securities held by foreign investors (PLN bn)**



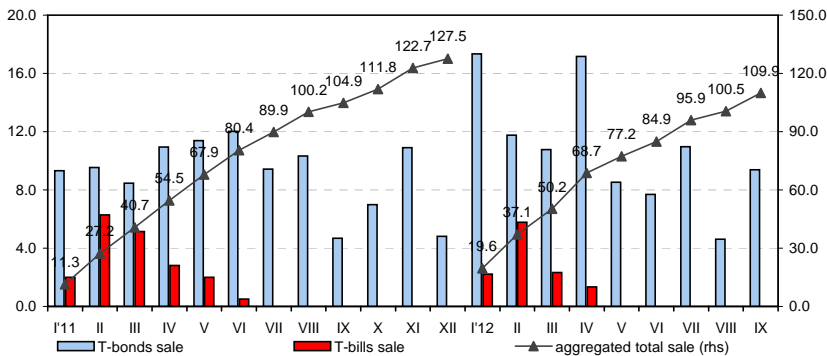
In the period of I-VIII 2012 inflow of foreign capital to the domestic TS market amounted to PLN 26.7bn comparing to PLN 29.2bn increase in the same period of 2011. Foreign investors' holdings reached the record high level of PLN of 180.9bn.

**10 Change of debt in domestic T-bonds held by foreign investors (PLN bn)**



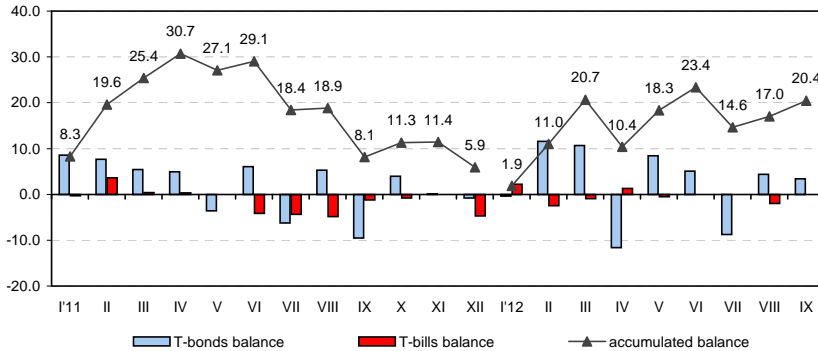
In the period of I-VIII 2012 inflow of foreign capital to domestic bonds market amounted to PLN 27.7bn comparing to PLN 29.6bn increase in the same period of 2011. Foreign investors' holdings reached the record level of PLN 180.2bn.

**11 Sale of T-bonds and T-bills in the period of January - September 2012 and in 2011 (settlement date, nominal amount, PLN bn)**



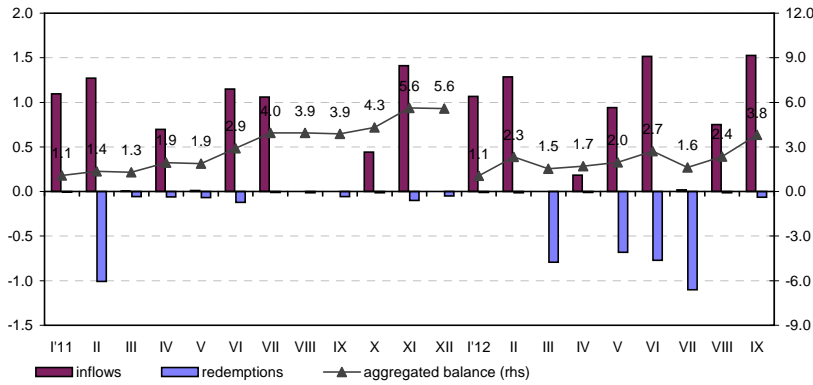
The structure of Treasury securities offered in 2012 is dominated by T-bonds (89% of total amount sold).

**12 Balance of T-bonds and T-bills in the period of January - September 2012 and in 2011 (settlement date, nominal amount, PLN bn)**



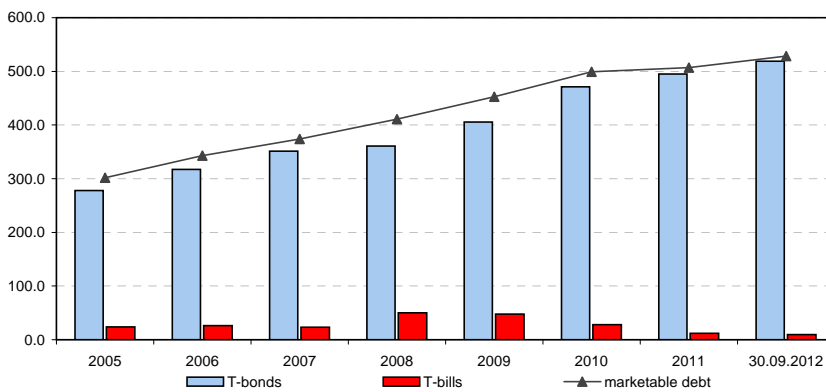
Indebtedness in T-bonds in the period of January - September 2012 increased by PLN 22.8bn while indebtedness in T-bills decreased by PLN 2.3bn.

**13 External financing in the period of January - September 2012 and in 2011**  
(bonds issued on foreign markets and loans received from IFIs, EUR bn)



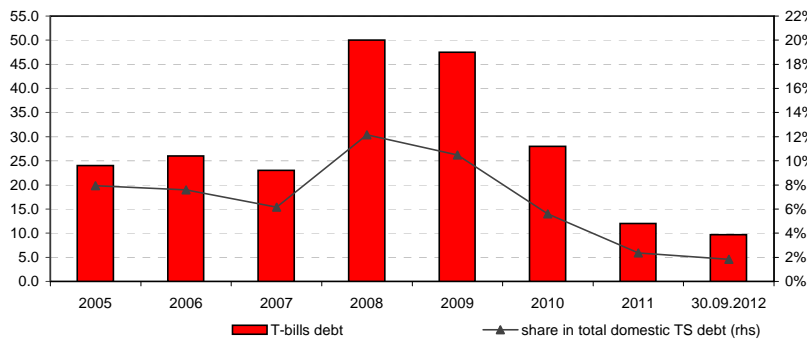
Net financing on foreign markets (bonds issuance and loans from IFIs) amounted to EUR 3.8bn. T-bonds issuance was EUR 6.0bn. Loans incurred from IFIs were at the level of EUR 1.3bn. Apart from those, EUR 2.7bn on the FX budgetary accounts was available - the money related to the foreign debt management raised and not spent in 2011.

**14 Structure of marketable debt**  
(PLN bn)



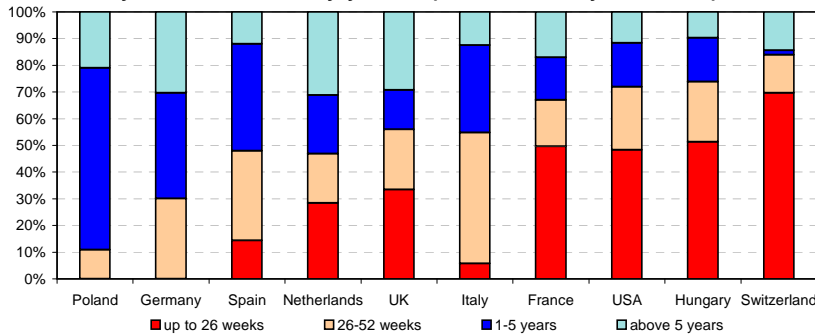
At the end of September 2012 the marketable domestic debt amounted to PLN 528.3bn comparing to PLN 507.2bn at the end of 2011.

**15 T-bills outstanding**  
(PLN bn)



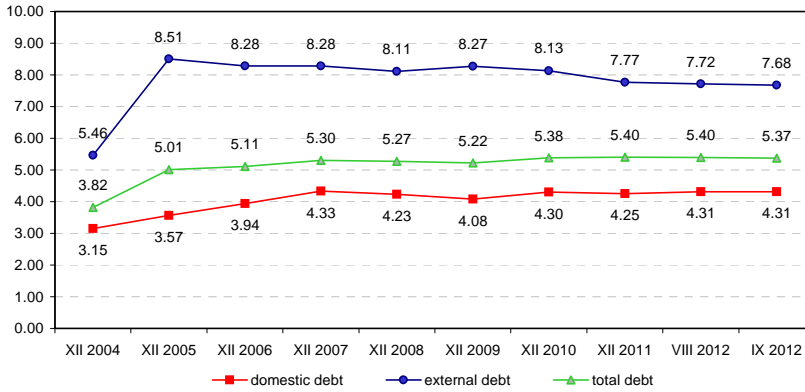
In September 2012 indebtedness in T-bills did not change. T-bills share in total domestic debt amounted to 1.8% at the end of the month.

**16 Maturity breakdown of T-securities in Poland and other countries**  
(auctions and syndicates, local currency, ytd in the period of 1 January - as of 30 September 2012)



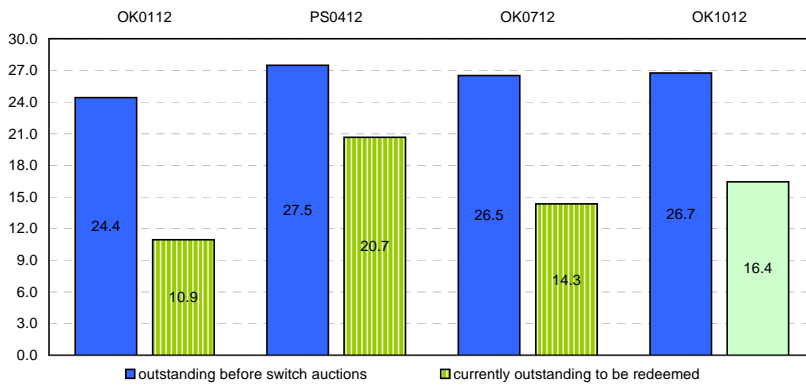
In terms of maturity, the sale of TS in Poland in 2012 is dominated by securities with maturity over 1 year.

17 Average maturity



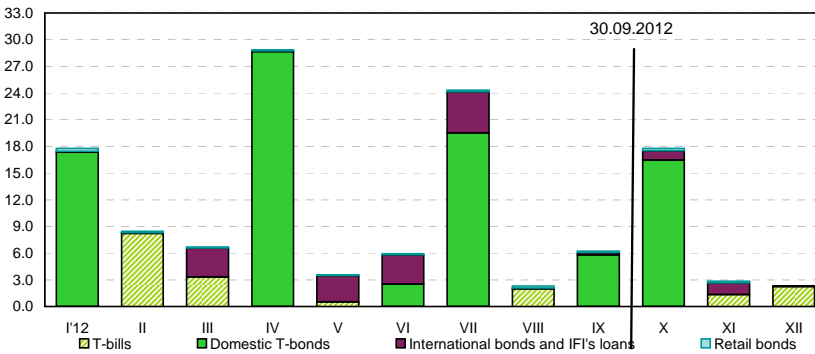
At the end of September 2012 the average maturity of domestic debt increased to 4.31 in comparison with the end-2011 figure (4.25).

18 Reducing refinancing risk connected with T-bonds' redemptions maturing in 2012 (switch auctions, PLN bn, as of 30 September 2012)



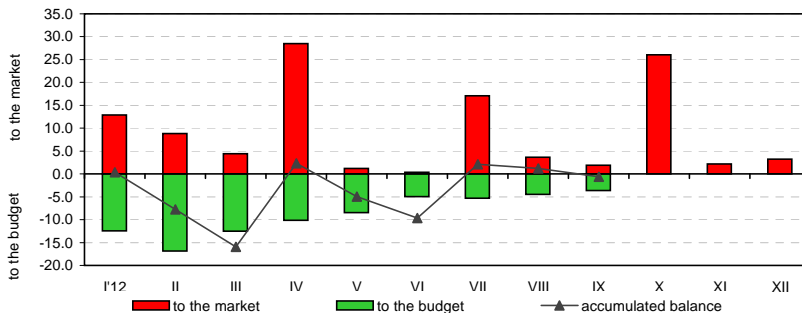
Buy-back of T-bonds maturing in 2012:  
 - OK0112: PLN 13.5bn (55% of initial outstanding),  
 - PS0412: PLN 6.8bn (25% of initial outstanding),  
 - OK0712: PLN 12.2bn (46% of initial outstanding),  
 - OK1012: PLN 10.3bn (39% of initial outstanding).

19 State Treasury debt redemptions in 2012 (nominal amount, PLN bn, as of 30 September 2012)



The nominal amount of debt to be redeemed in 2012 is equal to PLN 23.0bn, including:  
 - T-bills: PLN 3.6bn,  
 - T-bonds on domestic market: PLN 16.4bn,  
 - T-retail bonds: PLN 0.6bn,  
 - bonds and loans incurred on foreign markets: PLN 2.4bn.

20 Flows of funds between the market and the budget\* (PLN bn, as of 30 September 2012)



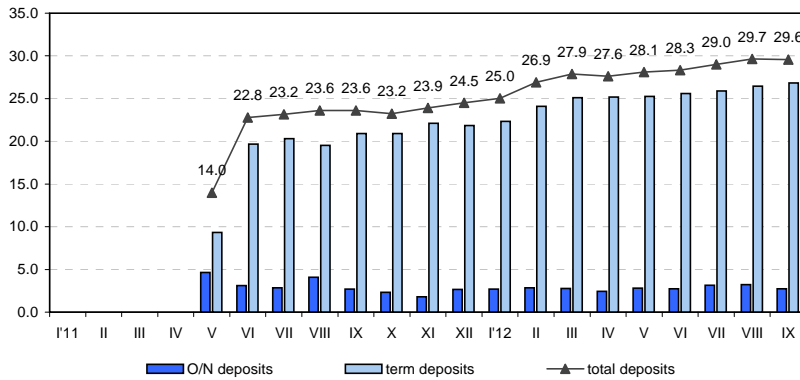
As of August 1st, 2012 to the end of the year the proceeds from the redemptions and interest payments to the market shall amount to PLN 29.3bn. Additionally PLN 2.3bn will be transferred to the Open Pension Funds. Proceeds from the TS issuance in the above-mentioned period shall bring ca. PLN 10.0-18.0bn to the budget.

\* figures include sale, redemptions and interest payments on wholesale bonds and bills and transfers to Open Pension Funds; monthly financing plans depend on market situation and feedback from investors thus the detailed schedule of monthly flows to budget in the following months is not presented.



**21 Consolidation of public finances liquidity management**

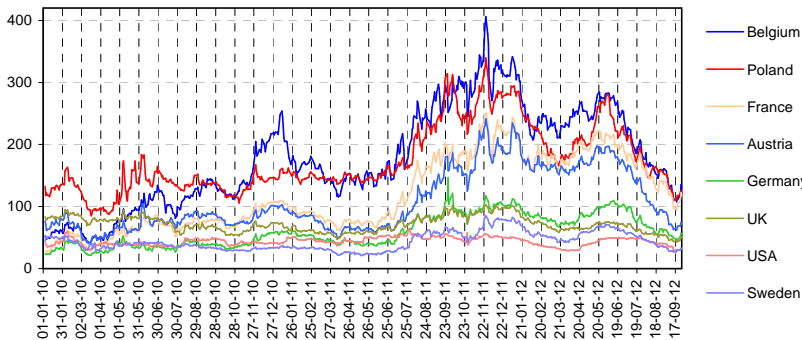
(PLN bn)



As a result of consolidation of public finances liquidity management there were PLN 29.6bn funds accumulated at the end of September, of which PLN 26.8bn was as term deposits and PLN 2.7bn on O/N deposits.

**22 CDS levels**

(5-year, bp)



Polish 5-year CDS contracts are traded at the lower level than the Belgian CDS and at the very close level to CDS contracts of France. Decreasing tendency has been observed since four months for those countries and especially for Poland.

**23 T-bonds issue on the USD market**

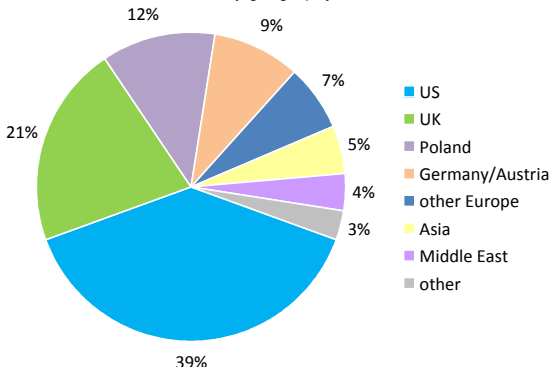
Issue summary:

Amount: USD 2bn  
 Maturity date: March 17, 2023 r.  
 Coupon: 3.000%  
 Spread: 150 pb over the interpolated mid-swap  
 Yield: 3.175%  
 Launch date: September 10, 2012 r.  
 Bookrunners: Deutsche Bank, Goldman Sachs, HSBC

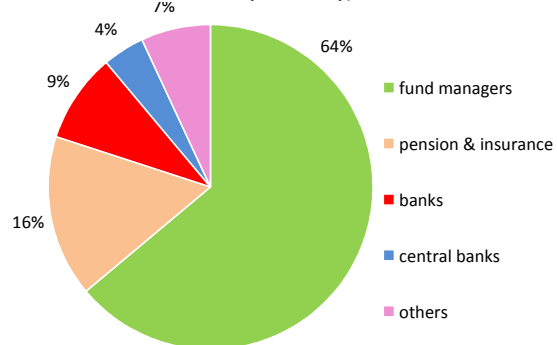
Market commentary:

IFR no 1951 (September 15, 2012):  
 "The Republic of Poland [...] took full advantage of a four-times subscribed order book for its US\$2bn 10-year bond [...]."  
 "The appeal of the new issue was so strong that Poland was able to price the bond flat to its curve – or even through it according to some calculations. In contrast, Brazil paid a 10bp new-issue premium on its 10-year dollar deal, while the new-issue premium on Romania's tap was closer to 25bp [...]."  
 Euroweek no 1272 (September 14, 2012):  
 "Poland attracted nearly \$8bn of orders for its 10 year dollar global, despite pricing the deal flat to its curve and at its lowest ever yield for a dollar benchmark."  
 "On an interpolated basis, Poland printed flat to its curve with no new issue premium — an impressive result considering a strong EM sovereign has recently paid a 10bp new issue premium for similar tenor bond issuance [...]."

Orderbook by geography



Orderbook by investor type



## 24 T-bonds issue on the EUR market

### Issue summary:

|                |  |
|----------------|--|
| Amount:        | EUR 1.75bn                               |
| Maturity date: | July 9, 2024                             |
| Coupon:        | 3.375%                                   |
| Spread:        | 143 pb over the interpolated mid-swap    |
| Yield:         | 3.385%                                   |
| Launch date:   | October 2, 2012                          |
| Bookrunners:   | Commerzbank, HSBC, ING, Societe Generale |

### Market commentary:

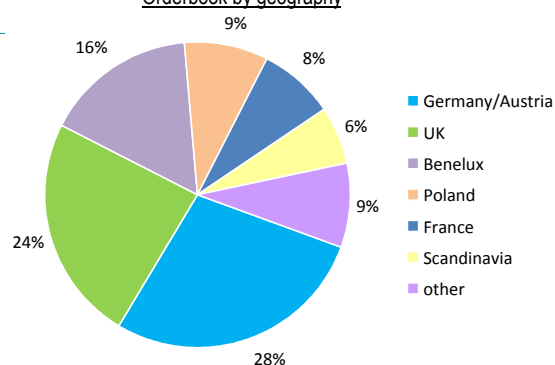
Euroweek Issue: Daily News - 3 October 2012:

"[...] the curve is relatively steep between January 2023s and July 2024s so we put fair value at about 140bp over", said Odilbek Isakov, a DCM banker at HSBC in London. "The new issue premium was 3bp at pricing, which is very tight."

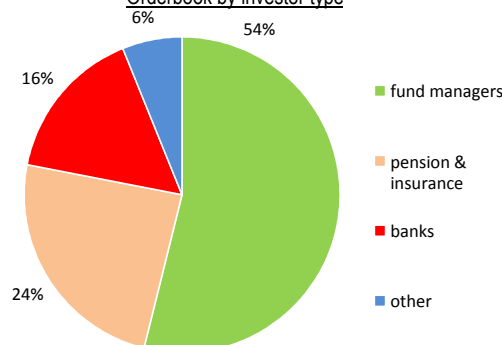
"The premium is in line with the Czech Republic trade on Monday, and given you'd expect less of a premium for a tap, I would say Poland's premium is more impressive."

"Poland's curve has performed very well this year because investors have switched out of southern European credits, initially to core European credits but then as yields got lower and lower they have looked to Poland," said Isakov.

Orderbook by geography



Orderbook by investor type



## 25 Comments

### Fitch: Poland Budget Maintains Commitment to Fiscal Prudence (3-10-2012)

"The increase in the Polish government's deficit forecast in its 2013 budget reflects a more realistic economic forecast, rather than any weakening in the Polish government's commitment to fiscal prudence, Fitch Ratings says. [...] The revision is driven by lower growth forecasts rather than a retreat from consolidation."

"The current coalition government has demonstrated its desire to secure and extend the sustained fiscal consolidation drive that has already cut Poland's general government deficit from 7.8% in 2010 to 5.1% in 2011. [...] Pension reform passed in 2012 indicates a broad political consensus in support of structural and fiscal reform."

"We have already reduced our outlook for 2012 and 2013 GDP growth to 2.5% in both years, with risks weighted on the downside, particularly in 2013. Poland will still outperform the CEE and EU averages, and the slowdown in growth seen in the second quarter of 2012 [...] was driven by a large destocking (which removed 1.5 percentage point from GDP, the worst contribution since 2009) and so may not be repeated in coming quarters."

### Piotr Marczak, Director of Public Debt Department, Ministry of Finance (28-09-2012)

"At the end of September the amount of PLN and foreign currencies funds increased to ca. PLN 59bn. Part of these funds will be allocated for redemption and interest payment on T-bonds denominated in PLN, which in October will amount to a total of 25.7 bn PLN. Due to these payments and in response to the high demand, in October we can offer bonds worth up to 14 bn PLN. This means that the amount of funds transferred to the domestic market will be much higher than the amount of funds collected from the market."

In October no T-bonds switching auction will be held. Under current circumstances regular T-bonds sale auctions are more effective. After three-month break and probably the last time this year, we will offer two years T-bond and a new ten years benchmark (DS1023). In November only one T-bonds auction with a small supply will be held, and we assume that market conditions will allow to hold a T-bonds switching auction. There is a possibility that in December no auctions will be held. A potential auction would be treated as a prefinancing of next year's borrowing requirements. The level of prefinancing can be increased, but not necessarily – subject to market conditions. Thus sale and switching auctions in December are marked as conditional.

Our aim is to prefund at least 20% of next year's requirements, but we're not focused on setting any records in this respect. Next year's requirements will be ca. 23.5 bn PLN lower than this year's. We also see a possibility to do a public deal in core foreign markets in Q4. Should market situation allow, we would like to take advantage of historically low yields in foreign markets to secure our needs in foreign currencies for the first two months of 2013, i.e. ca. EUR 4 bn.

The inflow of non-residents to domestic Treasury securities market still continues. In August holdings of non-residents increased by PLN 2.7bn (PLN 2.8bn in bonds) to another record high level of PLN 180.9bn (PLN 180.2 in bonds). In September the trend continued.

### Piotr Marczak, Director of Public Debt Department, MoF (2-10-2012)

"Based on the high demand for Polish government bonds, we have sold 12-year euro-denominated bonds worth EUR 1.75bn with lowest yield in history. After this transaction our borrowing needs for 2012 are financed in 100%. Any further issuance will prefinance next year's requirements."

This deal shows that we will raise funds for prefinancing only on best possible conditions. Till the end of the year we have a comfort of accepting only the most attractive bids."