

# Description of the Interest Rate Transactions and FX Interest Rate Transactions



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The terms used in this Description of the Interest Rate Transactions and Currency and Interest Rate Transactions (hereinafter referred to as the "Transaction Description") shall have meanings ascribed to them in the Terms and Regulations "Rules of Cooperation for Financial Market Transactions," unless otherwise defined herein.

## § 1. Definitions

1. The terms used in this Transaction Description shall have the following meanings (in the alphabetical order):
  - 1/ **Base Currency** (24) – a currency the unit price of which (fx rate) is denominated in the Non-Base Currency;
  - 2/ **Base/Non-Base Interest Rate** (1)<sup>1</sup> – for the CIRS – a Fixed or Floating Interest Rate constituting the basis for calculation of payments of the base interest or non-base interest respectively;
  - 3/ **Business Day** (5) – every day, except for Saturdays, Sundays or statutory holidays on which the Bank conducts business activity on the financial market and performs settlements in the currencies in which the Transaction is denominated or, if determination of the Business Day Calendar or the Fixing Date Calendar or the Exercise Date Calendar is required under the Transaction Terms, then a Business Day shall be the day specified in the agreed Calendar;
  - 4/ **Business Day Convention** (11) – convention of the adjustment of each respective date (Premium Payment Dates, Start Dates, End Dates and Settlement Dates of Calculation Periods, Payment Dates of Early Settlement Amount or Partial Early Settlement Amount or Amount Payable due to Modification (which, however, shall not apply to the Fixing Dates or Exercise Dates), if without such an adjustment that date would fall on a day that is not a Business Day; in particular, the following Business Day Conventions mean that the respective date will be adjusted (in accordance with the agreed Business Day Calendar):
    - a/ Following – to the first directly following Business Day,
    - b/ Modified Following – to the first directly following Business Day, unless this day falls in the next calendar month – in this case the respective deadline shall be adjusted to the first directly preceding Business Day,
    - c/ End of Month – to the last Business Day of the calendar month in which the respective deadline fell;
    - d/ Preceding – to the first directly preceding Business Day;
 The Parties may agree that the Start Dates and Maturity Dates of Calculation Periods falling on the days that are not Business Day shall not be adjusted;
  - 5/ **Business Day/Fixing Date/Exercise Date Calendar** (9):
    - a/ a system of Business Days and statutory holidays selected by indicating the city(ies) where such system applies or by indicating the Target, which means that the days on which the Target conducts its activity shall be taken into account when determining the Business Day;
    - b/ Business Day Calendar is used to determine the Premium Payment Dates, Start Dates, End Dates and Settlement Dates of the Calculation Periods, Payment Date of the Early Settlement or Partial Early Settlement or Amount Payable due to Modification (which, however, shall not apply to the Fixing Dates and Exercise Dates);
    - c/ Fixing Day or Exercise Date Calendar serves the purpose of determining the Fixing Dates or Exercise Dates, respectively;
  - 6/ **CIRS Currency Rate** (12) – the rate of the Base Currency unit denominated in the Non-Base Currency units applied to calculate the Transaction Notional Amount in the Non-Base Currency;
  - 7/ **Day Count Fraction** (10) – a convention of determining the number of days in a year and of the number of days in the Calculation Period used to calculate the interest payment or the Settlement Amount (except for the Binary Option with the Quota-Based Payout Method); in particular, the following shall be adopted for the following Day Count Fraction:
    - a/ act/360 – the actual number of days in the Calculation Period and a 360-day year assumption;
    - b/ act/365 – the actual number of days in the Calculation Period and a 365-day year assumption;
    - c/ 30/360 – a 360-day year assumption and the number of days in the Calculation Period calculated in accordance with the following formula:
 
$$n = 360 * (YYYY_z - YYYY_r) + 30 * (MM_z - MM_r) + (DD_{Mz} - DD_{MR})$$
 where:
      - n – number of days in the Calculation Period;
      - YYYY – the number determining the year of the End Date (YYYY<sub>z</sub>) or Start Date (YYYY<sub>r</sub>) of the Calculation Period;
      - MM – the number determining the calendar month of the end (MM<sub>z</sub>) or begin (MM<sub>r</sub>) of the Calculation Period;
      - DD – the number determining the day of the month for the end (DD<sub>Mz</sub>) or begin (DD<sub>MR</sub>) of the Calculation Period;
 It is additionally assumed that if the Begin or End Date of the Calculation Period falls on the thirty-first (31<sup>st</sup>) day of a month, it shall be the thirtieth (30<sup>th</sup>) day of the month for the purposes of the calculation;
    - d/ act/act – the actual number of days in the Calculation Period and a 366-day year assumption applicable to a fraction of the Calculation Period falling in a leap year and a 365-day year assumption for a fraction of the Calculation Period falling in a common year;
  - 8/ **Early Settlement Amount/Partial Early Settlement Amount/Amount Payable due to Modification Payment Date** (3) – Business Day on which the payment for the Early Settlement Amount or Partial Early Settlement Amount or Amount Payable due to Modification is made;
  - 9/ **Early Settlement/Partial Early Settlement Amount/Amount Payable due to Modification** (13) – the amount calculated by the Bank payable due to early settlement of the Transaction or partial early settlement of the Transaction or modification of Transaction Terms and Conditions;
  - 10/ **Final Exchange** (29) – a delivery of the Base Transaction Notional Amount to the payer of the Non-Base Interest Rate by the payer of the Base Interest Rate and a delivery of the Non-Base Transaction Notional Amount to the payer of the Base Interest Rate by the payer of the Non-Base Interest Rate performed on the Settlement Dates of the last (base and non-base) Calculation Periods;
  - 11/ **Fixed Interest Rate/Strike Rate** (19) – fixed interest rate per annum; the Parties may agree on a different level of the Fixed Interest Rate or the Strike Rate for the individual Calculation Periods;
  - 12/ **Fixing Date/Exercise Date** (2) – a Business Day, on which the value of the Floating Interest Rate is determined;
  - 13/ **Floating Interest Rate** (31):
    - a/ depending on the currency, the applicable floating interest rate (per annum) of the IBOR type [e.g. WIBOR, LIBOR (BBA)] from the quotations as at the Fixing Date or Exercise Date or a different floating interest rate (per annum) in the currency of the Transaction Notional Amount;
    - b/ in the case of an IRS and CIRS, the Parties may agree that the floating interest rate shall be adjusted by the agreed fixed interest rate per annum;
    - c/ in the case of IRS and CIRS for set Calculation Periods the Parties may agree on a different value of the Floating Interest Rate (in that case the Floating Interest Rate from the quotations as at the Fixing Date shall not apply in the first Calculation Period).
  - 14/ **FRA Closing Rate** (21) – a fixed interest rate per annum serving the purposes of calculation of the FRA Settlement Amount in the case of closing of the FRA Transaction;
  - 15/ **Initial Exchange** (30) – a delivery of the Non-Base Transaction Notional Amount to the payer of the Non-Base Interest Rate by the payer of the Base Interest Rate and a delivery of the Base Transaction Notional Amount to the payer of the Base Interest Rate by the payer of the Non-Base Interest Rate performed on the Start Date of the first (base and non-base) Calculation Period;
  - 16/ **Calculation Period** (16) – a period from the Start Date (including that date) until the End Date (excluding that date) of the Calculation Period; if this is an Interest Rate Option, the Option is exercised independently in any given Calculation Period;
  - 17/ **Calculation Period Start Date** (7) – a date on which an Calculation Period begins, which constitutes simultaneously the termination date of the directly preceding Calculation Period, unless the beginning Calculation Period is the first Calculation Period in the Transaction,
  - 18/ **Calculation Period End Date** (8) – a date on which an Calculation Period ends, which constitutes simultaneously the Start Date of the directly following Calculation Period, unless the Calculation Period that ends is the last Calculation Period in the Transaction,

1 Translator's note: the number at the end of definition means its ordinal number in the Polish language version.

- 19/ **Calculation Period Settlement Date** (6) – a Business Day on which the Transaction Settlement for a given Calculation Period occurs;
- 20/ **Interim Exchange** (28) – a delivery of a portion of the Base and Non-Base Transaction Notional Amount between the Parties performed on the Settlement Date of both (base and non-base) Calculation Periods in the case where on the End Dates of the aforementioned Calculation Periods the Base Transaction Notional Amount changes; the interim exchange shall be carried out in accordance with the plan referred to in § 5.6 below;
- 21/ **Non-Base Currency** (25) – a currency in which the price of an unit (or specific number of units) of the Base Currency is denominated;
- 22/ **Payout Method** (27) – one of the following methods of calculation of the Settlement Amount for the Binary Option:
- a/ Interest-Based Payout Method – where the Settlement Amount is calculated as interest or discounted interest on the Transaction Notional Amount at the Payout Rate;
  - b/ Notional-Based Payout Method – where the Settlement Amount is equal to the Transaction Notional Amount or discounted Transaction Notional Amount agreed for a given Calculation Period;
- 23/ **Payout Rate** (20) – in the case of a Binary Option with the Interest-Based Payout Method – the per annum level of the interest rate at which the Settlement Amount for this Option is calculated; the Parties may agree on a different level of the Payout Rate for individual Calculation Periods;
- 24/ **Premium** (17) – the price of the Interest Rate Option paid by the buyer to the seller (writer); the Premium may be paid on a one-off basis on a single Premium Payment Date or in instalments on many Premium Payment Dates;
- 25/ **Premium Payment Date** (4) – a Business Day, on which the Premium amount determined for that date is paid; the Parties may agree on one or more than one Premium Payment Dates for the Interest Rate Option;
- 26/ **Settlement Amount** (14):
- a/ in the case of the FRA – an amount payable on account of settlement or closing of the FRA Transaction, calculated in accordance with the formula specified in § 2.7 below;
  - b/ in the case of an Interest Rate Option – an amount due to the Option buyer from the seller (writer) on account of the exercise of the Option for a specific single Calculation Period, the amount of which is calculated in accordance with the principles described in § 3.7 below;
  - c/ in the case of an IRS – an amount of difference between a fixed interest payment and a floating interest payment in a given Calculation Period, calculated in accordance with the formula specified in § 4.7 below;
  - d/ in the case of a CIRS – an amount of the difference between the equivalent of the base interest payment denominated in the Non-Base Currency and of the non-base interest payment in a given Calculation Period denominated in the Non-Base Currency and calculated in accordance with the formula specified in § 5.12 below;
- 27/ **Settlement Interest Rate** (18) – an interest rate per annum serving the purposes of calculation of the FRA Settlement Amount;
- 28/ **Settlement Mode** (26) – in the case of an Interest Rate Option:
- a/ "in advance" Settlement Mode means that the Calculation Period Settlement Date shall fall on (subject to the agreed Business Day Convention) the Start Date of the Calculation Period to which it applies;
  - b/ "in arrears" Settlement Mode means that the Calculation Period Settlement Date shall fall on (subject to the agreed Business Day Convention) the End Date of the Calculation Period to which it applies;
- 29/ **Target** (22) – the Trans-European Automated Real-time Gross settlement Express Transfer System, used for settlements performed in EUR;
- 30/ **Transaction** (23) – for the purposes of this Transaction Description it means: a Forward Rate Agreement (FRA), Interest Rate Option, Interest Rate Swap (IRS) or Cross-Currency Interest Rate Swap (CIRS);
- 31/ **Transaction Notional Amount** (15):
- a/ a notional amount of the Transaction in a given Calculation Period, in relation to which the Settlement Amount or the fixed or floating interest payment are calculated;
  - b/ in the case of the CIRS:
    - i) the Transaction Notional Amount in the Base Currency ("Base Transaction Notional Amount") in a given base Calculation Period, with respect to which the base interest payment is calculated; and
    - ii) the Transaction Notional Amount in the Non-Base Currency ("Non- Base Transaction Notional Amount") in a given non-base Calculation Period, with respect to which the non-base interest payment is calculated;
    - iii) the Non-Base Transaction Notional Amount constitutes the equivalent of the Base Transaction Notional Amount in a given base Calculation Period calculated in accordance with the CIRS Exchange Rate,
  - c/ The Parties may agree that the Transaction Notional Amount will be subject to changes on the agreed Calculation Periods End Dates;
2. The remaining capitalized terms that have not been listed in §1.1 above are defined further herein.
3. If the Customer and the Bank fail to agree on the following when entering into the Transaction:
- 1/ Business Day Convention – the Modified Following shall be adopted as the Business Day Convention;
  - 2/ Fixing Date Calendar or Exercise Date Calendar or Business Day Calendar – it is assumed that the calendars shall apply depending on the currency in which the Transaction Notional Amount is denominated, in accordance with the following table:

Transaction currency	Fixing Date or Exercise Date Calendar	Business Day Calendar
EUR	Target	Target and Warsaw
USD	London	New York and Warsaw
GBP	London	London and Warsaw
JPY	London	Tokyo and Warsaw
CHF	London	Zurich and Warsaw
CZK	Prague	Prague and Warsaw
HUF	Budapest	Budapest and Warsaw
PLN	Warsaw	Warsaw

- For the CIRS, the Base Currency and Non-Base Currency Business Day Calendars shall be applied jointly for both the base and non-base Calculation Period;
- 3/ Fixing Dates or Exercise Dates – it is assumed that for each Calculation Period, in which the Floating Interest Rate is applicable in order to calculate the interest payment or the Settlement Amount, the Fixing Date or Exercise Date shall fall on the second Business Day before the Start Date of a given Calculation Period (in accordance with the agreed Fixing Date Calendar or Exercise Date Calendar);
- 4/ Settlement Dates of the Calculation Period in the case of the IRS and CIRS – it is assumed that the Settlement Date of a given Calculation Period shall fall (subject to the agreed Business Day Convention) on the End Date of this Calculation Period;
- 5/ Payout Rate – it is assumed that the Parties have agreed on the Quota-Based Payout Method;
- 6/ Settlement Mode – it is assumed that the Parties have agreed on the "in arrears" Settlement Mode.
4. The Calculation Periods Start Dates and End Dates may be determined in the following ways:
- 1/ The Parties specify the Start Date of the first Calculation Period (or the second Calculation Period if the first Calculation Period is shorter or longer than the remaining Calculation Periods) and the frequency at which the Start Dates of the subsequent Calculation Periods shall fall;

- 2/ The Calculation Periods End Dates, except for the End Date of the last Calculation Period result from the Calculation Periods Start Dates; the End Date of the last Calculation Period shall be agreed by the Parties;
- 3/ If the Calculation Period Begin or End Date determined in the aforementioned manner falls on a statutory holiday then it shall be moved in accordance with the adopted Business Day Convention, and the Parties may agree that the Calculation Periods Begin and End Dates are not movable; if the Start Date of a given Calculation Period is moved, it shall not affect the Start Date of the subsequent Calculation Period determined in accordance with the agreed frequency.

## § 2. Forward Rate Agreements (FRA)

1. Forward Rate Agreement ("**Forward Rate Agreement**" / "**FRA**") is a derivative transaction in which the interest rate for a theoretical future deposit accepted by the payer of the Fixed Interest Rate from the payer of the Floating Interest Rate is determined. By entering into the FRA, neither Party is obliged to allocate or to accept the theoretical future deposit.
2. In the FRA Transaction, only one Calculation Period is determined. If the Calculation Period Begin or End Date does not fall on a Business Day, then such Begin or End Date shall be moved to the first directly following Business Day, unless the Begin/End Date determined in the aforementioned way falls in the following calendar month; in this situation, the Begin or End Date shall be moved to the first directly preceding Business Day.
3. Unless otherwise agreed between the Parties, the Fixing Date shall fall on the second (2<sup>nd</sup>) Business Day before the Calculation Period Start Date.
4. The Calculation Period Settlement Date shall fall on the Calculation Period Start Date.
5. The payer of the Fixed Interest Rate shall pay the Settlement Amount to the payer of the Floating Interest Rate on the Calculation Period Settlement Date, if the Settlement Interest Rate is lower than the Fixed Interest Rate.
6. The payer of the Floating Interest Rate shall pay the Settlement Amount to the payer of the Fixed Interest Rate on the Calculation Period Settlement Date, if the Settlement Interest Rate is higher than the Fixed Interest Rate.
7. The Settlement Amount shall be calculated in accordance with the following formula:

$$K = \frac{(R - S) * d * N}{b * (Z * d)}$$

where:

- K – Settlement Amount,
  - R – Settlement Interest Rate,
  - S – Fixed Interest Rate,
  - Z – Floating Interest Rate,
  - d – the actual number of days of the Calculation Period,
  - N – Transaction Notional Amount,
  - b – the number of days in a year applied on the interbank money market to the deposits in the currency of the FRA Transaction, i.e. 365 days for PLN and GBP or 360 days for other currencies.
8. When entering into the FRA, the Customer and the Bank shall agree on the following Transaction Terms:
    - 1/ payer of the Fixed Interest Rate and payer of the Floating Interest Rate,
    - 2/ currency and the Transaction Notional Amount,
    - 3/ Calculation Period Start Date,
    - 4/ Calculation Period End Date,
    - 5/ Fixed Interest Rate,
    - 6/ Floating Interest Rate,
    - 7/ Fixing Date.
  9. The calculation of the Settlement Amount of the FRA Transaction that has not been closed in the manner referred to in §2.10 – §2.13 below shall be performed in accordance with the formula specified in §2.7 above, assuming that the Settlement Interest Rate is equal to the Floating Interest Rate of the quotation on the Fixing Date.
  10. No later than three (3) Business Days before the Calculation Period Settlement Date, the Customer has the right to close the FRA, which consists in agreeing on the Terms of the opposite FRA Transaction. In the case when the Customer was the payer of the Fixed Interest Rate in the primary FRA Transaction, he/she shall be the payer of the Floating Interest Rate in the closing FRA Transaction. In the case when the Customer was the payer of the Floating Interest Rate in the primary FRA Transaction, he/she shall be the payer of the Fixed Interest Rate in the closing FRA Transaction.
  11. When entering into the closing FRA Transaction, the Customer and the Bank shall agree on the Transaction Terms specified in §2.8 above, however, they shall agree on the FRA Closing Rate instead of the Fixed Interest Rate.
  12. The calculation of the Settlement Amount of the FRA Transaction that has been closed shall be performed in accordance with the formula specified in §2.7 above, assuming that the Settlement Interest Rate is equal to the FRA Closing Rate.
  13. In the case of entering into the closing FRA Transaction, the payer of the Fixed Interest Rate or the payer of the Floating Interest Rate referred to in §2.5 and §2.6 above, shall be construed as the payer of the Fixed Interest Rate or the payer of the Floating Interest Rate agreed under the primary FRA Transaction respectively.

## § 3. Interest Rate Options

1. Interest Rate Option ("**Interest Rate Option**" / "**Option**" / "**IR Option**") is a derivative transaction on the basis of which the Option buyer has the right to receive the Settlement Amount in the case of the Option's exercise; the Parties may agree on entering into the following Option types, in which the value of the Settlement Amount depends in particular on the following:
  - 1/ Vanilla Option – the difference between the value of the Strike Rate and the value of the Floating Interest Rate ("**Vanilla Option**");
  - 2/ Binary Option – the value of the Payout Rate (for the Interest-Based Payout Method) or the value of the Transaction Notional Amount (for the Quota-Based Payout Method) ("**Binary Option**").
2. In the case of the Cap Option ("**Cap Option**" / "**Cap**" / "**Call Option**"): the Option is exercised when the Floating Interest Rate as at the Exercise Date for a given Calculation Period is higher than the Strike Rate.
3. In the case of the Floor Option ("**Floor Option**" / "**Floor**" / "**Put Option**"): the Option is exercised when the Floating Interest Rate as at the Exercise Date for a given Calculation Period is lower than the Strike Rate.
4. The Option buyer shall pay a Premium to the Option seller (writer) on the Premium Payment Date(s).
5. If the Option is exercised pursuant to §3.2 or §3.3 above, the Option seller (writer) shall pay the Settlement Amount to the Option buyer on the Settlement Date of a given Calculation Period which is determined in accordance with the agreed Settlement Mode.
6. When entering into the Interest Rate Option, the Customer and the Bank shall agree on the following Transaction Terms:
  - 1/ seller (writer) and the buyer;
  - 2/ Option style (Vanilla or Binary);
  - 3/ Option type (Cap or Floor);
  - 4/ currency and Transaction Notional Amount in the individual Calculation Period;
  - 5/ Calculation Periods Start Dates;
  - 6/ Calculation Periods End Dates;

- 7/ Business Day Convention;
  - 8/ Business Day Calendar(s);
  - 9/ Exercise Dates;
  - 10/ Exercise Date Calendar(s);
  - 11/ Business Day Convention;
  - 12/ Settlement Mode ("in advance" or "in arrears");
  - 13/ Payout Method (Quota- or Interest-Based) – applicable only to the Binary Option;
  - 14/ Strike Rate;
  - 15/ Floating Interest Rate;
  - 16/ Payout Rate – applicable only to the Binary Option with the Interest-Based Payout Method;
  - 17/ Premium Payment Date, its currency and amount; in the case of a Premium payable in instalments – Premium Payment Dates, its currency and amounts payable on each Premium Payment Date.
7. The Settlement Amount shall be calculated in accordance with the following formula:
- 1/ "in arrears" Settlement Mode:
    - a/ Vanilla Floor Option:  
 $K = N * (R_0 - Z) * d / B$
    - b/ Vanilla Cap Option:  
 $K = N * (Z - R_0) * d / B$
    - c/ Binary Option with the Interest-Based Payout Method:  
 $K = N * S * d / B$
    - d/ Binary Option with the Notional-Based Payout Method:  
 $K = N$
  - 2/ For an "in advance" Settlement Mode, the Settlement Amount calculated in accordance with the formula specified in §3.7.1 above shall be multiplied by the following expression:

$$\frac{1}{1 + (Z * d / B)}$$

where:

- K – Settlement Amount;
- N – Transaction Notional Amount in a given Calculation Period;
- S – Payout Rate;
- Z – Floating Interest Rate as at the Exercise Date for a given Calculation Period;
- R<sub>0</sub> – Strike Rate;
- d – the number of days of an Calculation Period, calculated in accordance with the agreed Business Day Convention;
- B – the number of days in a year in accordance with the agreed Business Day Convention.

#### § 4. Interest Rate Swaps (IRS)

1. Interest Rate Swap Transaction ("Interest Rate Swap Transaction"/"IRS") is a derivative transaction consisting in the change of the floating interest payments stream the fixed interest payments stream:
  - 1/ the payer of the Fixed Interest Rate is obliged to:
    - a/ deliver a fixed interest payment calculated on the basis of the Fixed Interest Rate in accordance with the template specified in § 4.3 to the payer of the Floating Interest Rate on the Settlement Date of each fixed Calculation Period if the Fixed Interest Rate has a non-negative value, or
    - b/ deliver an amount being an absolute value of the floating interest payment calculated on the basis of the Floating Interest Rate in accordance with the template specified in § 4.3 to the payer of the Floating Interest Rate on the Settlement Date of each floating Calculation Period if the Floating Interest Rate has a negative value.
  - 2/ the payer of the Floating Interest Rate is obliged to:
    - a/ deliver a floating interest payment calculated on the basis of the Floating Interest Rate in accordance with the template specified in § 4.3 to the payer of the Fixed Interest Rate on the Settlement Date of each floating Calculation Period if the Floating Interest Rate has a non-negative value, or
    - b/ deliver an amount being an absolute value of the fixed interest payment calculated on the basis of the Fixed Interest Rate in accordance with the template specified in § 4.3 to the payer of the Fixed Interest Rate on the Settlement Date of each fixed Calculation Period if the Fixed Interest Rate has a negative value.
2. When entering into the IRS, the Parties shall agree on the following Transaction Terms:
  - 1/ the payer of the Fixed Interest Rate and the payer of the Floating Interest Rate;
  - 2/ the currency and the Transaction Notional Amount in individual fixed and floating Calculation Periods;
  - 3/ the Start Dates of the fixed and floating Calculation Periods;
  - 4/ the End Dates of the fixed and floating Calculation Periods;
  - 5/ the Settlement Dates of the fixed and floating Calculation Periods;
  - 6/ the Business Day Calendar(s);
  - 7/ the Business Day Convention;
  - 8/ the Fixed Interest Rate;
  - 9/ the Floating Interest Rate calculation method;
  - 10/ the Fixing Dates;
  - 11/ the Fixing Date Calendar(s); and
  - 12/ the Day Count Fraction for the Fixed Interest Rate and for the Floating Interest Rate.
3. The interest payments shall be calculated in accordance with the following formulas:

$$P_s = \frac{S * d_s * N}{B_s} \quad P_z = \frac{Z * d_z * N}{B_z}$$

where:

- P – fixed (P<sub>s</sub>) or floating (P<sub>z</sub>) interest payment;
- S – Fixed Interest Rate;
- Z – Floating Interest Rate;
- d – the number of days of a fixed Calculation Period (d<sub>s</sub>) or floating Calculation Period (d<sub>z</sub>) calculated in accordance with the agreed Day Count Fraction for the Fixed or Floating Interest Rate, respectively;
- N – Transaction Notional Amount in a given Calculation Period;
- B – the number of days in a year in accordance with the agreed Day Count Fraction for the Fixed Interest Rate (B<sub>s</sub>) or for the Floating Interest Rate (B<sub>z</sub>).

4. The IRS shall be settled in the "gross" mode if only one (fixed or floating) Calculation Period is settled on a given day. A "gross" IRS settlement consists in a delivery of an interest payment between the Parties on the Calculation Period Settlement Date in accordance with the principles specified in §4.1.1 and §4.1.2 above.
5. The IRS shall be settled in the "net" mode if the Settlement Dates of both (fixed and floating) Calculation Periods fall on the same day.
6. A "net" IRS settlement consists in a delivery of the Settlement Amount on the Calculation Period Settlement Date:
  - 1/ to the payer of the Floating Interest Rate by the payer of the Fixed Interest Rate, in the case when the value of the fixed interest payment exceeds the value of the floating interest payment, or
  - 2/ to the payer of the Fixed Interest Rate by the payer of the Floating Interest Rate, if the value of the floating interest payment exceeds the value of the fixed interest payment.
7. The Settlement Amount shall be calculated in accordance with the following formula:

$$K = |P_z - P_s|$$

where:

K – Settlement Amount,

P<sub>z</sub> – floating interest payment, calculated in accordance with the formula provided in §4.3 above; and

P<sub>s</sub> – fixed interest payment, calculated in accordance with the formula provided in §4.3 above.

### § 5. Cross-Currency Interest Rate Swaps (CIRS)

1. Unless the Parties agree otherwise, the Cross-Currency Interest Rate Swap Transaction ("**Cross-Currency Interest Rate Swap Transaction**" / "**CIRS**") is a derivative transaction consisting in the performance of: the Initial Exchange, exchange of the stream of the non-base interest payments for the stream of the base interest payments and performance of the Final Exchange.
2. The payer of the Base Interest Rate is the Party to the Transaction who:
  - 1/ shall deliver the Non-Base Transaction Notional Amount to the payer of the Non-Base Interest Rate (under the Initial Exchange) on the Start Date of the first (base and non-base) Calculation Period;
  - 2/ is obliged to deliver a stream of base interest payments to the payer of the Non-Base Interest Rate, if the Base Interest Rate has a non-negative value or a stream of non-base interest payments to the payer of the Non-Base Interest Rate, if the Non-Base Interest Rate has a negative value;
  - 3/ shall deliver the Base Transaction Notional Amount to the payer of the Non-Base Interest Rate (under the Final Exchange) on the Settlement Date of the last (base and non-base) Calculation Period.
3. The payer of the Non-Base Interest Rate is the Party to the Transaction who:
  - 1/ shall deliver the Base Transaction Notional Amount to the payer of the Base Interest Rate (under the Initial Exchange) on the Start Date of the first (base and non-base) Calculation Period,
  - 2/ is obliged to deliver a stream of non-base interest payments to the payer of the Base Interest Rate, if the Non-Base Interest Rate has a non-negative value or a stream of Base Interest payments to the payer of the Base Interest Rate, if the Base Interest Rate has a negative value;
  - 3/ shall deliver the Non-Base Transaction Notional Amount to the payer of the Base Interest Rate (under the Final Exchange) on the Settlement Date of the last (base and non-base) Calculation Period.
4. Upon entering into the CIRS, the Customer and the Bank shall agree on the following Transaction Terms:
  - 1/ payer of the Base Interest Rate and payer of the Non-Base Interest Rate;
  - 2/ Base Currency and Non-Base Currency (currency pair);
  - 3/ CIRS Exchange Rate;
  - 4/ base Calculation Period Start Date and the non-base Calculation Period Start Dates;
  - 5/ base Calculation Period End Date and the non-base Calculation Period End Dates;
  - 6/ base Calculation Period Settlement Date and the non-base Calculation Period Settlement Dates;
  - 7/ Business Day Calendar(s),
  - 8/ Business Day Convention,
  - 9/ Transaction Notional Amount in individual base and non-base Calculation Periods;
  - 10/ Base Interest Rate;
  - 11/ Day Count Fraction for the Base Interest Rate;
  - 12/ Non-Base Interest Rate;
  - 13/ Date Count Fraction for the Non-Base Interest Rate;
  - 14/ method of calculation of the Floating Interest Rate, the Fixing Dates and the Fixing Date Calendar(s) (provided that the Floating Interest Rate is applied to calculation of the base or non-base interest payments);
  - 15/ mode of settlement of the Transaction Notional Amounts and interest payments ("gross" or "net").
5. A Transaction Notional Amount is settled in the "gross" mode, if:
  - 1/ the Initial Exchange is performed on the Start Date of the first (base and non-base) Calculation Period;
  - 2/ the Final Exchange is performed on the Settlement Date of the last (base and non-base) Calculation Period.
6. If the Customer and the Bank agree that the Base Transaction Notional Amount shall change on the specific End Dates of both (base and non-base) Calculation Periods, referred to in §5.5 above, then the Interim Exchange along with the "gross" settlement of the Initial and Final Exchanges shall be made in the following manner:
  - 1/ in the case when on a specific End Date of both (base and non-base) Calculation Periods, the Base Transaction Notional Amount:
    - a/ increases - then on the Settlement Date of both Calculation Periods the payer of the Base Interest Rate shall deliver a portion of the Non-Base Transaction Notional Amount to the payer of the Non-Base Interest Rate and the payer of the Non-Base Interest Rate shall deliver a portion of the Base Transaction Notional Amount to the payer of the Base Interest Rate;
    - b/ decreases – then on the Settlement Date of both Calculation Period the payer of the Base Interest Rate shall deliver a portion of the Base Transaction Notional Amount to the payer of the Non-Base Interest Rate and the payer of the Non-Base Interest Rate shall deliver a portion of the Non-Base Transaction Notional Amount to the payer of the Base Interest Rate;
  - 2/ the delivered portion of the Base Transaction Notional Amount shall be equal to the amount by which the Base Transaction Notional Amount changes on the given End Date of both (base and non-base) Calculation Periods;
  - 3/ the delivered portion of Non-Base Transaction Notional Amount shall be the equivalent of the delivered portion of the Base Transaction Notional Amount calculated at the CIRS Currency Rate.
7. The settlement of the Transaction Notional Amounts in the "net" mode consists in the fact that:
  - 1/ on the dates of settlement of the Interim Exchange or Final Exchange the Parties settle among themselves an amount constituting the absolute value of the difference between the Non-Base Transaction Notional Amount or its portion and the Base Transaction Notional Amount or its portion converted into the Non-Base Currency at the settlement rate referred to in § 5.4 above rather than deliver the Base Amounts of the Transaction or their portions in exchange for the Non-Base Transaction Notional Amount or its portions;
  - 2/ in the case of Interim Exchanges resulting from the increasing Base Transaction Notional Amount, the amount specified in §5.7.1 above shall be delivered to:
    - a/ the payer of the Base Interest Rate by the payer of the Non-Base Interest Rate, if the settlement rate is higher than the CIRS Exchange Rate; or

- b/ the payer of the Non-Base Interest Rate by the payer of the Base Interest Rate, if the settlement rate is lower than the CIRS Exchange Rate;
- 3/ in the case of the Final Exchange and Interim Exchanges resulting from the decreasing Base Transaction Notional Amount, the amount specified in §5.7.1 above shall be delivered to:
- a/ the payer of the Base Interest Rate by the payer of the Non-Base Interest Rate, if the settlement rate is lower than the CIRS Exchange Rate; or
- b/ the payer of the Non-Base Interest Rate by the payer of the Base Interest Rate, if the settlement rate is higher than the CIRS Exchange Rate;
- 4/ unless the Parties agree otherwise, the settlement rate referred to in §5.7.1 above shall be the fx rate determined on the basis of the fixing rate announced by the National Bank of Poland two (2) Business Days before the date on which the Final Exchange or Interim Exchange is settled.
8. The Customer and the Bank have the right to agree on the terms of the settlement of the CIRS, which do not constitute basis for performing the Initial Exchange, the Final Exchange or the Interim Exchange.
9. Interest payments settlement in the "gross" mode consist in the fact that:
- 1/ on the Settlement Day of each base Calculation Period:
- a/ the payer of the Base Interest Rate shall deliver to the payer of the Non-Base Interest Rate base interest payments calculated on the basis of the Base Interest Rate in accordance with the template specified in § 5.10, if the Base Interest Rate has a non-negative value, or
- b/ the payer of the Non-Base Interest Rate shall deliver to the payer of the Base Interest Rate amounts that are the absolute value of the base interest payments calculated on the basis of the Base Interest Rate in accordance with the template specified in § 5.10, if the Base Interest Rate has a negative value, or
- 2/ on the Settlement Date of each non-base Calculation Period:
- a/ the payer of the Non-Base Interest Rate shall deliver to the payer of the Base Interest Rate non-base interest payments calculated on the basis of the Non-Base Interest Rate in accordance with the template specified in § 5.10, if the Non-Base Interest Rate has a non-negative value, or
- b/ the payer of the Base Interest Rate shall deliver to the payer of the Non-Base Interest Rate amounts that are the absolute value of the non-base interest payments calculated on the basis of the Non-Base Interest Rate in accordance with the template specified in § 5.10, if the Non-Base Interest Rate has a negative value.
10. Interest payments shall be calculated in accordance with the following formulas:

$$P_B = \frac{O_B * d_B * N_B}{B_B} \quad P_N = \frac{O_N * d_N * N_N}{B_N}$$

where:

P – base ( $P_B$ ) or non-base ( $P_N$ ) interest payment;

O – Base ( $O_B$ ) or Non-Base ( $O_N$ ) Interest Rate;

d – number of days of the base ( $d_B$ ) Calculation Period or non-base ( $d_N$ ) Calculation Period calculated in accordance with the agreed Day Count Fraction for the Base or Non-Base Interest Rate, respectively;

N – Base ( $N_B$ ) or Non-Base ( $N_N$ ) Amount of the Transaction in any given base or non-base Calculation Period respectively;

B – number of days in a year in accordance with the agreed Day Count Fraction for the Base ( $B_B$ ) or Non-Base ( $B_N$ ) Interest Rate.

11. Interest payments settlement in the "net" mode consists in the payment of the Settlement Amount on the Calculation Period Settlement Date:
- 1/ to the payer of the Non-Base Interest Rate by the payer of the Base Interest Rate in the case where the value of the base interest payment converted into the Non-Base Currency exceeds the value of the non-base interest payment;
- 2/ to the payer of the Base Interest Rate by the payer of the Non-Base Interest Rate in the case where the value of the non-base interest payment exceeds the value of the base interest payment converted into the Non-Base Currency.
12. The Settlement Amount shall be calculated in accordance with the following formula:

$$K = |P_{BN} - P_N|$$

where:

K - the Settlement Amount;

$P_{BN}$  – the equivalent of the base interest payment calculated in accordance with the formula specified in §5.10 above denominated in the Non-Base Currency; and

$P_N$  – the non-base interest payment calculated in accordance with the formula provided in §5.10 above.

Unless the Parties agree otherwise, the fx rate determined on the basis of the fixing rate announced by the National Bank of Poland two (2) Business Days before the Calculation Period Settlement Date shall be applied for conversion of the values of the base interest payments to the Non-Base Currency.

13. If the Customer and the Bank agree that the interest payment should be settled in the "net" mode, the Transaction shall be settled in this mode provided that the Settlement Dates of both (base and non-base) Calculation Periods fall on the same date. If the settlement of one of the Calculation Periods (base or non-base) falls on a given day, the interest payments shall be settled in the "gross" mode as referred to in §5.9 above.

### **§ 6. The Rules for Early Settlement or Partial Early Settlement of the Transaction or modification of the Terms and Conditions of the Transaction**

1. The Customer shall have the right to early settle the Transaction or the Parties may agree on the Terms of a partial early settlement of the Transaction or the Terms of a modification of the Terms and Conditions of the Transaction on any Business Day, however, no later than three (3) Business Days before the Settlement Date of the last Calculation Period.
2. Upon early settlement of the Transaction or partial early settlement of the Transaction or modification of the Transaction, apart from specifying the Transaction that is subject to the early or partial early settlement or modification by the way of indicating the date of entering into and the number of this Transaction, the Customer and the Bank shall agree on the following Terms of early settlement of the Transaction or partial early settlement of the Transaction or Terms of modification of Terms and Conditions of The Transaction:
- 1/ the currency and the Amount of the Early Settlement or Partial Early Settlement or payable due to Modification,
- 2/ Early Settlement Amount or Partial Early Settlement Amount or amount payable due to Modification Payment Date, whereas it may not fall later than on the Settlement Date of the last Calculation Period,
- 3/ Party (the Client or the Bank) obliged to pay the Early Settlement Amount or Partial Early Settlement Amount or amount payable due to Modification.
3. In the case of a partial early settlement of the Transaction, apart from the terms stipulated in §6.2 above, the Customer and the Bank shall additionally agree on the modified Transaction Terms for the portion of the Transaction that is not subject to the partial early settlement or which remains after the modification (the modified Transaction Terms shall mean the Transaction Terms specified in § 2.8, § 3.6, § 4.2 or § 5.4 respectively).
4. In the case of the CIRS Transaction, the Parties may agree that in place of agreeing on a single currency and the Early Settlement Amount or Partial Early Settlement Amount or Amount payable due to Modification as well as the Party obliged to pay this amount pursuant to §6.2 above, the Parties shall agree on two Early Settlement Amounts or Partial Early Settlement Amounts or Amounts payable due to Modification (in the Base and Non-Base Currencies). On the Early Settlement Payment Date or Partial Early Settlement Payment Date or Amount payable due to Modification Payment Date, the payer of the Base Interest Rate shall deliver to the payer of the Non-Base Interest Rate an agreed Early Settlement Amount or Partial Early Settlement Amount in the Base Currency, whereas the payer of the Non-Base Interest Rate shall deliver to the payer of the Base Interest Rate an agreed Early Settlement Amount or Partial Early Settlement Amount or Amount Payable due to Modification in the Non-Base Currency.
5. A new number shall be assigned to the portion of the Transaction that is not subject to partial early settlement or which remains after the modification and for which the modified Transaction Terms referred to in § 6.3 above have been agreed.



6. In the case of agreeing on the Terms of early settlement of the Transaction or partial early settlement of the Transaction or modification of the Transaction referred to in § 6.2 above, on the Payment Date under the Early Settlement or Partial Early Settlement or Amount Payable due to Modification the Bank or the Customer shall pay the Early Settlement Amount or Partial Early Settlement Amount or Amount Payable due to Modification in favour of the other Party to the Transaction on the Early Settlement or Partial Early Settlement Payment or Amount Payable due to Modification Payment Date.
7. In the case of agreeing on the Terms of early settlement of the Transaction, all obligations of the Parties on account of the Transaction falling due after the Early Settlement Payment Date shall expire.
8. In the case of the Terms of partial early settlement of the Transaction or modification of The Terms and Conditions of a The Transaction, all obligations of the Parties on account of the Transaction falling due after the Partial Early Settlement Payment Date or Amount Payable due to Modification Payment Date shall expire, except for new liabilities arising from the modified Transaction Terms referred to in § 6.3 above, that have been agreed for the portion of the Transaction that is not subject to the partial early settlement or which remains after the modification of The Terms and Conditions.

### § 7. General description of market risks associated with entering into the Transactions

When contemplating entering into a Transaction, the Customer should in particular consider the following:

- 1/ The FRA-related market risks, i.e. the risk of an adverse effect, from the Customer's point of view, of change of the market risk factors on the Transaction, both on the settlement amount on the settlement date, and – through the Transaction valuation – on the value of the Deposit Required by the Bank throughout the duration of the Transaction. The main market risk factor constitutes the interest rate risk, i.e. the risk of unfavourable changes, from the point of view of the Transaction, of the market levels, of the current and forward interest rates and their mutual relations, of the relation between the actual bid prices and the actual ask prices for the interest rate instruments in the Transaction currency. An additional market factor affecting the changes in evaluation of the FRA Transaction entered into in a currency other than PLN is the risk of change in the value of the Transaction (denominated in PLN) as a result of unfavourable changes in the levels of the fx rate. Changes of the aforementioned market risk factors may yield the Customer unlimited profit or bring unlimited loss that may exceed funds committed by the Customer. Changes of these market risk factors depend on many macroeconomic parameters, including in particular the economic growth rate, inflation level and inflation expectations, state budget deficit level, deficit on the current account and relation between demand and supply on the interest rate instruments market and on the fx market.
- 2/ The market risks related to the Interest Rate Options, i.e. the risk of an adverse effect, from the Customer point of view, of change of the market risk factors on the Transaction, both on the Settlement Amount on the Settlement Date, and – through the Transaction valuation – on the value of the Deposit Required by the Bank throughout the duration of the Transaction. The market risk factors referred to above may consist in: changes of the market levels, of the current and forward interest rates and their mutual relations, of market price volatility, changes of the levels and forms of the implied volatility plane for the cap/floor option in specific currency, the relation between the actual bid prices and actual ask prices for the interest rate instruments in the currency of the Transaction. An additional market risk factor affecting the changes of the evaluation of interest rate option of the Transaction entered into in a currency other than PLN is the risk of change in the value of the Transaction (denominated in PLN) as a result of unfavourable changes in the fx rate levels. Changes in the aforementioned market risk factors may yield the Customer unlimited profit or bring unlimited loss that may several times exceed funds committed by the Customer or the received Premium. Changes of these market risk factors depend on many macroeconomic parameters, including in particular economic growth rate, inflation level and inflation expectations, state budget deficit, deficit on the current account and relation between demand and supply on the market for interest rate instruments and the fx market.
- 3/ The IRS-related market risks, i.e. the risk of an adverse effect, from the Customer's point of view, of change of the market risk factors on the Transaction, on both the Settlement Amount on the Settlement Date, and – through the Transaction valuation – the value of the Deposit Required by the Bank throughout the duration of the Transaction. The main market risk factor referred to above consists in the interest rate risk, i.e. the risk of change of the market levels, of the current and forward interest rates and their mutual relations, the relation between the actual bid prices and actual ask prices for the interest rate instruments in the currency of the Transaction. An additional market risk factor affecting the changes of the evaluation of the Transaction entered into in a currency other than PLN is the risk of change of the value of the Transaction (denominated in PLN) as a result of unfavourable changes in the fx rate levels. Changes in the aforementioned market risk factors may yield the Customer unlimited profit or bring unlimited loss that may several times exceed funds committed by the Customer. Changes of these said market factors depend on many macroeconomic parameters, including in particular economic growth rate, inflation level and inflation expectations, state budget deficit, deficit on the current account and relation between demand and supply on the market for interest rate instruments and the fx market.
- 4/ The CIRS related market risks, i.e. the risk of an adverse effect, from the Customer's point of view, of changes of the market risk factors on the Transaction, both on the Settlement Amount(s) on the Settlement Date(s), and – through the valuation of the Transaction – on the value of the Deposit Required by the Bank throughout the duration of the Transaction. The main market risk factors include the fx risk and the interest rate risk for the currencies constituting the object of the Transaction. The risk of the fx rate consists in the risk of unfavourable change, from the point of view of the executed Transaction, of the market levels, of the current and forward interest rates and their mutual relations, for the currencies constituting the object of the Transaction. Changes of the said market factors may yield the Customer unlimited profit or bring unlimited loss that may exceed funds committed by the Customer. Changes in the said market factors depend on many macroeconomic parameters, including in particular economic growth rate, inflation level and inflation expectations, state budget deficit, deficit on the current account and relation between demand and supply on the market for interest rate instruments and the fx market.

### § 8. Entry into Force

This Description of Transactions enters into force on 1 May 2015.