



Information about Tied Selling and Hedging Transactions

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Information contained in this document is addressed to all clients as defined in the MiFID¹.

In this document you will find information about cross-selling, in particular a general description of risks as well as the costs and fees connected with cross-selling. Cross-selling is where mBank S.A. ("mBank", "Bank") grants you a loan, with one of the conditions being that you also conclude an interest rate risk / foreign exchange risk hedging transaction.

Cross-selling can only apply to a client from the target group within the meaning of the MiFID being a professional client or a retail client for which/whom the hedging product was additionally assessed by the Bank as appropriate within the meaning of Article 56 (1) of the Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.² Eligible counterparties are not subject to the appropriateness assessment and are not included in target groups.



CROSS-SELLING – OBLIGATION TO CONCLUDE A HEDGING TRANSACTION

Where you conclude a loan agreement, we can oblige you to conclude a hedging agreement, and consequently, to conclude hedging transactions under the hedging agreement.

These may include transactions:

- a) hedging against interest rate risk (IRS or CAP). These transactions mitigate interest rate risk and protect the amount of interest paid by the borrower;
- b) hedging against foreign exchange risk (FX forward transactions) in cases where foreign exchange risk related to securing the conversion of the Loan or to payments in another currency occurs;
- c) hedging against both interest rate risk and foreign exchange risk.

This type of selling, where we sell more than one product and at least one of the products sold is a financial instrument, is called cross-selling in accordance with the MiFID. Tied selling is when we grant you a loan on condition that you conclude a hedging transaction, which means that you cannot buy only one product (in this case, a loan) without buying the other (in this case, a hedging instrument).



TYPES OF HEDGING TRANSACTIONS

When taking out a loan from us, you have an option to conclude a hedging transaction in the form of various financial instruments. This depends on the parameters of the loan, the risks involved, and the specifics of the project financed by the loan. Read below to learn about the available types of transactions.

¹ Dyrektywa Parlamentu Europejskiego i Rady 2014/65/UE z dnia 15 maja 2014 r. w sprawie rynków instrumentów finansowych oraz zmieniająca dyrektywę 2002/92/WE i dyrektywę 2011/61/UE

² Rozporządzenie delegowane Komisji (UE) 2017/565 z dnia 25 kwietnia 2016 r. uzupełniające dyrektywę Parlamentu Europejskiego i Rady 2014/65/UE w odniesieniu do wymogów organizacyjnych i warunków prowadzenia działalności przez firmy inwestycyjne oraz pojęć zdefiniowanych na potrzeby tej dyrektywy

Interest rate risk hedging transactions

- INTEREST RATE SWAP (IRS)

An interest rate swap is a derivative transaction involving the swap of a stream of floating interest payments for a stream of fixed interest payments. Obligations of a payer under an IRS:

1. the payer of the Fixed Interest Rate delivers the following to the payer of the Floating Interest Rate on the Exercise Date:
 - a. of each fixed Interest Period: a fixed interest payment calculated on the basis of the Fixed Interest Rate if the Fixed Interest Rate is not negative, and
 - b. of each floating Interest Period: the amount representing the absolute value of the floating interest payment calculated on the basis of the Floating Interest Rate if the Floating Interest Rate is negative.
2. the payer of the Floating Interest Rate delivers the following to the payer of the Fixed Interest Rate on the Exercise Date:
 - a. of each floating Interest Period: a floating interest payment calculated on the basis of the Floating Interest Rate if the Floating Interest Rate is not negative, and
 - b. of each fixed Interest Period: the amount representing the absolute value of the fixed interest payment calculated on the basis of the Fixed Interest Rate if the Fixed Interest Rate is negative.

- CAP OPTION

An interest rate option is a derivative transaction that, if exercised, gives the option buyer the right to receive the Settlement Amount equal to the difference between the Strike Rate and the Floating Interest Rate.

A CAP option ("call option" / "CAP") is exercised when the Floating Interest Rate on the Exercise Date for a given Interest Period is higher than the Strike Rate.

The option buyer is obliged to pay a Premium to the option seller (issuer) on the Premium Payment Date(s).

If the option is exercised, the option seller (issuer) is obliged to pay the Settlement Amount in arrears to the option buyer on the Settlement Date of a given Interest Period.



For detailed information about interest rate risk hedging transactions, including a description of risks to which you are exposed when concluding these transactions, read the Description of Interest Rate Transactions and FX Interest Rate Transactions. The link to this document is provided in the Additional Information section. The section also provides definitions of the terms used in this document.

Foreign exchange risk hedging transactions

- FX FORWARD TRANSACTION

An FX forward is a derivative transaction that consists in the purchase or sale of the Transaction Amount expressed in the Base Currency on a specified Settlement Date in exchange for its equivalent expressed in the Non-Base Currency (calculated as the product of the Transaction Amount expressed in the Base Currency and the Forward Rate).



For detailed information about foreign exchange risk hedging transactions, including a description of risks to which you are exposed when concluding these transactions, read the Description of FX Transactions. The link to this document is provided in the Additional Information section. The section also provides definitions of the terms used in this document.



BENEFITS, LIMITATIONS AND RISKS RELATED TO CROSS-SELLING

Impact on transaction risk

The conclusion of a hedging transaction together with granting a loan (and consequently, cross-selling) can limit, in particular, interest rate risk, foreign exchange risk or both these risks simultaneously. For the remaining unhedged risks, the risk arising from cross-selling compared with the risk arising from individual services is the sum of risks arising from individual services (i.e. the sum of risks arising from taking out a loan and from concluding a hedging transaction).

For a general description of risks connected with credit products, read the Indicative and Final Terms and Conditions of Financing (“Term Sheet”), which we will provide to you before concluding a loan agreement. For a detailed description of risks connected with concluding hedging transactions, read the dedicated Transaction Description. The links to Transaction Descriptions are provided in the Additional Information section.

Benefits, limitations and risks related to cross-selling

Examples of benefits related to cross-selling are described in item 14 of Information on Categorisation of mBank S.A. Clients in Accordance with MiFID. The link to this document is provided in the Additional Information section.

The cross-selling of the service of concluding hedging transactions and the service of granting loans does not impose on you additional, unreasonable costs or fees (including contractual penalties) in connection with the discontinuation of one of the services included in the cross-selling.

The cross-selling may result in the following consequences, among others:

- a) in the event that the loan is repaid or an obligation arises to repay the loan in whole, you are obliged to close the hedging transaction early in the full amount of that transaction,
- b) in the event that the granted loan is partially prepaid, you are obliged to close the hedging transaction early in the amount corresponding to the prepaid loan amount,
- c) failure to comply with the obligations stipulated in items (a) and (b) may result in the Bank closing the hedging transaction early,
- d) failure to comply with the obligations under the loan agreement may constitute a breach of the hedging transaction agreement,
- e) breach of the hedging transaction agreement may constitute a breach of the loan agreement.



CROSS-SELLING COSTS

Aggregate costs connected with cross-selling include:

- costs related with the loan, and
- costs related with the hedging transaction or transactions.

The conclusion of a hedging product does not affect the margin or the fee related to granting a loan, whereas the conclusion of a loan agreement does not affect the cost of concluding a hedging transaction. The total of costs and fees related to the sale of a loan and of a hedging product separately is always the same as when cross-selling both products in a package.

The aforesaid is illustrated in the example summary of aggregate costs for each type of a hedging instrument (Example 1, Example 2 and Example 3 below).

- For the detailed information on the costs related to granting a loan, go to the Final Term Sheet.
- The cost related to concluding a hedging transaction is the mark-up included in the transaction price. Mark-up is construed as the difference between the price of holding the position in a given instrument for the Bank and the final price quoted for you. For detailed information on the costs and fees related to a hedging transaction and, in particular, the amount of guaranteed mark-ups for each type of hedging transactions, as well as the factors affecting mark-ups, go to the Mark-up Information. The link to the Mark-up Information is provided in the Additional Information section.

Example summary of aggregate costs

The tables below present a detailed comparison of the costs and fees related to concluding and performing agreements on individual services, if those services were provided under separate agreements, compared with the costs and fees related to concluding and performing cross-selling agreements.

- We will inform you in detail of the aggregate costs for specific parameters of a loan and a hedging transaction in the Final Term Sheet provided to you prior to the conclusion of the loan agreement.

In principle, if you repay the loan in line with the pre-agreed schedule and thus hold a hedging transaction to maturity, there will be no termination costs.

EXAMPLE 1: LOAN HEDGED BY AN IRS

Loan amount:	PLN 10,000,000.00
Loan tenor:	5 years
Loan amortisation:	annuity (20 years)
Loan costs:	
Interest:	8.85% p.a.
▪ including margin:	3.00% p.a.
▪ including reference rate:	5.85% p.a.
Non-interest costs:	PLN 230,000.00
▪ including front-end fee:	PLN 100,000.00 (1.00% of the loan amount)
▪ including administration fee:	PLN 130,000.00 (0.26% p.a. of the loan amount)
Nominal value of the IRS (percentage of the nominal value of the loan):	PLN 8,000,000.00 (80%)
IRS transaction tenor:	5 years
IRS fixed interest rate:	5.60% p.a.
▪ including mark-up expressed in basis points:	40 bps
Costs related to the IRS transaction (expressed in amount and in percentage of the nominal value of the transaction)	
▪ Service cost:	PLN 0.00 (0.00%)
▪ Instrument cost, including mark-up:	PLN 130,000.00 (1.63 %)
▪ Total:	PLN 130,000.00 (1.63 %)
The cumulative impact of costs and fees on the transaction result:	PLN 130,000.00 (1.63 %)

Transactions in derivative instruments, including IRS, can be concluded by the Client exclusively for hedging purposes. Therefore, they should not be considered as investments generating a profit for the client. The total amount of fees and fees for IRS transactions will reduce the settlement amount of the transaction. We do not forecast spikes or fluctuations in costs and fees relating to IRS transactions.

- Assumptions:**
- the simulation of the increase/decrease of floating interest rate refers to the entire lending period
 - negative values mean positive flows for the client

Cost of products sold separately

Change in the reference interest rate	Floating rate loan			IRS (including mark-up)			IRS (excluding mark-up)		Total		
	Interest cost	Non-interest cost	Total	Interest cost	Including mark-up	Non-interest cost	Interest cost	Non-interest cost	Interest cost	Non-interest cost	Total
+4%	5,891,921	230,000	6,121,921	-1,558,952	130,000	0	-1,688,952	0	4,332,969	230,000	4,562,969
+2%	4,974,891	230,000	5,204,891	-825,327	130,000	0	-955,327	0	4,149,563	230,000	4,379,563
5.85%	4,057,860	230,000	4,287,860	-91,703	130,000	0	-221,703	0	3,966,157	230,000	4,196,157
-2%	3,140,830	230,000	3,370,830	641,921	130,000	0	511,921	0	3,782,751	230,000	4,012,751
-4%	2,223,799	230,000	2,453,799	1,375,546	130,000	0	1,245,546	0	3,599,345	230,000	3,829,345

Cross-selling cost

Change in the reference interest rate	Loan hedged by an IRS (including mark-up)				Loan hedged by an IRS (excluding mark-up)		
	Interest cost	Including mark-up	Non-interest cost	Total	Interest cost	Non-interest cost	Total
+4%	4,332,969	130,000	230,000	4,562,969	4,202,969	230,000	4,432,969
+2%	4,149,563	130,000	230,000	4,379,563	4,019,563	230,000	4,249,563
5.85%	3,966,157	130,000	230,000	4,196,157	3,836,157	230,000	4,066,157
-2%	3,782,751	130,000	230,000	4,012,751	3,652,751	230,000	3,882,751
-4%	3,599,345	130,000	230,000	3,829,345	3,469,345	230,000	3,699,345

EXAMPLE 2: LOAN HEDGED BY A CAP

Loan amount:	PLN 10,000,000.00
Loan tenor:	5 years
Loan amortisation:	annuity (20 years)
Loan costs:	
Interest:	8.85% p.a.
▪ including margin:	3.00% p.a.
▪ including reference rate:	5.85% p.a.
Non-interest costs:	PLN 230,000.00
▪ including front-end fee:	PLN 100,000.00 (1.00% of the loan amount)
▪ including administration fee:	PLN 130,000.00 (0.26% p.a. of the loan amount)
nominal value of the CAP (% of the nominal value of the loan):	PLN 8,000,000.00 (80%)
CAP tenor:	5 years
Fixed interest rate (strike rate) of the CAP:	5.60% p.a.
Value of the option premium:	PLN 660,000.00
▪ including mark-up:	PLN 130,000.00
Costs related to the CAP transaction (expressed in amount and in percentage of the nominal value of the transaction):	

▪ Service cost:	PLN 0.00 (0.00%)
▪ Instrument cost, including mark-up:	PLN 130,000.00 (1.63 %)
▪ Total:	PLN 130,000.00 (1.63 %)
The cumulative impact of costs and fees on the transaction result:	PLN 130,000.00 (1.63 %)

Transactions in derivative instruments, including CAP transactions, can be concluded by the Client exclusively for hedging purposes. Therefore, they should not be considered as investments generating a profit for the Client. The total amount of fees and fees for CAP transactions will reduce the settlement amount of the transaction. We do not forecast spikes or fluctuations in costs and fees relating to CAP transactions.

- Assumptions:**
- the simulation of the increase/decrease of floating interest rate refers to the entire lending period
 - negative values mean positive flows for the client

Cost of products sold separately

Change in the reference interest rate	Floating rate loan			CAP option (including mark-up)			CAP option (excluding mark-up)			Total		
	Interest cost	Non-interest cost	Total	Interest cost	including mark-up	Non-interest cost	Interest cost	Non-interest cost	Interest cost	Non-interest cost	Total	
+4%	5,891,921	230,000	6,121,921	-898,952	130,000	0	-1,028,952	0	4,992,969	230,000	5,222,969	
+2%	4,974,891	230,000	5,204,891	-165,327	130,000	0	-295,327	0	4,809,563	230,000	5,039,563	
5.85%	4,057,860	230,000	4,287,860	660,000	130,000	0	530,000	0	4,717,860	230,000	4,947,860	
-2%	3,140,830	230,000	3,370,830	660,000	130,000	0	530,000	0	3,800,830	230,000	4,030,830	
-4%	2,223,799	230,000	2,453,799	660,000	130,000	0	530,000	0	2,883,799	230,000	3,113,799	

Cross-selling costs

Change in the reference interest rate	Loan hedged by a CAP option (including mark-up)				Loan hedged by a CAP option (excluding mark-up)		
	Interest cost	including mark-up	Non-interest cost	Total	Interest cost	Non-interest cost	Total
+4%	4,992,969	130,000	230,000	5,222,969	4,862,969	230,000	5,092,969
+2%	4,809,563	130,000	230,000	5,039,563	4,679,563	230,000	4,909,563
5.85%	4,717,860	130,000	230,000	4,947,860	4,587,860	230,000	4,817,860
-2%	3,800,830	130,000	230,000	4,030,830	3,670,830	230,000	3,900,830
-4%	2,883,799	130,000	230,000	3,113,799	2,753,799	230,000	2,983,799

EXAMPLE 3: LOAN HEDGED BY AN FX FORWARD



In the simulation, the FX forward transaction secures the conversion of the loan currency from PLN (in the construction phase) to EUR (in the investment phase).

Loan amount – construction phase:	PLN 4,360,000.00
Loan tenor – construction phase:	2 years
Average loan balance – construction phase:	50%
Loan costs (construction phase):	
Interest:	8.85% p.a.
▪ including margin:	3.00% p.a.
▪ including reference rate:	5.85% p.a.
Non-interest costs:	PLN 77,172.00
▪ including front-end fee:	PLN 43,600.00 (1.00% of the loan amount)
▪ including commitment fee:	PLN 10,900.00 (0.50% of the average loan balance)
▪ including administration fee:	PLN 22,672.00 (0.26% p.a. of the loan amount)
Loan amount – investment phase:	EUR 1,000,000.00
Loan tenor – investment phase:	5 years
Loan costs (investment phase):	
Interest:	6.8% p.a.
▪ including margin:	3.00% p.a.
▪ including reference rate:	3.80% p.a.
Non-interest costs:	PLN 49,143.00
▪ including administration fee:	PLN 49,143.00 (0.26% p.a. of the loan balance converted at the EUR/PLN exchange rate of 4.36)
Nominal value of the hedging transaction in non-base currency:	PLN 4,360,000.00
Tenor of the hedging transaction:	2 years
Forward rate (EUR/PLN):	4.36
▪ including mark-up:	100 pips (0.0100)
Costs related to the FX forward transaction (expressed in amount and in percentage of the nominal value)	
▪ Service cost:	PLN 0.00 (0.00%)
▪ Instrument cost, including mark-up:	PLN 10,000.00 (0.23%)
▪ Total:	PLN 10,000.00 (0.23%)
The cumulative impact of costs and fees on the transaction result:	PLN 10,000.00 (0.23%)

Transactions in derivative instruments, including FX forward transactions, can be entered into exclusively for hedging purposes. Therefore, they should not be considered as investments generating a profit for the client. The total amount of fees and fees for FX forward transactions will reduce the settlement amount of the transaction. We do not forecast spikes or fluctuations in costs and fees relating to FX forward transactions.

- Assumptions:**
- the simulation of the increase/decrease of the EUR/PLN exchange rate refers to the entire lending period
 - negative values mean positive flows for the client
 - the simulations do not take into account potential changes in the value of the reference rates within the lending period

Separate sale

Exchange rate (PLN/EUR)	Loan					FX forward		FX forward (excluding mark-up)	Total
	Change in the nominal value of the loan (equivalent in PLN) as a result of exchange rate fluctuations	Interest costs (EUR) – investment loan	Interest costs (PLN) – construction loan	Non-interest costs (PLN)	Total loan costs (PLN)	FX forward – settlement (PLN)	Including mark-up (PLN)	FX forward – settlement (PLN)	Total costs (PLN)
4.56	-200,000	298,115	385,860	126,315	1,871,581	200,000	10,000	190,000	1,881,581
4.46	-100,000	304,800	385,860	126,315	1,871,581	100,000	10,000	90,000	1,881,581
4.36	0	311,790	385,860	126,315	1,871,581	0	10,000	-10,000	1,881,581
4.26	100,000	319,109	385,860	126,315	1,871,581	-100,000	10,000	-110,000	1,881,581
4.16	200,000	326,780	385,860	126,315	1,871,581	-200,000	10,000	-210,000	1,881,581

Cross-selling

Exchange rate (PLN/EUR)	Loan secured by an FX forward (excluding mark-up)					Loan secured by an FX forward (including mark-up)			
	Change in the nominal value of the loan (equivalent in PLN) as a result of exchange rate fluctuations	Interest costs (EUR) – investment loan	Interest costs (PLN) – construction loan	Non-interest costs (PLN)	Total costs (PLN)	Change in the nominal value of the loan (equivalent in PLN) as a result of exchange rate fluctuations	Mark-up (PLN)	Interest costs (EUR) – investment loan	Interest costs (PLN) – construction loan
4.56	0	298,115	385,860	126,315	1,871,581	0	10,000	298,115	385,860
4.46	0	304,800	385,860	126,315	1,871,581	0	10,000	304,800	385,860
4.36	0	311,790	385,860	126,315	1,871,581	0	10,000	311,790	385,860
4.26	0	319,109	385,860	126,315	1,871,581	0	10,000	319,109	385,860
4.16	0	326,780	385,860	126,315	1,871,581	0	10,000	326,780	385,860

Mark-up for hedging transactions presented in the tables is estimated mark-up calculated as at the time of preparing this document.

We will inform you of the amount of the estimated mark-up for a specific hedging transaction in the Final Term Sheet, provided to you prior to the conclusion of the loan agreement.

The estimated mark-up may differ slightly from the actual mark-up as per the information provided in the Mark-up Information. The difference may result, among others, from:

- variability of the market price of an instrument in the period from informing you about the estimated mark-up to concluding the transaction,
- calculating the final amount of the cost of holding the bank's position resulting from the transaction,
- difference in the foreign exchange rate used to present the PLN amount of the estimated mark-up and the actual mark-up,
- application of discounting factors to the cash flows from the transaction.

The final mark-up charged will not be higher than the guaranteed mark-up for IRS/CAP/FX forward transactions in line with the Mark-up Information. A link to the Mark-up Information is provided in the Additional Information section.

The mark-up is always calculated in accordance with our internal Rules of Fair Mark-ups.

Costs of loan prepayment and early closure of a hedging transaction (termination costs)

In the case of loan prepayment, we will charge you a prepayment fee in the amount not higher than the maximum fee communicated in the Term Sheet. You will also bear the costs of early closure and settlement of the entire or part of the hedging transaction. Early settlement of IRS/CAP/FX forward transactions occurs upon conclusion of a closing transaction and payment of the settlement amount arising therefrom which, depending on the interest rates or exchange rate, may be positive or negative.

- For interest rate risk hedging transactions – the lower the closing transaction quote is than the original fixed rate of the concluded transaction, the higher the settlement amount you will have to pay. The settlement amount will also be affected by the remaining nominal value at transaction closure – the higher it is, the proportionally higher the settlement amount will be.
- For foreign exchange risk hedging transactions whereby you make a forward purchase of currency – the higher the closing transaction rate is compared with the original forward rate, the higher the settlement amount you will have to pay.
- For foreign exchange risk hedging transactions whereby you make a forward purchase of currency – the lower the closing transaction rate is compared with the original forward rate, the higher the settlement amount you will have to pay.

For the closing transaction mBank will charge a mark-up in the amount not higher than the guaranteed mark-up for a given financial instrument specified in the Mark-up Information. A link to the Mark-up Information is provided in the Additional Information section.



ADDITIONAL INFORMATION

Here you will find links to additional key information documents containing the description of hedging products, risks and other elements related to entering into hedging transactions, which you should read before entering into a transaction.

Document	Link to the document	Contents of the document
Rules of Cooperation for Financial Market Transactions	▶ www.mbank.pl/en/help/forms/sme-corporate/financial-market/financial-market-transactions/terms-condition-rules-of-cooperation-market-transaction/	General information on concluding treasury transactions
Information on Categorisation of mBank S.A. Clients in Accordance with MiFID	▶ www.mbank.pl/en/help/forms/sme-corporate/financial-market/financial-market-transactions/information-on-categoriation-of-clients-in-accordance/	Information on cross-selling, including the benefits, limitations and risks connected with cross-selling (Chapter 14)

Description of FX Transactions	<p>▷ www.mbank.pl/en/help/forms/sme-corporate/financial-market/financial-market-transactions/description-of-forward-transaction/</p>	<p>Detailed information, including risk description, on currency transactions (including FX forwards)</p>
Description of Interest Rate Transactions and FX Interest Rate Transactions	<p>▷ www.mbank.pl/en/help/forms/sme-corporate/financial-market/financial-market-transactions/description-of-the-interest-rate/</p>	<p>Detailed information, including risk description, on interest rate transactions and currency and interest transactions (including IRS and CAP)</p>
Principles of Acting in the Best Interest of the Client in the Financial Markets Area of mBank	<p>▷ www.mbank.pl/en/help/forms/sme-corporate/financial-market/best-execution/</p>	<p>Best Execution Policy of mBank compliant with the MiFID guidelines</p>
Key Information Document	<p>▷ www.mbank.pl/en/help/forms/sme-corporate/financial-market/priip/</p>	<p>Key Information on Products Listed in PRIIP</p>
Mark-up Information	<p>▷ www.mbank.pl/en/help/forms/sme-corporate/financial-market/information-on-mark-up/</p>	<p>Detailed information on costs and fees related to financial market transactions</p>

