

# Description of Forward Transactions (FT)



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The terms used in this Description of Forward Transactions (FT) (hereinafter, the "Description") shall have meanings ascribed to them in the Regulations "Rules of Cooperation for Financial Market Transactions" unless otherwise defined herein.

## § 1. Definitions

1. Terms used herein (listed alphabetically) shall have the following meaning:
  - 3/ **Base Currency** (18)<sup>1</sup> – the currency of the FT Underlying Instrument in accordance with the Regulations of the respective stock exchange.
  - 4/ **Closing Price** – shall mean either (3):
    - a/ with respect to the Early Settlement of the Transaction – the Underlying Instrument's Market Price adjusted by the Bank's Spread; or
    - b/ with respect to the Timely Settlement of the Transaction – the Settlement Price.
  - 3/ **Early Settlement of the Transaction** (15) – settlement of the Transaction as a result of the parties' agreement on the terms and conditions of the Early Settlement of the Transaction pursuant to § 2.9;
  - 4/ **Early Settlement Date** (6) – the Business Day of the FT on which the Early Settlement of the Transaction is agreed;
  - 5/ **Final Date** (5) – subject to § 2.6, unless the parties agree otherwise, shall mean the FT Business Day preceding the date of the following, whichever occurs earlier:
    - a/ Underlying Instrument delivery terms are agreed on the respective stock exchange (first notice date);
    - b/ the last day the Underlying Instrument is traded on the respective stock exchange (last trade date);
  - 6/ **FT Business Day** (7) – every day, except for Saturday or Sunday or public holidays, on which mBank S.A. conducts activity on the financial market and performs settlements in the currencies in which the Transaction is denominated and on which the stock exchanges at which the transactions for the respective Underlying Instruments are executed are open;
  - 7/ **Notional Amount of the Underlying Instrument** (14) – the number of the Notional Unit of the futures contract's Underlying Instrument that is the FT Underlying Instrument, compliant with the standards of the respective stock exchange;
  - 8/ **Notional Unit** (10) – the nominal value unit of the FT base instrument;
  - 9/ **Opening Price** (2) – the Underlying Instrument's Market Price adjusted by the Bank's Spread;
  - 10/ **Settlement Amount** (11) – denominated in the Base Currency – a product of the following:
    - a/ the absolute value of the difference between the Opening Price and the Closing Price;
    - b/ the Notional Amount of the Underlying Instrument; and
    - c/ the number of the FT Underlying Instruments subject to the Early Settlement of the Transaction (in the case of Early Settlement of the Transaction) or Timely Settlement of the Transaction (in the case of Timely Settlement of the Transaction);
  - 11/ **Settlement Date** (8) – unless the parties agree otherwise – day falling on the first Business Day after the Final Date (in the case of Timely Settlement of the Transaction) or the Early Settlement Date (in the case of Early Settlement of the Transaction);
  - 12/ **Settlement Price** (4) – price determined by the Bank on the basis of the Market Price of the Underlying Instrument that is specified in the terms and conditions of the futures contract that is the FT Underlying Instrument, as at 2.00 p.m. Warsaw Time (or, if the stock exchange specified in the Transaction terms and conditions opens at a later time – at such later time) or other possibly approximate time on the Final Date;
  - 13/ **Spread** (13) – the absolute value of the difference between the FT Underlying Instrument's Market Value and the Opening Price or the Closing Price, expressed as an amount;
  - 14/ **Timely Settlement of the Transaction**(16) – Settlement of the Transaction as a result of the Bank's determination of the Settlement Amount, which is performed in the case stipulated in § 2.11;
  - 15/ **Transaction** (17) – for the purpose of this Description, it means a Forward Transaction (FT);
  - 16/ **Transaction Amount** (12) – a cash value denominated in the Base Currency, calculated as a product of the Opening Price, the Notional Amount of the FT Underlying Instrument, and the number of the FT Underlying Instruments;
  - 17/ **Underlying Instrument / FT Underlying Instrument** (9) – a futures instrument agreed between the parties to the Transaction, which is admitted to trading and listed on the stock exchange identified in the Transaction terms and conditions;
  - 18/ **Underlying Instrument's Market Price** (1) – price per unit of the futures contract's Underlying Instrument that is the FT Underlying Instrument, published in conformity with the applicable Regulations of the stock exchange on which the contract is listed.

## § 2. Forward Transactions (FT)

1. A Forward Transaction ("FT") is a derivative transaction under which the Customer performs a futures type synthetic (not real) purchase or sale of a specific number of the FT Underlying Instruments, which is settled through the payment of the Settlement Amount.
2. The Buyer is a party to the Transaction that makes a synthetic (not real) purchase of the FT Underlying Instruments in the Transaction. The Seller is a party to the Transaction that makes a synthetic (not real) sale of the FT Underlying Instruments in the Transaction.
3. The minimum number of the FT Underlying Instruments constituting the object of an FT is one (1).
4. Upon execution of the Forward Transaction, the Customer and the Bank agree on the following terms and conditions of the Transaction:
  - 1/ the type of the Transaction entered into by the Customer (purchase / sale);
  - 2/ the Final Date;
  - 3/ the type of the Underlying Instrument;
  - 4/ the Notional Amount of the Underlying Instrument;
  - 5/ the number of the Underlying Instruments;
  - 6/ the stock exchange on which the Underlying Instrument is listed;
  - 7/ the Base Currency;
  - 8/ the Opening Price or the Market Price of the Underlying Instrument, and the Spread.
5. Unless the parties agree otherwise, the price of the Notional Unit shall be published in amounts.
6. The Bank shall have the right to modify the Final Date of the Transaction if a market situation occurs resulting in a change in the parameters of the Underlying Instrument. In particular, the foregoing shall apply to any and all regulations of the stock exchange on which the Underlying Instrument is listed. However, such changes shall not constitute a basis for termination of the Transaction.
7. The Transaction Settlement may be either early or timely.
8. The Early Settlement of the Transaction may apply either to all or some Underlying Instruments subject to the Transaction.
9. With a view to the Early Settlement of the Transaction, the Bank and the Customer shall agree on the following terms and conditions thereof:
  - 1/ the FT that is subject to the Early Settlement of the Transaction;
  - 2/ the number of the FT Underlying Instruments that are subject to the Early Settlement of the Transaction; and
  - 3/ the Closing Price or the Underlying Instrument Market Price and the Spread.
10. If the Market Price of the Underlying Instrument and the Spread are specified in the terms and conditions of the Transaction/Early Settlement of the Transaction, then the Opening Price or the Closing Price shall be equal to the Market Price of the Underlying Instrument adjusted by the Spread in favour of the Bank.
11. The Timely Settlement of the Transaction shall fall on the first Business Day after the Final Date and apply to the Transaction to the extent it has not been settled under the Early Settlement of the Transaction. This means that the Settlement Amount shall be calculated on the basis of the number of the FT Underlying Instruments as determined in the terms and conditions of the Transaction less the number of the FT Underlying Instruments subject to the Early Settlement of the Transaction.

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

12. If all the Underlying Instruments specified in the terms and conditions of FT have been subject to the Early Settlement of the Transaction, there shall be no Timely Settlement of the Transaction.
13. On the Settlement Date, the Transaction shall be settled by way of payment of the Settlement Amount:
  - 1/ by the Customer to the Bank:
    - a/ where the Customer is the seller, and the Closing Price exceeds the Opening Price; or
    - b/ where the Customer is the buyer, and the Closing Price is lower than the Opening Price; or
  - 2/ by the Bank to the Customer:
    - a/ where the Customer is the seller, and the Closing Price is lower than the Opening Price; or
    - b/ where the Customer is the buyer, and the Closing Price exceeds the Opening Price.

### § 3. General Description of market risks associated with the execution of the Transaction

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

- 1/ Market risk, i.e. the risk of an unfavourable from the Customer's point of view effect that a change in the market risk factors may have on the Transaction, whether on the Settlement Amount on the Settlement Date, or – in Transaction pricing – on the value of the Margin deposit required by the Bank throughout the Transaction term. The main FT risk factors include: the FT Underlying Instrument risk, the currency risk and the interest rate risk. The FT Underlying Instrument risk is a risk of change of the price levels of the FT Underlying Instrument that is unfavourable from the point of view of the FT. Changes in the level of prices of the underlying instruments are attributable to specific risks associated with the character of the FT underlying instrument. In particular, for contracts tied with the debt instrument market, this is the interest rate risk resulting from interest rate changes that are unfavourable from the point of view of the Transaction. For currency futures, this is the currency risk resulting from change in the currency level that is unfavourable from the point of view of the Transaction. For an FT with the commodities futures as the underlying instrument, this is the risk of price change of such commodity futures contract. Additionally, the execution of an FT where the FT underlying instrument is denominated in a foreign currency generates an additional currency risk resulting from changes in the pricing of the Transaction denominated in PLN. Any change in the market risk factors may yield the Customer an unlimited profit or bring an unlimited loss that may surmount the funds committed by the Customer. Changes in the aforesaid market risk factors depend on many macroeconomic parameters, in particular those related to the prices of the FT underlying instrument, such as economic growth rate, budget deficit, current account deficit, interest rates, and the structure of the demand for and supply of the FT underlying instrument.

### § 4. Effective Date

This Description shall become effective as of 20 June 2014.