

# Description of Transactions in Debt Securities



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The terms used in this Description of Debt Securities Transactions (hereinafter referred to as the "Transaction Description") shall have meanings ascribed to them in the Terms and Conditions "Rules of Cooperation for Financial Market Transactions" or the Master Agreement unless otherwise defined herein.

## § 1 Definitions

1. Terms used herein shall have the following meanings:
  - 1/ **Business Day** (4)<sup>1</sup> – means any day other than Saturday, Sunday or a public holiday, on which the Bank is open for its Customers in the territory of the Republic of Poland or any other day than Saturday, Sunday or a public holiday in the relevant country (if the Debt Securities are settled abroad);
  - 2/ **Clearing House** (6) – means an entity maintaining the system of registration of book-entry securities (including securities accounts, collective accounts and deposit accounts maintained by the authorized entities) that settles the Debt Securities or funds in connection with the Transactions or performs settlement of Transactions in particular *Krajowy Depozyt Papierów Wartościowych (KDPW)* [National Depository of Securities], *Narodowy Bank Polski* [National Bank of Poland] and Clearstream Banking Luxembourg;
  - 3/ **Customer's Securities Account** (9) – means the Customer's account serving the purposes of the Transaction settlement, on which the rights attached to the Debt Securities are registered; the Securities Account may also include a bank securities account, entry in the register of bonds or covered bonds allowing identification of the rights of the holder of the Debt Securities, as well as an entry made to the register of the Debt Securities that are safe kept in the physical form, allowing identification of the rights of the holder of the Debt Securities;
  - 4/ **Customer's Settlement Account** (10) – means the Customer's cash or bank account serving the purpose of the Transaction settlement;
  - 5/ **Debt Securities** (8) – means the securities of debt character that yield profit to its holder in the form of interest (coupon), discount or other consideration, issued under Polish or foreign law, in the physical or book-entry form; the Debt Securities include in particular the treasury bonds, treasury bills, bonds (other than treasury bonds), covered bonds or bank securities, except for bills of exchange;
  - 6/ **Deposit** (3) – means a register, maintained by the Bank, of the Debt Securities issued by the Bank or by other issuers through the Bank; in particular an entry in the account of bank securities, bonds or covered bonds allowing identification of the rights of the holder of Debt Securities, as well as an entry to register of the Debt Securities that are safe kept in the physical form, allowing identification of the rights of the holder of Debt Securities; the Debt Securities registered with the Deposit are not registered with the Clearing House;
  - 7/ **Forward Transaction/TTPD** (13) – means a Transaction, in which the Settlement Date falls after the third Business Day from the date of concluding the Transaction (provided that the Parties do not agree otherwise); Forward Transactions are classified as Derivative Transactions, provided that the Forward Transaction which are non-Treasury Securities may but do not have to be included in the Package of Transactions.
  - 8/ **Issuer** (5) – means an entity that has issued Debt Securities under Polish or foreign law;
  - 9/ **Redemption Date** (2) – means a date on which the Issuer is obliged to redeem the Debt Securities;
  - 9/ **Sell-Buy Back Transaction** (12)<sup>1</sup> – means a Transaction of selling Debt Securities concluded in connection with a Transaction of buying back the same Debt Securities on a specified date in the future; in a Sell-Buy Back Transaction, one of the Parties, referred to as the Seller, sells to the other Party, referred to as the Purchaser, Debt Securities at the Settlement Date of the Sell Transaction; at the same time, the Seller buys back the same Debt Securities from the Purchaser at the Settlement Date of the Buy Back Transaction; if a Sell-Buy Back Transaction includes a Forward Transaction, the Forward Transaction is classified as a Derivative Transaction;
  - 10/ **Settlement Date** (1) – means a date on which a Transaction is settled;
  - 11/ **Spot Transaction** (12) – means a Transaction, for which the Settlement Date falls not later than on the third Business Day from the day of conclusion of the Transaction;
  - 12/ **Total Sale Price / Total Transaction Price** (7) – means the value of the Transaction calculated as a sum of: (i) the product of the total nominal amount of the Debt Securities being the subject of the Transaction and the price of the 100 of the nominal amount (divided by 100) and (ii) the interest accrued from the total nominal amount of the Debt Securities.
  - 13/ **Transaction** (11) – for the purpose of this Transaction Description, means a transaction of sale of Debt Securities entered into between the Customer and the Bank; the Transaction may be entered into as a Spot or Forward Transaction.
2. Any other capitalised terms not listed in § 1.1 above are defined further herein.

## § 2 Accounts

1. A Transaction may be entered into provided that the Customer has:
  - 1/ a Securities Account and the Settlement Account with the Bank, or
  - 2/ a Securities Account and Settlement Account with another bank, or
  - 3/ a Securities Account with the Bank and Settlement Account with another bank.
2. The Customer indicates in the Customers Information Sheet or in any other written statement accepted by the Bank, the Customer's Securities and Settlement Accounts to be used for the purpose of the Transaction settlement. In the event when the above mentioned accounts are maintained by the Bank, the Customer may indicate the accounts in the course of agreeing the Terms of the Transaction.

## § 3 Entering into the Transaction

1. Upon entering into a Transaction, the Parties shall agree on the following Terms of the Transaction:
  - 1/ Purchaser and Seller;
  - 2/ Issuer;
  - 3/ Debt Securities type;
  - 4/ Debt Securities code or name;
  - 5/ Total nominal amount of Debt Securities;
  - 6/ Settlement Date;
  - 7/ price for 100 of the nominal amount;
  - 8/ Debt Securities Redemption Date (excluding treasury bonds which Redemption Date results from the code or issuance letter);
  - 9/ Entities maintaining the Securities Accounts and the Settlement Account subject to section 2 – 4.
2. Additionally:
  - 1/ Total Sale Price is stated in the Confirmation of the Transaction, upon Customer's request the Bank may state the price upon conclusion of the Transaction,
  - 2/ entities maintaining the Bank's securities and settlement accounts and the numbers of these accounts are indicated in the Confirmation of the Transaction.
3. The Parties may describe the Terms and Conditions of the Transaction using different expressions than the one used in the section 1 and 2, especially by using market standard expressions if they reflect the Terms and Conditions described in the section 1 and 2.
4. The Customer and the Bank may conclude a Sell-Buy Back Transaction.

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

## § 4 Transaction Performance

1. The buyer shall pay the Total Sale Price for the Debt Securities purchased on the Transaction Settlement Date to the seller's Settlement Account, and the seller shall deliver the Debt Securities sold to the buyer's Securities Account.
2. If a Transaction is settled through the Customer's Settlement Account and Securities Account maintained by the Bank, then:
  - 1/ the Bank settles the Transaction of sale of Debt Securities by debiting the Customer's Settlement Account maintained by the Bank with the Total Sale Price and credit the Customer's Securities Account maintained by the Bank with the number of Debt Securities resulting from the Terms of the Transaction on the Settlement Date;
  - 2/ the Bank settles the Transaction of purchase of Debt Securities by debiting the Customer's Securities Account maintained by the Bank with the number of Debt Securities resulting from the Terms of the Transaction and credit the Customer's Settlement Account maintained by the Bank with the Total Sale Price on the Settlement Date.
3. In the event referred to in § 4.2 above, on the Settlement Date, the Customer shall ensure:
  - 1/ cash on the Customer's Settlement Account maintained by the Bank in the amount equal to the Total Sale Price resulting from the Terms of the Transaction;
  - 2/ Debt Securities on the Customer's Securities Account maintained by the Bank in the number resulting from the Terms of the Transaction.
4. If a Transaction is settled through the Customer's Settlement Account and Securities Account maintained by another bank, the Customer shall instruct the entities maintaining the Customer's Settlement Account and Securities Account to issue a relevant clearing instructions for the Total Sale Price and for the number of Debt Securities resulting from the Terms of the Transaction. The Transaction settlement is performed pursuant to the regulations of the settling Clearing House and the regulations of the entities maintaining the Customer's Settlement Account and Securities Account.
5. In the event when the Customer has a Securities Account at the Bank but does not have a Settlement Account at the Bank:
  - 1/ the Bank settles the Transaction of sale of Debt Securities by crediting the Customer's Securities Account at the Bank with the Debt Securities in the number resulting from the Terms of the Transaction upon receiving the Total Sale Price from the Customer, on the Settlement Date
  - 2/ the Bank settles the Transaction of purchase of Debt Securities on the Settlement Date by debiting the Customer's Securities Account at the Bank with the Debt Securities in the number resulting from the Terms of the Transaction and transfers the Total Sales Price to the Settlement Account of the Customer outside the Bank.
6. In the case specified in § 4.5 above, on the Settlement Date the Customer shall:
  - 1/ transfer funds in total amount of the Total Sales Price arising from the Terms of the Transaction to the settlement account at the Bank,
  - 2/ ensure Debt Securities in the number arising from the Terms of the Transaction on the Customer's Securities Account at the Bank.

## § 5 Non-delivery

1. In the case of a Debt Securities Transaction settled through the Customer's Settlement Account and Securities Account maintained by the Bank, the Bank shall have the right to withdraw from the Transaction if the Bank cannot settle the Transaction of:
  - 1/ purchase of Debt Securities by the Bank due to lack of funds on the Customer's Securities Account maintained by the Bank on the Settlement Date;
  - 2/ sale of Debt Securities due to lack of sufficient funds to cover the Total Sale Price on the Customer's Settlement Account maintained by the Bank on the Settlement Date.
2. In the case of a Debt Securities Transaction settled through the Customer's Settlement Account and Securities Account maintained by another bank, the Bank shall have the right to withdraw from the Transaction:
  - 1/ in the case of a Transaction of purchase of Debt Securities conducted by the Bank, if the Clearing House fails to transfer the Debt Securities from the Customer's Securities Account to the Bank's Securities Account on the Settlement Date;
  - 2/ in the case of a Transaction of sale of Debt Securities conducted by the Bank, if the Clearing House fails to transfer the Total Sale Price from the Customer's Settlement Account to the Bank's Settlement Account on the Settlement Date.
- 2<sup>1</sup>. In the case of a Debt Securities Transaction settled through the Customer's Settlement Account maintained outside the Bank and a Securities Account maintained by the Bank, the Bank shall have the right to withdraw from the Transaction:
  - 1/ in the case of purchase of Debt Securities conducted by the Bank, due to lack of funds on the Customer's Securities Account on the Settlement Date
  - 2/ in the case of sale of Debt Securities conducted by the Bank, due to lack of sufficient funds to cover the Total Sale Price on the Customer's Settlement Account maintained by the Bank on the Settlement Date
3. In the case of the Bank's rescission of a Transaction of sale of Debt Securities, the Bank shall have the right to sell the Debt Securities that are the subject of the Transaction and, if the Bank has incurred loss, to satisfy itself from the deposit established or seek compensation for the loss suffered.
4. In the case of the Bank's rescission of a Transaction of purchase of Debt Securities, the Bank shall have the right to satisfy itself from the deposit established or seek compensation for the loss suffered, if the Bank has incurred loss.

## § 6 General description of risks associated with investing in Debt Securities

1. The Debt Securities constitute the securities containing the Issuer's obligation to fulfil a pecuniary (e.g. interest, principal amount) or non-pecuniary consideration vis-a-vis the holder of the securities. The Terms of Issue of Debt Securities, information prospectus or information memoranda of specific Debt Securities set out the type of consideration, the deadlines on which the consideration is to be fulfilled and the amounts that the Issuer is obliged to pay.
2. Investing in debt securities entails risks described below:
  - 1/ Market risks  
Market risks for a transaction on Debt Securities consist in a risk of unfavourable changes in the price of securities resulting from the decrease in their value before the Redemption Date for the buyer or resulting from the growth in their value after the Settlement Date for the seller. The main market risk factors attributable to Debt Securities include the interest rate risk and the currency risk.  
The interest rate risk constitutes a risk of fluctuations in the value of the Debt Securities held, caused by changes in the market interest rates. A variation in the prices of so-called benchmark curves attributable mainly to macroeconomic changes affects the prices of Debt Securities on the market or their valuation based on models.  
The currency risk constitutes a risk of decrease in the value of Debt Securities caused by unfavourable changes in the currency rate levels. The currency risk is encountered in the case of purchasing Debt Securities denominated in a different currency than the currency in which the holder of Debt Securities estimates his rate of return on the investment (e.g. Polish zloty). In this situation, there exists a risk of loss resulting from the benefit attached to the Debt Securities or the price obtained on the secondary market that is lower after conversion into other currency (e.g. PLN) than the investor has expected when purchasing the Debt Securities.  
The risk of growth in the spread between the purchase and sale prices of Debt Securities resulting from the deterioration of the financial result on the transaction constitutes an additional risk related to the transactions on Debt Securities.
  - 2/ Credit risk (issuer risk)  
Investing in Debt Securities entails a risk attributable to the securities Issuer's ability to fulfil its obligations set out in the Debt Securities. In the case of the Debt Securities under which the fulfilment of benefit has been guaranteed or warranted by a third party, there also exists risk of that entity associated with fulfilling its obligations set out in the document warranting the fulfilment of the benefits in place of the Issuer of the Debt Securities. In particular, due to changes in the financial or legal situation of the Debt Securities' Issuer or a third party referred to above, resulting from either external (market or macroeconomic) or internal factors, the Issuer of Debt Securities or a third party may not be able to fulfil their obligations on time, may significantly delay

their disbursement or become permanently unable to repay the funds borrowed. In these cases, as well as in the case where the Issuer's financial standing deteriorates, or if the rating of the issuer of Debt Securities or of an entity that warranted the fulfilment of benefits under such securities downgrades, or if the rating of specific securities decreases (provided that such rating has been assigned by a rating agency), prices of such Debt Securities on the secondary market may also significantly decrease or, in this situation the investor may become unable to sell the instrument due to lack of demand. The credit risk increases proportionally to the length of a deadline for fulfilment of benefits attached to specific securities.

3/ Liquidity risk

In the case of the Debt Securities there exists a risk of the lack of liquidity on the market of these instruments which means that the holder is unable to sell his securities or to buy securities or that the holder must accept the prices that significantly differ from those at which the respective transactions have been performed. One of the market's for non-treasury Debt Securities characteristics is a significantly greater risk of the lack of liquidity than in the case of the market for treasury instruments.

4/ Settlement risk

In the case of purchasing or selling of Debt Securities there exists a risk that a transaction may not be settled or its settlement may be delayed. The aforementioned may result in not receiving the funds for the Debt Securities sold or receiving them at a later date. Acquiring of Debt Securities entails a risk of not receiving those securities or receiving them at a later date, which may contribute to loss on the part of the holder purchasing the Debt Securities in the case of changes in the prices thereof at the time of the settlement. The settlement risk results from the fact that the settlement is conducted through the third parties (e.g. the Clearing House, a brokerage house or a bank safekeeping the securities or cash that is the subject of the settlement) and results mainly from the operating and legal risks. The settlement risk also exists in the case of disbursement of benefits attached to the Debt Securities.

5/ Investment concentration risk

Investing in the Debt Securities of one Issuer or in the Debt Securities of the issuers operating in similar branches of industry, may result in significant decrease in the value of the Debt Securities portfolio of a specific Holder, if other above-mentioned risks occur.

6/ Income risk

In the case of the variable interest Debt Securities, the buyer must take into account that his future interest income (proceeds from interest) is not guaranteed and depends on the future reference interest rates (e.g. WIBOR, LIBOR) which serve the calculation of the interest rate of any given Debt Securities.

7/ Risk of access to the current information on the financial situation of the Issuer or an underwriter.

In the event of investing in the Debt Securities, a risk of access to information on the financial situation of the Issuer or an underwriter (i.e. an entity undertaking to fulfil the obligation stemming from the Debt Securities on the basis of a redemption guaranty or a warranty) may occur. The issuers or underwriters may be obliged to make their annual or interim financial statements public, pursuant to regulations applicable thereto. However, certain economic events concerning the Issuer or an underwriter, that may affect their ability to repay their liabilities resulting from the Debt Securities, may occur after the date of publishing of a given financial statement or may not be taken into account in a given financial statement. Within the framework of their business activity, the Bank, as well as its subsidiaries and affiliates, may cooperate with the Issuer and an underwriter with regard to various services. Therefore, the Bank may have the information of particular significance from the point of view of the Issuer's or underwriter's financial situation and their ability to fulfil the obligations arising from the Debt Securities, but the Bank is not authorised to make such information available to the Buyers without the Issuer's consent. The risk of access to information on the current financial situation of the Issuer and an underwriter is higher in the case of entities that are not subject to disclosure obligations resulting from the fact that the Issuer's or underwriter's securities are listed on the market. In certain situations, in spite of sanctions for not providing certain information pursuant to absolutely prevailing provisions of law or to regulations applicable to the market, on which the securities of the Issuer or an underwriter are listed, there also exists a risk that the Issuer or an underwriter provides the incomplete information, delays its provision or does not provide the information at all.

8/ Requirements concerning the Security

The terms and conditions of providing the Security for settlement of Forward Transactions of purchase or sale of the Debt Securities are stipulated in the Terms and Conditions "Rules of Cooperation for Financial Market Transactions".

3. The information on a redemption guaranty ("guaranty") or a warranty (if any) securing the fulfilment of obligations resulting from a debt security, the name of an entity granting the guaranty or warranty, the details concerning that entity as well as the contents of a guaranty or warranty are available in the information memorandum or in the contents of the Terms of Issuance.

### Article 6<sup>1</sup> Reuse of financial instruments

1. The Client and the Bank acknowledge that Debt Securities being the subject of the Sell-Buy Back Transactions may be used by the Party to which the ownership was transferred. This may result in inability to deliver this Debt Security on the Settlement Date, and therefore:
  - 1/ the Parties will have to modify the Terms of the Transaction by changing the originally set Settlement Date of the Transaction, or
  - 2/ Debt Security being the subject of the Transaction shall be replaced by another Debt Security of the same features, or
  - 3/ The Party which did not deliver the Debt Security is obliged to pay the amount being the equivalent of the purchase price of the same Debt Security on the initially set Settlement Date.
2. The activities, referred to in (1)(1)-(3), may cause a loss in the case when one of the Parties undertakes an obligation towards a third party, the subject of which is the Debt Security not delivered on time.
3. Concluding the first Sell-Buy Back Transaction after the effective date of this Description of Transactions, shall constitute consent of the Client for to reuse the Debt Security the ownership of which was transferred to the Bank.

### § 7 Effective date

This Transaction Description enters into force on 3 January 2018.