

## Amendments to the Regulations on providing credit risk bearing products

Dear Customers,

On 31 December 2021 the amended Regulations on Providing Credit Risk Bearing Products will come into force.

The most important amendments include:

- changes resulting from the Benchmark Regulation (BMR) and the introduction of risk-free rates (RFRs):
  - we added the terms ON RFR and compounded RFR in the definition of Base Rate;
  - we added provisions explaining how we use Base Rates based on compounded RFRs for loans and discounted products;
  - we modified the way we inform borrowers and debtors of the Bank securing the loan collateral of changes in interest rates;
  - we added Appendix No. 2 "Calculation of interest on loans and discounted products using compounded ON RFRs";

\* For more information go to: <https://www.mbank.pl/pomoc/akty-prawne/wskazniki>
- we described the consequences of violating the Act of 1 March 2018 on Counteracting Money Laundering and Terrorism Financing by the Customer or the Debtor;
- we defined the date of concluding the Agreement in electronic form;
- we also clarified certain other provisions; for a list of amended provisions and the amended wording of the Regulations valid as of 31 December 2021, go to <https://www.mbank.pl/pomoc/dokumenty/msp-korporacje/finansowanie/>

In addition, we made some minor editorial changes to the Regulations.

The detailed list of changes (with amended provisions marked in blue and in italics) is presented below.

List of amendments to the Regulations on providing credit risk bearing products.

### The amendments enter into force on 31 December 2021.

#### Chapter I Definitions of basic terms used in the Regulations

The following definitions have been added:

<b>Quotation</b>	a Base Rate quotation on a day is the Base Rate prevailing on that day, regardless of its publication date,
<b>Interest Period</b>	a period in which we calculate accrued interest,

The following definitions have been changed:

<b>Base Rate (benchmark)</b>	the index or benchmark specified in the Agreement, including an ON RFR (overnight risk-free rate) or a compounded RFR, which is used to determine the amount of interest or other remuneration of the Bank. The procedure to be followed in the event of change, withdrawal or discontinuation of the publication of the Benchmark is specified in Appendix No. 1 to the Regulations. The terms Base Rate and Benchmark are used interchangeably.
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The verbs used in the Regulations in plural form, such as "we determine", "we select" or "we change", mean measures taken by the Bank.

#### Chapter IV. Terms and conditions of providing the product

point 4 sub-point 2/ is amended as follows:

- 2/ the applicable laws, including anti-money laundering and terrorist financing laws, in particular the Act of 1 March 2018 on Combating Money Laundering and Terrorism Financing,

#### Chapter V. "Loans"

Item 3 reads as follows:

3. The Customer may use the Loan by carrying out Payment Orders submitted to the Bank, including Payment Orders delivered via the mCN System. Payment Orders may be accompanied by other documents, in line with the Loan Agreement. Invoices (if provided for in the Loan Agreement) attached to a Payment Order should meet the requirements set forth in the law and cannot be submitted after their due dates.

Item 15 reads as follows:

15. Subject to item 15a, the Base Rate appropriate for a Drawdown is sourced from the Quotation dated two Business Days prior to the Drawdown date and prior to the update of the Base Rate, except for overdraft facilities and revolving loans for invoice financing. The overnight Base Rate for overdraft facilities is sourced from the Quotation from the interest calculation date. The Base Rate for revolving loans for invoice financing is sourced from the Quotation dated two Business Days prior to its update.

Item 15a have been added:

15a. The Base Rate for an Interest Period based on an ON RFR is determined by compounding ON RFRs over the Interest Period, except for overdraft facilities and revolving loans for invoice financing. The rates used to compound ON Rates are sourced from the Quotation using the Shift provided for in the Agreement. The calculation of interest on Loans and discounted products referencing compounded ON RFRs is presented in Appendix No. 2 to the Regulations. The ON RFR Base Rate for overdraft facilities and revolving loans for invoice financing is sourced from the Quotation as at the business day preceding the interest accrual day.

Item 16 reads as follows:

16. Subject to item 16a, the Base Rate is updated on the interest payment date, except for overdraft facilities and revolving loans for invoice financing. If a business day for a currency falls on a non-business day for the Bank, the Base Rate is updated on the business day for the currency. For an overdraft facility, the overnight Base Rate is updated on each Business Day. The Base Rate for revolving loans for invoice financing is updated on the last day of every month. If this day falls on a non-business day, the Base Rate is updated on the next Business Day following the non-business day.

Item 16a have been added:

16a. The Base Rate based on an ON RFR for an Interest Period is updated on every Business Day in the Interest Period. If a business day for a currency falls on a non-business day for the Bank, the Base Rate is updated on the business day for the currency.

Item 17 reads as follows:

17. Interest is payable on the dates specified in the Agreement and on the final repayment date for a single Drawdown, except for overdraft facilities and revolving loans for invoice financing and revolving loans for invoice financing. Interest on overdraft facilities and revolving loans for invoice financing is payable on the last Business Day of a calendar month and on the final repayment date of the Loan.

Item 19 reads as follows:

19. The Bank notifies the Borrower of the value of the Base Rate on the Portal or via mCN. The Bank publishes information on Benchmarks, construction of Benchmark and Benchmark Administrators on the Portal.

Item 20 reads as follows:

20. The Borrower must notify the Bank's debtors securing the collateral under the Loan Agreement of the change in interest rates.

## Chapter VI. Trade finance and service

Item 9 sub-item 2 of letter C "TRADE RECEIVABLES DISCOUNTING" reads as follows:

2/ at the Base Rate specified in the Agreement plus margin, whereas if the Base Rate is negative, it is deemed to be equal to zero.

Item 10 of letter C TRADE RECEIVABLES DISCOUNTING reads as follows:

10. A year is defined as 360 days. Financing in PLN, GBP and JPY, for which 365 days are adopted, are an exception to this rule.

letter C TRADE RECEIVABLES DISCOUNTING item 11a have been added:

11a. The Base Rate for an Interest Period based on an ON RFR appropriate for a discount period is calculated in accordance with Appendix No. 2 to the Regulations "Calculation of interest on Loans and discounted products using compounded ON RFRs". Information on the ON RFR (overnight risk-free rate) used to determine the amount of interest or other remuneration of the Bank is published on the website of the Benchmark Administrator to which a link is published on the Portal.

letter D BILLS OF EXCHANGE DISCOUNTING item 5 reads as follows:

5. A year is defined as 360 days. Financing in PLN, GBP and JPY, for which a year of 365 days is defined, is an exception to this rule.

letter D BILLS OF EXCHANGE DISCOUNTING item 6a have been added

6a. The Base Rate for an Interest Period based on an ON RFR appropriate for a discount period is calculated in accordance with Appendix No. 2 to the Regulations "Calculation of interest on Loans and discounted products using compounded ON RFRs".

letter D BILLS OF EXCHANGE DISCOUNTING item 5 reads as follows:

7. The Bank notifies the Customer of the Base Rate value on the Portal. Information on the ON RFR (overnight risk-free rate) used to determine the amount of interest or other remuneration of the Bank is published on the website of the Benchmark Administrator to which a link is published on the Portal.

## Chapter XII. Obligations

Item 16 reads as follows:

16. to inform the Bank without undue delay of any events which may indicate that the Debtor under an agreement on the product referred to in Chapter VI letter C and D may become unable to repay its liabilities, including the submission of a bankruptcy petition or petition for restructuring with a court, or initiation of the Debtor's liquidation,

Item 17 reads as follows:

17. to provide, at the Bank's request, all materials and documents together with relevant powers of attorney, which are necessary to receive the payment from the Debtor under an agreement on the product referred to in Chapter VI letter C and D, or enable the initiation of enforcement proceedings against the Debtor and in particular to provide the Bank with all documents confirming the ownership of the Receivables to be acquired by the Bank, as well as to endorse in blank any documents whose legal nature so allows,

## Chapter XIII. Events of default and their consequences

Item 8 reads as follows:

8. The Bank may withhold the Customer's or the Debtor's right to further use of the Product or terminate the Agreement with immediate effect, in particular if it finds that the Customer or the Debtor:  
1/ has submitted false documents or has presented false data as the basis for granting the Product (or Limit) and repayment of the Customer's or Debtor's liabilities, or

- 2/ has submitted untrue declarations regarding the legal security for the repayment of the liabilities arising from the Product or
- 3/ violated the Act of 1 March 2018 on Combating Money Laundering and Terrorism Financing, both when concluding the Agreement and during the term thereof.

## Chapter XIV. Final provisions

Item 1 reads as follows:

1. Declarations and obligations of the Customer are deemed confirmed on the date of signing the Agreement by the Customer. The date of signing this Agreement in electronic form is the date of placing the last qualified electronic signature required for correct representation of the Bank on the Agreement.

Item 2 reads as follows:

2. In the case of contradictions between the provisions of the Agreement and the Regulations, the provisions of the Agreement prevail. In the case when the Agreement is signed in Polish and in another language version, the provisions of the Polish language version prevail and are binding on the Parties in case of any contradictions.

## New Appendix No. 2 to these Regulations

Appendix No. 2 to Regulations on providing credit risk bearing products

### Calculation of interest on Loans and discounting products using compounded overnight risk-free rates (ON RFRs).

#### I. Definitions:

<b>1. Start Day of an Interest Period</b>	the first day of an Interest Period, which at the same time is the last day of the immediately preceding Interest Period and the repayment day of interest calculated in the previous Interest Period, unless the commencing Interest Period is the first Interest Period for a Drawing,
<b>2. End Day of an Interest Period</b>	the last day of an Interest Period, which at the same time is the first day of the immediately following Interest Period, unless the ending Interest Period is the last Interest Period for a Drawing,
<b>3. Interest Period</b>	a period in which interest is calculated, i.e. from the Start Day (inclusive) to the End Day (exclusive),
<b>4. ON RFR (overnight risk-free rate)</b>	an overnight interest rate benchmark (ON RFR) published in the Portal, including in particular: SARON for CHF, SONIA for GBP, SOFR for USD, TONA for JPY, and ESTR for EUR,
<b>5. Fixing Day Calendar</b>	a business day calendar for an overnight rate, i.e. for the country of a currency,
<b>6. ON(t)</b>	the ON RFR applicable on day t (from day t inclusive to the next business day) as per the Fixing Day Calendar; the following are set for an RFRON(t): <ul style="list-style-type: none"> <li>■ Applicability Start Day – day t as per the Fixing Day Calendar,</li> <li>■ Applicability End Day – the business day following t as per the Fixing Day Calendar,</li> <li>■ Rate Publication Date – the business day following t as per the Fixing Day Calendar where the currency of RFR ON(t) is EUR, USD, GBP or JPY, and day t as per the Fixing Day Calendar where the currency of RFR ON(t) is CHF,</li> </ul>
<b>7. T Date Shift</b>	as per the Fixing Day Calendar it consists in setting day P(T) corresponding to the business day as per the Fixing Day Calendar preceding day T by the number of business days indicated in the Agreement, counting backwards from day T,
<b>8. Compounded RFR</b>	the Base Rate for Daily Interest Calculation referred to in section II.5, calculated by compounding daily ON RFRs,
<b>9. Compounded Discount RFR</b>	the Base Rate for Discount Interest Calculation referred to in section IV.4, calculated by compounding historical daily ON RFRs,

#### II. Calculation of compounded RFR used to determine interest payable on Loans

1. A compounded RFR is calculated by compounding ON RFRs over an Interest Period.
2. We designate the subsequent calendar days of the current Interest Period as  $T_1, \dots, T_n$ .  $T_1$  is the Start Day of the Interest Period and  $T_n$  is the End Day of the Interest Period.
3. For every day  $T_i$  where  $i = 1, \dots, (n-1)$  we determine a series of  $n_i$  subsequent business days  $T_1^*, \dots, T_{n_i}^*$  as per the Fixing Day Calendar, such that  $T_1^* = P(T_1)$  and  $T_{n_i}^* = P(T_{i+1})$ . Then, as at day  $T_i$  we determine the Cumulated Base Rate for Compound Interest  $CR(T_1^*, T_{n_i}^*)$  from the Start Day of the Interest Period to day  $T_{i+1}$  in accordance with the following formula:

$$CR(T_1^*, T_{n_i}^*) = \left[ \prod_{k=1}^{n_i-1} \left( 1 + ON(T_k^*) \cdot \frac{(T_{k+1}^* - T_k^*)}{B * 100} \right) - 1 \right] \cdot \frac{B * 100}{(T_{n_i}^* - T_1^*)}$$

where:

- B – is the Day Count Fraction applicable to an ON RFR, i.e. 360 for CHF, USD and EUR, and 365 for GBP and JPY;
- k – is a variable indexing the set of subsequent business days  $\{T_1^*, \dots, T_{n_i}^*\}$ , which assumes subsequent values from 1 to  $(n_i - 1)$ .

Base rate  $CR(T_1^*, T_{n_i}^*)$  is given in percentage points and rounded to four decimal places for CHF, EUR and GBP, and to five decimal places for USD and JPY.

If  $T_i$  is a non-business day as per the Fixing Day Calendar,  $T_1^*$  is set by shifting it by an additional business day for the purpose of calculating  $CR(T_1^*, T_{n_i}^*)$ .

4. Based on CR ( $T_1^*, T_{n_1}^*$ ) we determine the Cumulated Base Rate for Compound Interest Calculation (SNO) in accordance with the formula below:

$$\text{SNO} (T_1^*, T_{n_1}^*) = \text{CR} (T_1^*, T_{n_1}^*) \cdot \frac{(T_{n_1}^* - T_1^*)}{B * 100}$$

5. We use it as the basis for calculating the Base Rate for Daily Interest Calculation DR ( $T_i$ ) as at day  $T_i$  (rate at which interest is calculated in the period from  $T_i$  to  $T_{i+1}$ ):

$$\text{DR} (T_i) = [\text{SNO} (T_1^*, T_{n_1}^*) - \text{SNO} (T_1^*, T_{n_1}^*)] \cdot \frac{B * 100}{(T_{n_1}^* - T_{n_1}^*)}$$

Base rate DR ( $T_i$ ) is given in percentage points and rounded to four decimal places for CHF, EUR and GBP, and to five decimal places for USD and JPY. The value of interest rate DR ( $T_i$ ) is made available to the Client in mCN on a daily basis in the Interest Period.

### III. Calculation of interest on drawn Loans using compounded RFR

1. The Calculated Daily Interest NOD ( $T_i$ ) for the period from  $T_i$  to  $T_{i+1}$  is calculated in accordance with the following formula:

$$\text{NOD} (T_i) = N \cdot (\max (\text{DR}(T_i) ; 0) + M) \cdot \frac{(T_{i+1} - T_i)}{B * 100}$$

where:

- N – is the Drawing amount in the current Interest Period,
- M – is the credit margin of the bank in percentage points.

2. The value of the Cumulated Calculated Daily Interest for the period from  $T_1$  to  $T_{i+1}$ , that is an amount calculated as follows:

$$\sum_{k=1}^i \text{NOD} (T_k)$$

is made available to Clients in the mCN system on a daily basis.

3. Interest due for the entire Interest Period is the sum of the Calculated Daily Interest for the period from  $T_1$  to  $T_n$  calculated as follows:

$$\sum_{k=1}^{n-1} \text{NOD} (T_k)$$

### IV. Calculation of compounded discount RFR used to determine interest payable on discounting products:

1. Interest on discounting products is calculated using ON RFRs determined by compounding interest based on overnight rates. Since the Base Rate used to calculate interest on discounting products must be known on the day of releasing the products, we use compounded ON RFRs from a historical period:
  - a/ with a duration of the discount period for the Base Rate adjusted to the discount period or
  - b/ with a fixed duration set in the Agreement lasting a pre-defined number of calendar days equal to N for the Base Rate with a fixed period. The type of Base Rate is set in the Agreement.
2. Let  $T_1, \dots, T_n$  denote subsequent calendar days of a discount period where  $T_1$  is the first day and  $T_n$  is the last day of the discount period for which interest is calculated in the discount period. Therefore, the number of calendar days in which discount is calculated is n.
3. For day  $T_i$  we identify the day being the first business day as per the Fixing Day Calends earlier than  $T_i$ , which at the same time is the ON RFR Publication Date and the day on which the ON RFR is made available in the bank's systems. Let  $T^*$  be the Applicability End Day of the ON RFR and  $T_0^*$  is the calendar day preceding  $T^*$  by n calendar days for a rate adjusted to the discount period or preceding  $T^*$  by N calendar days for a Base Rate with a fixed period.
4. Then we set day  $T_1^*$  which is the first business day (counting from day  $T_0^*$ ) as per the Fixing Day Calendar not earlier than  $T_0^*$  and earlier than  $T^*$ . If such a day does not exist, day  $T_1^*$  is set as the first business day (counting from day  $T_0^*$ ) as per the Fixing Day Calendar earlier than  $T_0^*$ . Next we determine a series of m subsequent business days  $T_1^*, \dots, T_m^*$  as per the Fixing Day Calendar from  $T_1^*$  to  $T_m^*$ , where  $T_m^* = T^*$ . Then we calculate the Cumulated Base Rate for Compound Discount Interest  $\text{CR}_D (T_1, T_n)$  for the discount period using the formula given below:

$$\text{CR}_D (T_1, T_n) = \left[ \prod_{k=1}^{m-1} \left( 1 + \text{ON} (T_k^*) \cdot \frac{(T_{k+1}^* - T_k^*)}{B * 100} \right) - 1 \right] \cdot \frac{B * 100}{(T_m^* - T_1^*)}$$

where:

- B – is the Day Count Fraction applicable to an ON RFR, i.e. 360 for CHF, USD and EUR, and 365 for GBP and JPY;
- k – is the variable assuming values from 1 to (m-1) corresponding to the subsequent historical business days as per the Fixing Day Calendar

The base rate  $\text{CR}_D (T_1, T_n)$  is given in percentage points and rounded to four decimal places for CHF, EUR and GBP, and to five decimal places for USD and JPY.