

Recommendation regarding the principles and methods of applying the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family) when entering into NEW CONTRACTS in Polish zloty for leasing products based on reference rates offered by financial market entities

Document of the National Working Group for benchmark reform

Recommendation regarding the principles and methods of applying the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family) when entering into NEW CONTRACTS in Polish zloty for leasing products based on reference rates offered by financial market entities

The recommendation has been prepared to ensure the correct application of reference rates in contracts by financial market entities. This objective stems from "REGULATION (EU) 2016/1011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014" taking into account its subsequent amendments (hereinafter collectively referred to as the BMR Regulation).

The recommendation has been prepared by the Banking Products Stream of the National Working Group on benchmark reform based on expert analyses and discussions. The recommendation consists of the following recommendations regarding the principles of interest calculation.

Additionally, the objective of the recommendation is to provide financial market entities with **best practices regarding the application of the POLSTR interest rate benchmark** (Polish Short Term Rate) or indices from the POLSTR Compounded Index Family for establishing variable interest rates when **entering into new contracts with clients for Polish zloty products based on reference rates**.

The recommendations contained in the document are not mandatory and may be applied at discretion, taking into account the specificity of a given financial market entity as well as the clients with whom contracts are concluded.

Financial market entities may apply the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family) to a different extent than indicated in this recommendation. The recommendations contained in the document are limited exclusively to the application of the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family), while financial market entities may also apply other rates, reference rates or reference benchmarks, including in particular the reference rate of the National Bank of Poland (provided this does not conflict with legal provisions), which remains outside the scope of the recommendation.

Financial market entities may also apply the POLSTR interest rate benchmark (or indices from the POLSTR Compounded Index Family) for the purpose of determining interest rates in contracts in a manner different from that described in this recommendation.

Similarly, financial market entities are not bound by the scope of information obligations proposed in the recommendation.

Introduction:

1. It is recommended that in connection with concluding an agreement with a client, reference should be made to the POLSTR Interest Rate Index Regulation, and in the case of the POLSTR Compound Indices Family to the POLSTR Compound Indices Family Regulation (hereinafter referred to as **Regulations** or in respect of each of them **Regulation)** published on the Administrator's website. The information should also refer to the POLSTR Interest Rate Index Administrator Statement, and in the case of the POLSTR Compound Indices Family to the POLSTR Compound Indices Family Administrator Statement, referred to in Article 27 of the BMR Regulation). Additional information for clients should also be prepared based on these documents.
2. Publication and provision of the POLSTR rate benchmark (or indices from the POLSTR Compound Indices Family) takes place based on the Regulations.
3. This recommendation does not refer to the method of determining product margins and various types of interest rate calculation formulas, which constitute a standard component of the final interest rate calculation and may be applied in contracts together with the POLSTR interest rate indicator (or indices from the POLSTR Compound Indices Family).

Leasing, leasing loans and other financial products offered by leasing companies

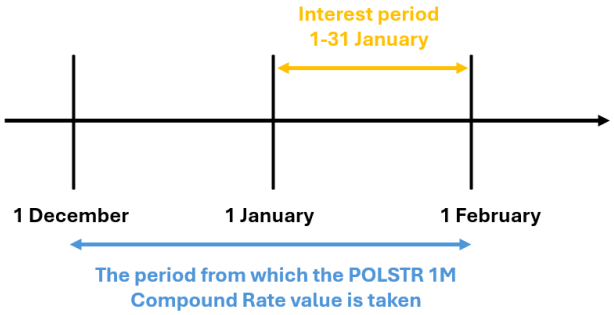
Recommendation

In leasing contracts, lease loans and other financial products offered by leasing companies, when applying variable interest rates, it is recommended to use the POLSTR 1M Compounded Rate benchmark during the period of variable interest rate validity in the contract.

The adopted value of the POLSTR 1M Compounded Rate benchmark is the value made available by the Administrator in accordance with the Regulations.

It is recommended that the date of the POLSTR 1M Compounded Rate benchmark from which the POLSTR 1M Compounded Rate benchmark value used for calculating remuneration for a given period is derived, should fall within a range beginning with the business day occurring one month before the commencement of the period for which remuneration is calculated, and ending with the first business day following that period.

The above recommendation is illustrated by the following graphic scheme.



According to the example for the period for which remuneration is calculated, i.e., January 1-31, the benchmark value can be taken from the benchmark date of, for example, December 17, January 2, January 15, etc. However, the benchmark date from which the POLSTR 1M Compounded Rate benchmark value is taken cannot be earlier than December 1 and later than February 1 (assuming it is a business day).

Justification

Settlements between the leasing company and the Client within the concluded financing agreement are carried out based on VAT invoices or other accounting documents (e.g., debit notes) issued by the leasing company, which distinguishes the settlement process of leasing companies from analogous payments in the banking sector.

The specificity of the leasing industry and the preferences of Clients using financing have popularized the practice of issuing VAT invoices or other accounting documents for a given period in advance, ensuring Clients comfort in making timely payments. In other words – the issuance of VAT invoices and other accounting documents may occur before or during the period for which remuneration is due. Such a document must therefore be issued early enough to reach the Client and allow the Client sufficient time to settle the obligation. The process of issuing and making VAT invoices and other accounting documents available to Clients requires time, hence the necessity to ensure leasing companies have the possibility to use an index known sufficiently in advance before issuing a given document.

Calculation of remuneration using the POLSTR 1M Compounded Rate benchmark from the first business day following the period for which remuneration is calculated will occur in situations where the intention of the contracting parties is to fully align the period on which the index is calculated with the remuneration period. According to the POLSTR Compounded Index Family Rules, the date of the POLSTR Compounded Rate benchmark is the next Business Day after the date of the POLSTR interest rate benchmark that was last used to determine the POLSTR Compounded Rate (source: gpwbenchmark.pl).

However, the principle for determining the date of the POLSTR 1M Compounded Rate benchmark will be specified in the contractual documentation in each case.

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