UniCredit Bank

## REPO OPERATIONS (Repurchase agreement), BUY/SELL OPERATIONS

### Repo operations

Repo operations (or Reverse Repo Operace) are loans (or deposits) secured by the transfer of securities. The securities do not change their holder, but a note must be made in the securities register that they are subject to REPO operation.

Subject matter of these operations can be treasury bills, government bonds, shares, etc. If a security with a considerable price fluctuation is concerned (typically a share), the loan is not granted for the whole volume (current market price * number of shares), but only for its certain proportion, e.g. 80%. This proportion is called a Hair Cut.

The Bank and the client must enter into a so-called Framework Contract for REPO Operations.

The interest is the difference between the security price at the start and at the end of the Repo (Reverse Repo) operation.

### Sell/Buy and Buy/Sell operation

The operation consists in a buy/sell and sell/buy of securities. Both trades are agreed at the same moment. The deals serve to deposit or borrow financial means. The interest is the difference between the security price at the start and at the end of the B/S and S/B operation.

#### Return

The return (cost in case of the loan) is known in advance – the interest rate is the difference between the start and end price of the operation.

#### Credit risk

The counterparty's credit risk is covered by the pledge of securities. The risk may consist in the decrease in the price of the pledged securities. In case of the quality government bonds, the risk is very low, with shares where the price fluctuation is higher, the risk is secured by the higher cover that the volume of the granted loan.

#### Liquidity risk

The liquidity risk relates to securities used as the security. The liquidity risk is low with the government bonds traded on the stock exchange or on the interbank market, on the contrary, with the low rating shares and bonds the liquidity risk is higher.