MBH BANK

Cross Currency Interest Rate Swap – CCIRS

The key parts of the product:

A Cross Currency Interest Rate Swap (CCIRS) is a bilateral agreement where the parties exchange interest cash-flows at predetermined future dates on principals denominated in different currencies and based on separate interest calculation methods for each principal.
Unlike a single-currency interest rate swap, a cross-currency interest rate swap may also involve the exchange of notional principal amounts at the start of the swap, and always at maturity. The exchange rate at which the principal is exchanged at inception and at maturity, or in the case of amortization during the maturity period, is fixed at the time the transaction is concluded.
The interest calculation methods under which the exchange can be made are:

- fixed rate to variable rate (e.g. 5% HUF against 3M EURIBOR)
- variable rate to - fixed rate (e.g. 1M BUBOR against 2% euro)
- variable rate to variable rate with a different basis (e.g. 3M BUBOR against 6M EURIBOR)
- fixed rate to fixed rate (e.g. 5% HUF against 2% EUR)

A cross currency interest rate swap is a favorable way to convert the currency of a loan or investment into the desired currency and interest rate type.
The swap can have several purposes depending on the direction of expected interest rate changes and the debtor or investor position. In the case of a debtor position and interest rate increase expectations, an interest rate swap can be used to hedge against the increase in costs, resulting from interest rate changes (liability swap). In the case of an investor position and interest rate decrease expectations, an interest rate swap can be used to increase the return (asset swap).

Who we recommend this product to:

For those, who find a favorable financing option in a currency other than the currency in which their company operates, and generate their revenues in particular. They can use a cross-currency interest rate swap to convert liabilities into another currency. For example, a company with HUF revenues can create a synthetic, favourable HUF financing for itself by borrowing in EUR and using a cross currency interest rate swap.
By fixing a fixed interest rate rather than a variable one, it can also protect itself against rising interest rates.

Benefits:

- Cross-currency interest rate swaps allow you to quickly and flexibly set up a cash-flow structure position that is appropriate in terms of both currency and interest rate, without changing the existing structure of loans and deposits or investments.
- For asset/liability management, interest rate swaps are a means of exchanging the currency of the available funds for a lower interest rate, while managing or, where appropriate, consciously assuming the exchange rate risk.
- CCIRS is also an appropriate tool for restructuring the currency structure of held-to-maturity investment portfolios.

Risks:

- A cross-currency interest rate swap transaction also embodies an exchange rate risk unless it is entered into as a close-out of an exchange rate risk exposure.
- A cross currency interest rate swap is separate from the underlying transaction. Termination of the CCIRS may be required on termination of the host transaction, but closing the CCIRS before maturity may give rise to a significant payment obligation depending on the changes in market interest rates and exchange rates in the meantime.

Conditions for concluding a CCIRS:

- Master Agreement for entering into derivatives contracts outside an exchange or other regulated market
- MIFID suitability and appropriateness test and EMIR related statements
- valid LEI code
- HUF account
- Freely available treasury limit and collateral according to the initial margin requirements of the master agreement and general terms of business.
- Minimum amount of EUR 1 000 000 per transaction

Example:

An exporting company with revenues mainly in euro, wants to borrow euro to finance a project, but under an export subsidy scheme the company is eligible for a favourable fixed-rate loan in forint. The company takes out a HUF 1 billion, 3-year, 2.5% fixed-rate loan and exchanges the funds for euros by entering into a CCIRS transaction. Interest payments on the loan will be made monthly. The CCIRS does not involve any exchange rate risk because the loan is repaid from euro proceeds.

The company enters into a 3-year HUF fixed - EUR fixed cross currency interest rate swap with the bank, whereby it receives a fixed HUF interest rate of 1 month and pays a fixed EUR interest rate per month, in line with the interest payment dates of the loan. The euro exchange rate is HUF 380.

When the deal is done, the forint amount from the issue is exchanged for euros:

BANK	EUR capital → ← HUF capital	Company	←1 capital HUF	Export Support Credit Scheme

When interest is paid, the bank pays the company 1 month's BUBOR in HUF and the company pays the bank 1 month's EURIBOR:

BANK	2,5% fix HUF→ ← 1% fix EUR	Company	2,5% fix HUF →	Export Support Credit Scheme

At maturity, in addition to the exchange of interest, the principal is also exchanged:

BANK	2,5 % fix HUF + HUF capital → ←1% fix EUR + EUR capital	Company	2,5% fix HUF + HUF capital→	Export Support Credit Scheme

The company uses cross-currency interest rate swaps to transform fixed-rate forint funding into fixed-rate euro funding. The 2.5% fixed forint interest received from the bank is paid by the customer to the lender under the preferential export subsidy credit scheme, with a net neutral value. The remaining actual payment obligation is the fixed euro interest of 1%.