MBH BANK

Foreign Exchange Forward

I. The product

In a Foreign Exchange Forward agreement, on the date of the transaction the Client agrees with the Bank to exchange an amount of foreign currency at a predetermined rate for another currency on a future maturity date (later than the spot value date of T+2). The transaction eliminates all exchange rate risk on future conversions, which will be carried out at the forward rate, irrespective of the spot rate on the maturity date. In this way, you surrender the potential gain of a favourable exchange rate movement in order to protect yourself against the potential loss of an unfavourable movement.

II. We recommend this product to

- those who want to eliminate exchange rate risk completely
- those who expect the market rate on the expiry date to be less favourable than the forward rate
- a financial planner whose target exchange rate is close to the forward rate

III. Advantages of hedging with FX forwards:

- Future conversions take place at a predetermined exchange rate, enableing full elimination of exchange rate risks
- Maturity date is flexible, can be any settlement date later than spot (>T+2)
- The maturity date can be flexibly managed throughout the term of the transaction by means of a rollover, whereby the original transaction is closed by a countertrade and a new forward transaction is concluded for the new earlier or later maturtiy date

IV. Drawbacks:

- Both parties are bound by the forward rate agreement even if the spot market rate on the maturity date is more favourable

V. Key elements of a forward agreement:

Currency pair:	The currencies to be bought and sold
Amount:	Minimum amount of 50 000 euro or equivalent per transaction. Amount can be specified in either the currency to be bought or the currency to be sold.
Maturity:	Starting from T+3 days, the maturity is typically within 2 years for major currencies (EUR, USD, GBP, CHF, JPY) and 1 year for other currencies, but longer maturities are possible depending on the amount and market liquidity.
Maturity/Maturity date:	The future date later than the spot value date at which the forward exchange rate agreement is settled.

Forward Rate: The contractually agreed rate at which the parties exchange currencies. Components are the spot rate and the interest rate differential, also known as FX swap points.

Spot rate: The spot market rate for the two currencies, which applies to settlement on the second business day following the conclusion of the transaction.

Interest rate differential (Swap difference): The interest rate difference between two currencies, expressed in exchange rate points, until maturity. The difference between the spot and forward rates. The interest rate differential is positive if the interest rate on the counter currency is higher and negative if it is lower than the interest rate of the quoted currency.

VI. Calculation of the forward strike rate

The forward rate is calculated by the Bank as the sum of the spot rate and the time weighted difference between the interest rates of the two currencies, expressed in exchange rate points, the so-called swap points.
Forward rate = Spot rate + Interest rate differential.
Simplified formula used to calculate the forward swap spread: $\frac{S \times D \times n}{36\,000}$

S: spot rate
D: interest rate differential (interest rate on the counter currency - interest rate on the quoted foreign currency)
n: number of days from spot value date until maturity date

VII. Conditions for concluding a forward exchange rate agreement

- Master Agreement for entering into derivatives contracts outside an exchange or other regulated market
- MIFID suitability 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 50 000 per transaction

VIII. Settlement

The settlement of the forward exchange rate agreement may be effected by the actual **exchange** of the two currency amounts (delivery) or by **closing** the forward contract by a reverse conversion and **settling the difference**, which the Client must decide by 12 noon on the maturity date at the latest and inform the Bank thereof.

In the event of delivery, the Bank shall, in accordance with the terms and conditions agreed at the time of conclusion of the transaction, perform the foreign exchange conversion at the forward contract rate, irrespective of the market rate at the time of maturity, i.e. the Bank shall debit the amount of foreign currency sold by the Customer and credit the Customer's corresponding accounts with the amount of foreign currency

purchased. The delivery is subject to the condition that the amount sold is available in full in the Customer's account and that the Customer informs the Bank of his intention to deliver. In the absence of these conditions, or if the Customer so wishes, the forward agreement shall be settled by closeout.

In the event of cloesout, the Bank determines the result of the forward transaction on the basis of the difference between the opening and closing rates, which is paid to the client or the Bank, depending on the positive or negative sign of the result. The closing conversion concluded for the maturity date may be a forward transaction, which may be concluded at least until the third business day prior to the expiry date, or a spot transaction, which may be concluded from the second business day prior to the expiry date until 12 noon on the expiry date at the latest.

If the Customer has not arranged for a delivery or if it cannot be executed (e.g. due to lack of funds) and does not enter into a closing transaction by 12 noon on the expiry date, the Bank will close the Customer's position at the foreign exchange bid or ask (depending on the direction of the open position) rate fixed by the Bank on the expiry date.

IX. Example for importers

Your company has a payment obligation of €100 000 due in 3 months to your foreign supplier. Uncertain about the market exchange rate or expecting it to rise, you enter into a forward foreign exchange contract. The forward rate is the difference between the EUR/HUF rate quoted on the spot value date and the interest rate of the two currencies calculated for the given maturity:

EUR/HUF Spot rate	370.50
Interest rate differential (swap point)	**105**
Forward exchange rate	**370.50+1.05=371.55**

So you fix the future conversion rate at 371.55 EUR/HUF, and in 3 months' time you will buy €100,000 at this level, irrespective of the spot rate on the maturity date.

X. Example for Exporters

Your company is expected to receive €100 000 in revenue in 3 months' time, a foreign buyer will transfer the value of the goods. Uncertain about the market exchange rate or expecting it to fall, you enter into a forward foreign exchange contract. The forward exchange rate is the difference between the EUR/HUF rate quoted on the spot value date of the transaction and the interest rate differential between the two currencies calculated for the given maturity:

EUR/HUF Spot rate	370.50
Interest rate differential (swap point)	85
Forward exchange rate	**370.50+0.85=371.35**

So you fix the future conversion rate at 371.35 EUR/HUF and sell the €100 000 at that rate in 3 months' time, irrespective of the spot rate on the maturity date.