MBH BANK

Knock-out Forward Exchange Rate Agreement

I. The product

Under an Knock-out Forward Exchange Rate Agreement, our Client agrees with the Bank to exchange an amount of currency for another currency at a future maturity date at a rate more favourable than the standard forward rate, on condition that the market rate does not reach the knock-out barrier level during the term. In exchange for the more favourable exchange rate level, our Client assumes the risk that if the market rate reaches the knock-out barrier level at any time during the term, the Knock-out Forward contract will be terminated.

The knock-out barrier level is always in the direction of the unfavourable exchange rate movement relative to the current market rate at the time of the trade, i.e:

- For a Knock-out Forward foreign exchange sale, the barrier level is lower than the market rate.
- For a Knock-out Forward foreign exchange purchase, the barrier level is higher than the market rate.

With this Agreement, our Client can enter into a forward contract at a rate more favourable than the standard forward rate, however, this Agremeent terminates if the market rate moves in the direction of the unfavourable exchange rate.

II. We recommend this product to

- those who expect that the market rate will not move in an unfavourable direction during the maturity (will not reach the knock-out barrier level).
- for those whom it is important to convert at a better rate than the available forward rate.
- those who knowingly accept the risk that the futures contract might be terminated in the event of an unfavourable exchange rate movement.

III. Advantages of choosing the Knock-out Forward:

- A better forward rate, compared to a standard forward agreement.

IV. Drawbacks:

- The contract is terminated, if the price reaches the knock-out barrier level, terminating the hedge transaction at a time when the market rate is more unfavourable.

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:	The maturity in HUF against most major currencies can fall between T+3 days and 1 year, but is subject to actual market liquidity at time of the trade.
Expiry of the knock-out barrier period:	12 noon on the day two banking business days before Maturity for HUF against major currencies and 4 p.m. for other currency pairs.

Expiration: The future date later than the spot value date when the Knock-out Forward Exchange Rate Agreement is settled.

Forward Rate: The rate specified in the contract at which the parties exchange currencies.

The future date later than the spot value date (T+2) when the buyer of the option can exercise his option right, i.e. when he can exercise the option (usually at 16:00, 12:00 for options against HUF).

Spot rate: The spot market rate where the two currencies are exchanged, which is settled on the second business day following the date of the contract.

Knock-out barrier rate: The level of exchange rate that terminates a Knock-out Forward Exchange Rate contract if it is reached at any time between the trade date and the Expiry of the knock-out barrier period of the contract.

VI. Settlement

If the Knock-out barrier is reached between the trade date and the Expiry of the knock-out barrier period, the contract is terminated, and no settlement takes place.

If the contract is not terminated, at maturity the Knock-out forward exchange rate agreement may be settled 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 shall be decided by our Client by 12.00 noon on the maturity date at the latest and notified to the Bank.

In the case of delivery, the Bank shall perform the foreign exchange conversion at the forward contract rate, in accordance with the terms agreed at the time of the transaction, 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 received. 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 closeout, the Bank shall determine the result on the basis of the difference between the opening and the closing rate of the opposite direction, which, depending on the positive or negative sign of the result, shall be paid to our Client or the Bank. A closing conversion concluded for the maturity date may be concluded from the second business day preceding 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 its foreign exchange bid or ask (depending on the direction of the open position) rate officially announced on the expiry date.

VII. Closing a position

If there has not yet been a knock-out event, the transaction may be closed during its lifetime, in which case the Bank will make an offer to close the transaction based on its market value, which may be positive or negative for the Client. A Knock-out Forward transaction can only be closed this way and a plain forward transaction in the opposite direction does not close the hedge position as it lacks the knock-out feature of the original position.

VIII. Conditions for concluding a forward exchange rate agreement

- Master Agreement for entering into derivatives contracts outside an exchange or other regulated market.
- Available Treasury Limit in accordance with the provisions of the master agreement.
- Freely available collateral according to the initial margin requirements of the master agreement and general terms of business.
- Minimum amount of EUR 50 000 per transaction.
- valid LEI code.
- MIFID suitability test and EMIR related statements.
- HUF account.

IX. Example for importers

Your company will have to pay €100 000 in 3 months. The spot rate is 389.00 and the plain forward rate is 392.20. You want to achieve a more favourable exchange rate level than the forward rate, but you do not expect the EUR/HUF exchange rate to weaken above 407,00 in the next 3 months. In order to achieve a better forward rate, you are willing to take the risk that the transaction may be terminated, so you enter into a knock-out forward with a forward rate of 388.30 and a knock-out barrier level of 407.00.

EUR/HUF Spot rate	389.00
Forward exchange rate	392.20
KO Forward exchange rate	**388.30**
Knock-out level:	**407.00**

The following outcomes are possible:

- If the EUR/HUF exchange rate does not reach 407.00 at any time during the 3-month period, the transaction will be settled at the forward contract rate of 388.30 at expiry, irrespective of the current exchange rate.
- If the EUR/HUF exchange rate reaches 407.00 at any time during the 3-month period, the forward will be terminated. At expiry, you can convert HUF into EUR at the current market exchange rate.

X. Example for exporters

Your company expects to earn €100 000 from a foreign customer in 3 months. The spot rate is 391.00 and the plain forward rate is 393.60. You want to achieve a more favourable exchange rate level than the forward rate, but you do not expect the EUR/HUF exchange rate to strengthen below 380 in the next 3 months. In order to achieve a better forward rate, you are willing to take the risk that the contract may be terminated, so you enter into a knock-out forward contract with a forward rate of 397.00 and a knock-out barrier level of 380.00.

EUR/HUF Spot rate	391.00
Forward exchange rate	393.60
KO Forward exchange rate	**397.00**
Knock-out level:	**380.00**

The following outcomes are possible:

- If the EUR/HUF exchange rate does not reach 380.00 once during the 3-month period, the transaction will be settled at the forward contract rate of 397.00 at expiry, irrespective of the current exchange rate.
- If the EUR/HUF exchange rate reaches 380.00 at any time during the 3-month period, the forward will be terminated. At expiry, you can exchange EUR for HUF at the current market rate.