MBH BANK

Participating Forward

I. The key parts of the product:

Under a participating forward agreement, our Client agrees with the Bank to exchange an amount of currency for another currency at a predetermined rate that is less favourable than the current forward rate on a future maturity date, on condition that, at maturity, the market rate is worse than the predetermined rate for our Client. If the market exchange rate is more favourable to our Client, he is only obliged to convert half of the predetermined amount of currency and may convert the other half at the more favourable market exchange rate.

In this way, our client hedges his exchange rate risk at a less favourable level than in a standard forward exchange rate agreement, but benefits from any favourable exchange rate movement by half of the total amount.

II. We recommend this product to

- Those who expect that the market rate at maturity will be better than the forward rate at the time of the transaction, but want to limit their exchange rate risk.
- For those who are willing to hedge their exchange rate risk at a level below the available forward price in order to benefit from a favourable exchange rate movement by half of the amount hedged.

III. Key elements of a Participating Forward:

Currency pair:	The currencies to be bought and sold.
Amount:	Minimum amount of 200 000 Euro or equivalent per transaction. Amount can be specified in either the currency to be bought or the currency to be sold.
Maturity:	Typically, transactions can be concluded for a period of T+3 days to 1 year.
Expiration:	The future date later than the spot value date when, based on a comparison of the market exchange rate and the pre-fixed forward exchange rate, the Client decides whether to exchange the full amount or only half of the amount at the forward rate (usually at 4 p.m., or 12 p.m. for a HUF transaction)
Settlement date:	The second business day after the option exercise date, the date of financial settlement of the conversion.
Participating Forward exchange rate	The contractually agreed exchange rate at which the parties may convert all or 50% of the amount, depending on the exchange rate on the maturity date.

IV. Advantages:

- Cost-free hedging instrument
- Our client receives 50% of the favourable movement in the exchange rate.
- The exchange risk is limited, the most unfavourable exchange rate at which the conversion will take place is known in advance.

V. Risks:

- Less favourable hedging level than the forward rate in case the rate does not move in a favourable direction.

VI. Settlement:

At the expiry of the participating forward agreement, two outcomes are possible

1. The market rate is more favourable to our Client than the pre-fixed partial forward rate, so our Client will convert half of the amount of the commitment at the partial forward rate on the settlement date as the value date. The other half is freely convertible at the current market rate.
2. The market rate is worse for our Client than the pre-fixed partial forward rate, so our Client will convert the full amount of the commitment into the partial forward rate on the settlement date as the value date.

VII. The conditions for concluding a Participating Forward agreement:

- Master Agreement for entering into derivatives contracts outside an exhange or other regulated market.
- Available Treasury Limit in accordance with the provisions of the master agreement.
- MIFID suitabiity test and EMIR related statements.
- Valid LEI code.
- HUF account.
- Minimum trade amount equivalent to 200 000 euro per transaction.

VIII. Example for importers

Your company has a payment obligation of €200,000 due in 3 months from your foreign supplier. You expect the exchange rate to fall, but your calculations show that a rise in the exchange rate would be a big burden for your company. The spot exchange rate is 390 huf, the forward rate for 3 months is 393.50 huf. You enter into a partial forward euro purchase contract with the Bank for €200,000 at a level of 396.00 huf. If at maturity the market rate is

- is above 396 huf, you buy the full amount of 200 000 euros at 396 huf
- is below 396 huf, you are only obliged to buy €100,000, i.e. half of the original contract amount, at the 396 huf level, and the remaining €100,000 at the more favourable market rate.

IX. Example of exporters

In 1 month, your company will receive €200,000 in revenue for the transfer of goods from a foreign buyer. You are expecting the exchange rate to rise, but your calculations show that a fall in the exchange rate would be a big burden for your company. The spot exchange rate is 390 huf, the forward rate for 5 months is 395.50 huf. You enter into a partial forward euro sale contract with the Bank at 391 huf for €200,000. If at maturity the market rate is

- below 391 huf, you sell the full amount of €200,000 at level 391 huf.
- above 391 huf, you are only obliged to sell €100,000, i.e. half of the original contract amount 391 huf level and sell the remaining €100,000 at the more favourable market rate.