FX Swap

What is an FX Swap?

The FX Swap is a binding agreement to exchange a pre-agreed amount (notional amount) in one currency to another currency at spot date or a future date (near leg value date) and to exchange the notional back to the original currency later (far leg value date) at a pre-agreed conversion rate.

Who is the FX Swap intended for?

The Bank offers the FX swaps to clients, which want to secure short-term liquidity or to extend the maturity date of a forward contract.

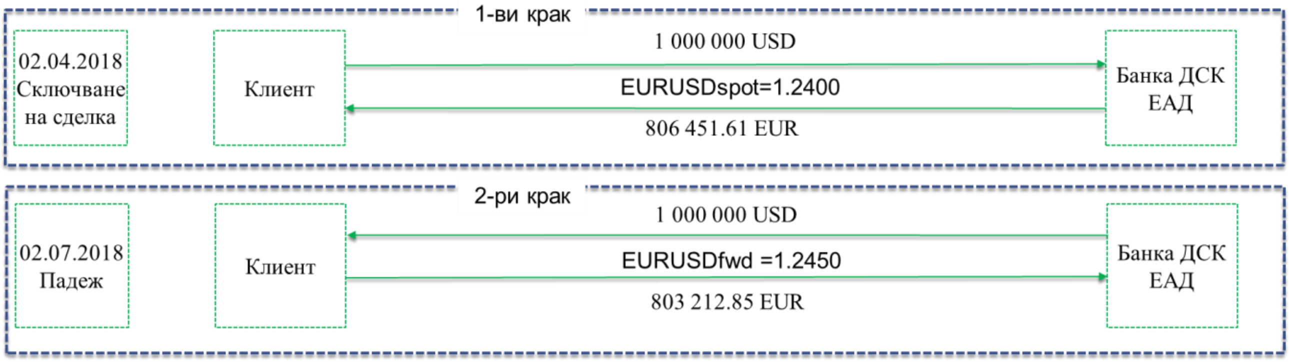
How the FX Swap works

Through the FX Swap, the client can secure short-term liquidity by exchanging the currency, which he does not need currently for a currency that he has scheduled payments in. At the far leg of the deal, the client buys back the original currency at the pre-agreed rate.

Example:

A company, which is a client of the Bank has $ 1 million and in the coming day it has to made several payments denominated in euros. At the same time, the company must make a payment of $ 1 million after 3 months. Using an FX Swap the company exchanges its US dollars for euro at the near leg, thus securing itself with short-term liquidity. 3 months later the company buys back its US dollars at the pre-agreed rate and makes its outgoing payments.

Figure:



Main advantages:	Main risks and requirements:
• **Protection** – The FX Swap provides both short term liquidity and protection from changes in the FX rate • **Cash flow management** – With the FX Swap, the clients can flexibly manage their cash flows from incoming and outgoing payments. • **Flexibility** – The FX Swap is an OTC instrument and its parameters are negotiated between the counterparties of the deal. • **No premium** – The clients do not pay a premium in advance on an FX Swap transaction.	• **Early termination** – An FX Swap transaction can be terminated early by concluding a forward deal with the parameters of the far leg of the swap and in its opposite direction. Upon an early termination, the client may pay or receive an amount depending on the rate of the opposite (closing) forward deal. • **Market risk** – The value of the instrument depends on the current market conditions, including the current FX rate and the current interest rates for each of the exchanged currencies • **Currency risk** – The client is exposed to currency risk in case the swap payments are denominated in a foreign currency. • **Limit for concluding deals** – The clients, who enter into a swap transaction must provide cash collateral or have a pre-approved limit.

Can the client terminate an FX Swap before its maturity date?

Yes, the client can terminate his FX Swap deal before its maturity. This is done by concluding an FX Vanilla Forward with the parameters of the far leg of the swap and in the opposite direction of it. Depending on the forward rate the client may pay or receive a certain amount.

Collateral/ limit for FX swap deals.
To conclude an FX swap deal the client has to provide cash collateral or to have an approved sublimit for investment services. The sublimits for investment services are prepared and approved by the respective responsible unit – the Corporate Banking Directorate or the Department "Small and Medium Enterprises and Agribusiness"

Collateral/ limit management:
Definitions:

- **The Principal collateral/Investment services sublimit** for the deals is the initially approved limit/ collateral for this type of deals.
- **The Initial margin** for the deal is the minimum required limit for this type of deals.
- **Variable margin** – means the negative market revaluation (from client's point of view) of all concluded and unmatured deals.
- **Coverage ratio** – the ratio of the sub-limit for investment services/ principal collateral, reduced by the variable margin and increased by the additional collateral provided by the Client, divided by the initial margin multiplied by the notional value of the concluded and unmatured transaction/s.

Collateral/ limit management process:
The Bank runs a **daily valuation of the financial instrument**. As a result of the valuation if the coverage ratio is:

1.1.1. less than or equal to 100% as of the date of the revaluation, the Bank suspends the conclusion of new transactions with the Client.
1.1.2. 90% or less than 90% at the date of the revaluation, the Bank shall inform the Client by telephone and/or e-mail and shall send a written request to the Client to provide additional collateral, so that the coverage reaches 100%. If the Client is unable to provide the necessary collateral, the Bank has the right to close the Client's open position by applying the current market price on the day of termination.
1.1.3. 70% or less than 70% at the date of the revaluation, the Bank shall inform the Client of the decline and shall send a written request to the Client to provide additional collateral up to 100% within 24 hours of sending the written request. If Client is unable to provide the necessary collateral, the Bank has the right to close the Client's open position by applying the current market price on the day of termination.
1.1.4. 50% or below 50%, the Bank closes the Client's open position by applying the current market price on the day of termination.

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Documents:

- Framework agreement for FX trading under the terms of forwards and swap
- General terms & conditions applicable to agreements for the provision of investment services and activities to the clients of DSK Bank AD
- Additional Agreement to settle their relationship in relation to the fulfilment of their obligations under Regulation (EU) No 648/2012 (EMIR)
- Notification-questionnaire for client categorization under the Markets in Financial Instruments Act (MFIA)
- Product's Target Market Compatibility Test
- Information on the nature and risks of financial instruments
- Information on costs

Key information document:
A key information document has been prepared for the financial instrument FX Swap, which every client should become acquainted with before entering into such a transaction. The KID can be obtained at the following address: 5 Georgi Benkovski str., Sofia or can be downloaded from the following web address: https://dskbank.bg/бизнес-клиенти/корпоративно-банкиране/финансови-пазари-и-инвестиции on the DSK Bank website.

Contacts:
For more information you may contact Treasury Sales at:

- **phone numbers**: +359 2 80 10862 / +359 2 93 91126/ +359 2 93 91133 / +359 293 91365 /
- **e-mail:** Treasury.Sales@dskbank.bg

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