FX Option

What is an FX Option?

The buyer of the FX Option receives the right to buy (call option) or to sell (put option) a certain amount of one currency for another currency at an agreed strike price until a future date (American type) or on a future date (European type). The buyer of option pays premium for it.

Who is the FX Option intended for?

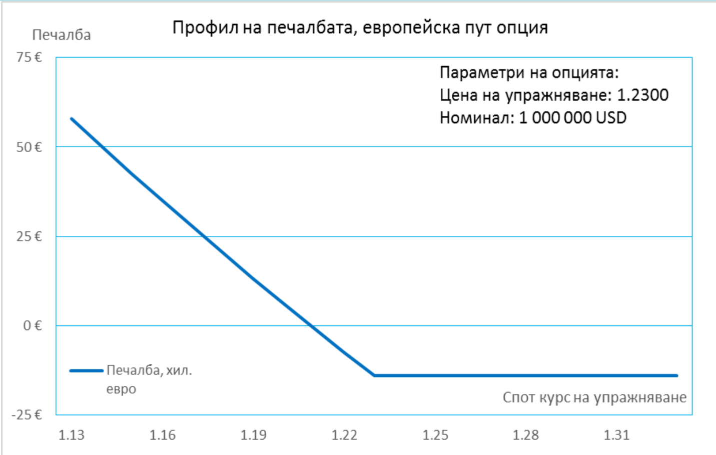
The FX Option might be used for hedging short- and mid-term exposures and for generating income. The clients can both buy and sell FX Options.

How the FX Option works?

If used for hedging purposes, the FX Option protects the buyer from a rising (call option) or a declining (put option) exchange rate.

Example:

A company has to pay 1 million USD after 3 months and will sell euro for this purpose. To avoid the risk of declining EUR/USD exchange rate the company buys a European put option. The client pays 14 000 EUR for the option. The agreed strike price is 1.23. EUR/USD. Компания трябва да плати 1 млн. долара след три месеца, като за целта ще продаде евро. За опцията клиентът заплаща 14 000 EUR. The spot rate at maturity is EUR/USD and the client exercises his option. The difference between the current spot rate and the exercise price multiplied by the notional is 20 325.20 and it compensates the client for the depreciation of the EUR.



Main advantages:	Main risks and requirements:
• **Protection** – The clients can use the FX Option for protection against exchange rate changes. • **Cash flow management –** When the FX Option is used for hedging purposes, the cash inflows and outflows become easily predictable. • **Flexibility –** The FX Option is an OTC instrument and its parameters are negotiated between the counterparties of the deal. • **No opportunity costs** – The buyer of an FX option does not realize opportunity costs from favorable exchange rate movements. • **Fixed costs** – the costs for the client are limited to the size of the premium.	• **Early termination** – The FX Option is an OTC instrument and can only be terminated with the counterparty of the deal. Depending on whether the client is a buyer or seller, he may receive or pay a certain amount. • **Maturity date** – The FX Option has a maturity date and if the client is a buyer there is probability that he does not realize any benefits from it. If the client is a seller of the option there is probability that he realizes losses from it. • **Market risk** – The value of the instrument is affected by the market conditions, mainly by changes in the FX spot rate. • **Currency risk** - The client is exposed to currency risk in case the option payments are denominated in a foreign currency. • The client has to pay the **total premium upfront.**

Can the client terminate an FX Option deal before its maturity?

Yes, the client can terminate his FX Option before its maturity. The product has its own intrinsic value anytime during its term. Depending on whether the client is buyer or seller of the FX Option, its value is only positive or only negative. Upon early termination, the client receives an up to date quote from Treasury Sales Department, which is in line with the current market levels for the instrument.

Collateral/ limit for FX Options deals:
In case the client buys an FX Option, he pays an upfront premium for the deal thus it is not necessary to provide collateral. In case the client sells FX Options 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 Options trading
- 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 Option, 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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