



## FX Forward

### What is an FX Forward?

The FX Forward is a binding agreement for a purchase or a sale of a certain amount of one currency for another currency at a pre-agreed fixed rate (forward rate) on future date.

### Who is the FX Forward intended for?

The Bank offers the FX Forward in order to be used for protection against unfavorable changes in the exchange rate (hedging) or for generating income.

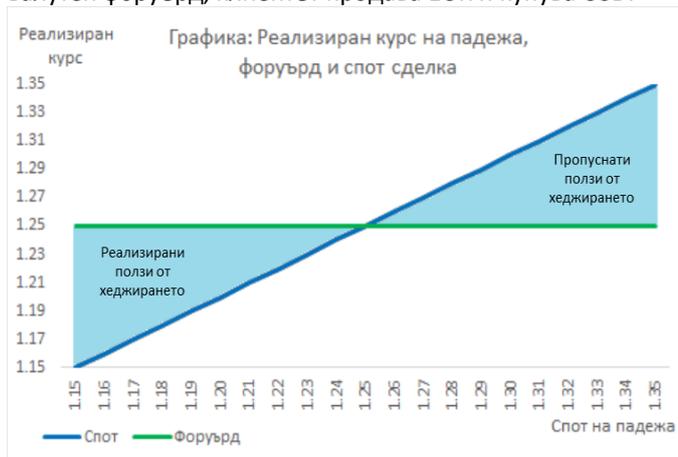
### How the FX Forward works?

The FX Forward protects the client against unfavorable exchange rates moves, by fixing it at the conclusion date of the transaction. Thus, when executing the forward at maturity the current spot rate does not affect the client's cash flows.

### Example:

A company, which is a client of the Bank, has to make a payment to a supplier after 3 months. In order to ensure cash flows predictability the company concludes an FX Forward, where it buys USD and sells EUR on the forward date. The forward rate of the deal is EURUSD = 1.25. After 3 months, the EURUSD spot rate is 1.21. The realized benefit by the company are equal to  $1\,000\,000\ \$ / 1.21 - 1\,000\,000\ \$ / 1.25 = 26\,446.28\ €$ . In this case, the client realizes benefits from the deal because the forward rate is higher than the spot at maturity. In case the spot rate at maturity is higher than the forward rate, the client may realize opportunity costs.

На графиката: реализирани и пропуснати ползи от сделка за валутен форуърд, клиентът продава EUR и купува USD.



### Main advantages:

- **Protection** – The clients, which use the FX Forwards for hedging, receive protection against exchange rate moves.
- **Cash flow management** – With the FX forward the cash flows denominated in foreign currency become easily predictable.
- **Flexibility** – The FX Forward 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 for an FX Forward transaction.

### Main risks and requirements:

- **Early termination** – The FX Forwards deals can be terminated before maturity by concluding the opposite deal with the same parameters. Upon an early termination the client may pay or receive an amount depending on the rate of the opposite deal.
- **Opportunity costs** – Depending on the spot rate at maturity the client may realize opportunity costs.
- **Market risk** – The value of the instrument is affected by the market conditions, mainly by changes in the FX spot rate.
- **Currency risk** – The value of the instrument is exposed to the risk of currency fluctuations.
- **Limit for concluding deals** – The clients, who enter into a forward transaction must provide cash collateral or have a pre-approved limit.

### Can the client terminate an FX Forward deal before its maturity?

Yes, the client can terminate his FX Forward before its maturity. This is done by concluding an FX Forward with the same parameters, but in the opposite direction and at the current forward rate. Depending on the difference between the two forward rates the client may pay or receive a certain amount.



### Collateral/ limit for FX Forward deals.

To conclude FX Forward deals 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.

### 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 Forward, 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

### Disclaimer:

This document is an advertising material intended for retail clients, it has information purpose and does not claim comprehensiveness and completeness with respect to the information contained therein for the product. The material does not constitute an investment research, consultation, advice or recommendation to conclude a transaction or to undertake an investment strategy. DSK Bank warns potential and current clients of the Bank that the financial product presented poses a potential risk to the client from loss or not realizing profits as a result of unfavorable market conditions. The stated interest rates, terms and premiums are indicative and do not bind the Bank.