Flexible Forward

What is a Flexible Forward?
The Flexible Forward is a binding agreement for an exchange of one currency for another at a pre-agreed fixed rate (forward rate) until a pre-agreed future date with the option for partial executions.

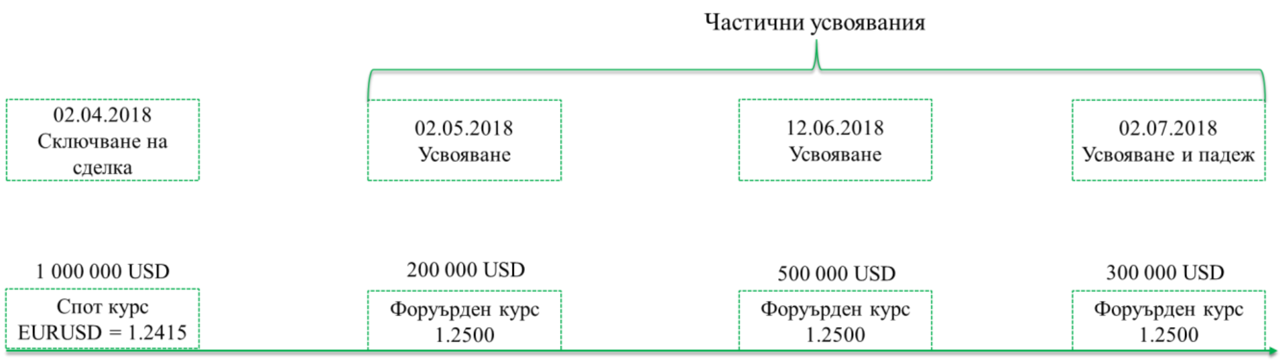
Who is the Flexible Forward intended for?
The Bank offers the Flexible Forward in order to be used for protection against unfavorable changes in the exchange rate (hedging) or for generating income.

How the Flexible Forward works?
The Flexible Forward protects the client against unfavorable exchange rates moves, by fixing it at the conclusion date of the transaction. The Flexible Forward allows for partial executions during the business days until the maturity date, within the pre-agreed notional amount of the deal.

Window Forward: The Window Forward is a variation of the Flexible Forward, where the partial executions under its terms can be done within a predefined period (window).

Example:
A company, which is a client of the Bank, expects to receive 1 Million USD in several payments over the next 3 months. To ensure predictability of its cash flow the company concludes a Flexible Forward deal with the notional of 1 Million USD, the company buys the USD and sells the EUR. The forward rate of the deal is 1.25 and the conclusion date is 02.04.2019. The first payment is worth 200 000 USD, the company receives it on 02.05.2018 and immediately converts it into EUR. The second payment is worth 500 000 USD, the company receives it and converts it on 12.06.2018 at the agreed forward rate. The last payment is converted at the maturity date of the forward and its value is 300 000 USD.

Figure:



Main advantages:

- **Protection –** The client which use the Flexible Forward for hedging, receive protection against exchange rate moves.
- **Cash flow management –** With the Flexible Forward the cash flows denominated in foreign currency become easily predictable.
- **Flexibility –** The Flexible Forward is an OTC instrument and its parameters are negotiated between the counterparties of the deal.
- **Partial executions –** The Flexible Forward allows for partial executions until its maturity date and up to its total notional.
- **No premium** – The clients do not pay a premium in advance for a Flexible Forward deal.

Main risks and requirements:

- **Early termination –** The Flexible Forward 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 the execution date, 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 flexible forward transaction must provide cash collateral or have a pre-approved limit.

Can the client terminate a Flexible 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 Flexible 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.

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