

# Treasury Products and Services



# Esteemed Partner,

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It is our pleasure to provide you with this Treasury Products and Services -, containing a description of the money market and derivative products offered by Commerzbank Zrt.'s Treasury.

The purpose of this information guide is to describe the treasury products offered by Commerzbank Zrt. and the sales process. To provide information to clients about how the relevant rules are applied, to sum up the key features of the products, and to offer an overview of the most important risks and practical information related to trading with them.

Our Bank remains at your disposal with its combination of the Treasury's cutting edge market techniques and the considerable professional experience of our sales representatives to let your business reach its full performance with the greatest success and avoiding external risks.

Our staff is glad to help if you have any further questions about our products, or need advice for your plans.

Commerzbank Zrt.

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# 1. Application of MiFID Rules

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Based on the rules of Directive 2004/39/EC on markets in financial instruments (the Markets in Financial Instruments Directive – MiFID) in the European Union, Hungarian Parliament adopted its local transposition in Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities (referred to hereinafter as “Investment Regulations Act”) on 19 November 2007, and it entered into force in Hungary on 1 December 2007. Its provisions—subject to the exceptions specified in the Act—must be applied from 1 December 2007.

The MiFID I EU directive developed by the European Commission was replaced by the new MiFID II directive and the regulation linked to it (MiFIR) in June 2014. This new legislation reworks the rules of providing and using investment and ancillary investment services significantly, and set the goal of strengthening rules to protect investors further, and to increase transparency concerning the operation of service providers. The provisions of the new regulations (and the respectively amended Investment Regulations Act) must be applied from 3 January 2018.

MiFID’s key goals include: investor protection, strengthening competition on the financial services market, and establishing transparency on the markets. Almost the full range of financial instruments and investment services is subject to MiFID.

The following provides a description of the effects MiFID can have on our clients.

## 1.1 Client Classification

Clients investing in financial instruments have different levels of knowledge and experience concerning the various instruments and related risks, which is why they are entitled to varying degrees of protection, afforded through classification by investment firms into three predefined categories:

- Retail clients
- Professional clients
- Eligible counterparties.

The Investment Regulations Act provides an itemised specification of the criteria that a client needs to meet in order to belong to one of the above categories. Prior to rendering investment services, the Bank will qualify clients in every case where the Bank’s records show that a respective client has not yet been classified. The Bank informs its clients in writing about the category of their classification. You can read more about client categorisation in the General Information and the Terms of Business for Investment Services.



## 1.2 Investment Services Provided by Treasury

### 1.2.1 Investment Advice

Based on the client's order, the Bank delivers investment advice services under individual contracts to be concluded with each client, in the context of which personalised recommendations will be provided related to any financial instrument related transaction. Based on the Suitability and Appropriateness Test, the Bank renders investment advice services related to products that are suitable for the client to achieve its investment goals, and are in line with its experience and risk-taking appetite.

#### 1.2.1.1 Client risk profile

In order to enable the Bank to propose products that are best suited to clients, it will use the suitability related questions in the completed Suitability and Appropriateness Test to classify each client in one of the four risk categories below, and take that into consideration to assemble the product portfolio that is best suited to the clients' risk profiles:

- Risk averse / Conservative
- Moderate risk taker / Balanced
- High risk taker / Dynamic
- Speculative / Aggressive

By providing investment advice to clients belonging to the various risk profiles, the Bank takes into account how different products might influence overall position risk differently depending on the existing exposures the respective client has (underlying products, economic activity and their financing). For example, for an export company producing with domestic input costs, can apply FX forwards or FX options for hedging its future receivables which is a step towards risk mitigation, and as such, can even be recommended to conservative risk profile clients, without any concern. However, the same forward deal cannot be offered to the same risk averse client in a currency pair in which the client has no underlying exposure, so the deal would increase the client's full risk.

#### The descriptions below characterise the relationship between the various categories and risk

- Risk averse, who intends to fully eliminate the company's FX, interest rate and raw materials exposure in full. Opts for certainty in capital return, safe yields and the least possible exchange rate volatility in investments.
- Prefers moderate risk, who takes market price related expectations into account in the enterprise's FX, interest rate and raw materials hedging strategy, and is willing to undertake moderate risk in the interest of a favourable outcome when developing the hedge strategy. Accepts the chance of lower degrees of capital loss in investments, along with moderate price volatility and moderate exposure in the hope of achieving higher returns.
- Prefers higher risk, who builds the enterprise's FX, interest rate and raw materials hedging strategy on firm market opinions, and is willing to undertake high risk in the interest of an above average outcome when developing the hedge strategy. Accepts the chance of complete capital loss in investments, along with high price volatility and high exposure for achieving outstanding returns.
- Speculative, willing to undertake critically high risks on markets and products that are independent of the enterprise's core profile or financial processes to achieve outstandingly high returns. Accepts the chance of complete capital loss or even that of supplementary capital payment obligation in the hope of achieving outstandingly high returns.

For profiles carrying different risk assumption potentials and appetites, products marked "x" **in the target market matrix found in the annex** can be recommended in the context of investment advice to clients whose suitability regarding the given product was established using the test.



### 1.2.2 Non-advisory Business

If a client does not wish to use investment advice, the Bank will examine, before concluding the contract, whether or not the given financial instrument, transaction type, investment arrangement is suitable in terms of the respective client's market knowledge and risk-appetite. The Bank will accomplish this by analysing the questions focusing on appropriateness in the Suitability and Appropriateness Test.

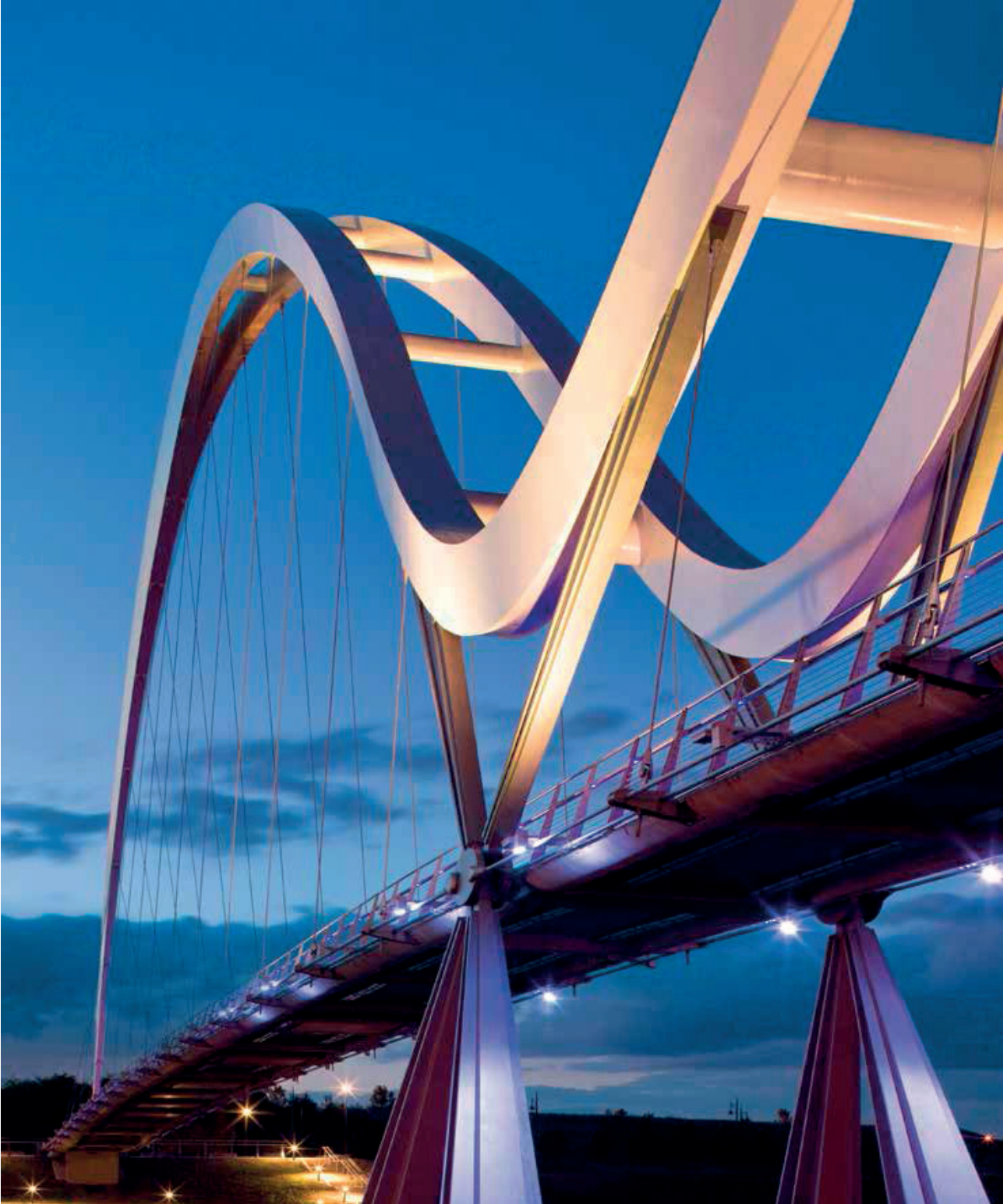
## 1.3 Trading Criteria

The criteria for trading Treasury products are as follows:

- Framework Contract for Derivative and Spot OTC Transactions (Framework Treasury Contract) or ISDA Master Agreement and/or Framework Contract for Taking, Forwarding, Executing Financial Instruments Orders and Own Account Dealing, duly signed by the client. The contractual relationship must be in place between the legal entity corresponding to the place of execution (Commerzbank Zrt. or Commerzbank AG) and the client.
- Suitability and Appropriateness Test completed by the client (for transactions subject to the Investment Regulations Act).
- Sufficient derivative limit and settlement limit exists for dealing or sufficient fund must be available on the client's account. Limits are internal, not contractual. There is an internal limit monitoring system so that the client's net exposure can be checked at any given time and compared to the existing internal limits. If the client's exposure exceeds the internal limits due to market movements, the Bank may refuse execution of additional deals or request supplementary collateral from the client or may force the client to close the open transaction portfolio in part or in full.

## 2. Risks

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A financial instrument's risk means the uncertainty related to the given product's future yield or value, where the outcome can be positive or negative. Risk can comprise many factors; the following provides a summary of the most important categories of such risk factors.

## 2.1 Foreign exchange risk

FX risk entails the chance of significant exchange value fluctuation between the currency of an enterprise's home country and a foreign currency or between two foreign currencies, including the complete devaluation of any currency which can result in the full loss of the investment, as well as the chance of unlimited loss of the FX product. If the transaction was executed based on the existing exposure and for risk mitigation, this threat is more moderate - however (since different external economic, social and political factors may also affect the operation of the enterprise, and it also has to face individual risks) the chance of significant losses cannot be ruled out even though a deal is concluded purely for hedging purposes. As Hungary is defined as an open economy, most of the Hungarian corporates - are exposed to the FX risk. As this type of risk may largely affect your enterprise's revenues, costs, profitability or even goodwill, so the FX risk management should be in the focus of the management

### Possible examples of FX risk:

- Your firm's revenues or costs are realised in a foreign currency or exposed to the FX changes
- Your firm's products or services are exposed to price competition with foreign products on a foreign market

## 2.2 Interest Rate Risk

Interest rate risk is coming from the changes of the interest rates of the currencies which influence the value or payment of the transaction. Due to the nature of such transactions the above detailed changes can happen not only on the date of maturity, but also continuously during the whole life of the product, and can affect the payments and the value of the transaction. IR risk may include the full devaluation of the treasury deal, its significant value change during the term, including in certain cases the chance of unlimited loss where an open transaction is closed during its term.

If the transaction was executed based on the existing exposure and for risk mitigation, this threat is more moderate, however, (since different external economic, social and political factors may also affect the operation of the enterprise, and it also has to face individual risks) the chance of significant losses cannot be ruled out even in cases where a deal is concluded purely for hedging purposes. If IR risk is managed properly, you can prevent the negative impact of unfavourable interest rate movements, eliminate interest cost increases, and boost your enterprise's profit and goodwill.

### Possible examples of interest rate risk:

- Changes in the central bank base rate
- Changes in interbank reference interest rates (e.g.: BUBOR, EURIBOR, LIBOR)
- Yield curve shifts or changes in its incline

## 2.3 Liquidity risk

A financial product is liquid if it can be converted to cash easily, at a freely chosen date, in relatively short time, avoiding value loss and keeping transaction costs low. Liquidity risk is the current or anticipated risk, affecting profitability and the capital position of an enterprise being unable to remain solvent and fulfil its due liabilities without significant losses. There are two types of liquidity risk: financing and market liquidity risk. Financing liquidity risk is the risk of the enterprise being unable to fulfil its anticipated and unexpected liabilities derived from its current and future cash flow and collateral items without this any major negative effect on its daily operation or on its market position. Market liquidity risk is the risk of not being able to realise its positions or dispose its assets or purchase such at suitable market prices as a consequence of the inadequate operation or disruptions of the markets. Market liquidity risk is also a threat of a market position being impossible to close successfully in a short time at market price, only at less favourable market rate, so realising a satisfactory market price demands maintaining the position, which may require the reserving/borrowing of liquid assets, thereby making the management of financing liquidity risk more difficult.



## 2.4 Volatility Risk

Volatility is the degree of variation of a trading price series over time. The bigger a financial instrument's price fluctuation is, the riskier an investment/instrument can be considered, so volatility can be used to characterise how risky a particular product is. Volatility and its change can have a significant impact on options' price/value, so subject to different volatility the value of an option can show substantial differences at different times (*ceteris paribus*).

## 2.5 Commodity Price Risk

Commodity risk entails the chance of significant shifts in the prices of raw materials required for an enterprise to operate with and manufacture or such as the enterprise may produce. If a treasury transaction is executed to mitigate the underlying commodity exposure, this threat is more moderate. However, the chance of significant losses cannot be ruled out even if a deal is concluded purely for purposes since different external economic, social and political factors may also affect the operation of the enterprise, and it also has to face individual risks.

## 2.6 Macroeconomic Risk

By macroeconomic risk, we mean the general and systemic risks inherent to the operation and processes of the economy (economic growth, inflation, unemployment, budget balance, global capital market trends). This is a risk that cannot be diversified, and affects every type of financial instrument and investment. Among many others, the following two risks are particularly worth considering when purchasing financial instruments and services:

- **Inflationary risk:** An important type of macroeconomic risk that has a direct impact on the value of investments' real return. The real return on investments with nominally fixed yields is principally determined by inflation changes. Inflation has an impact on all financial instruments.

- **Country risk:** One of the important types of macroeconomic risks. It refers to the threat of a country's economic stakeholders being unable or unwilling to settle their payment obligations due to political/economic events or administrative restrictions, and investors suffer losses. International credit rating agencies' ratings can serve as guidance in terms of national and local policy and regulations related risks.

## 2.7 Credit risk

The risk of non-settlement resulting from a debtor's future insolvency or unwillingness. Two types can be distinguished:

- **Issuer risk:** A type of credit risk that relates to securities investments. In case the security issuer becomes insolvent or declares bankruptcy, it is possible that the security holder will not receive the invested principal and any interest or return on it, or only receive a part of those.
- **Partner risk:** a type of credit risk where an enterprise suffers losses on the settlement of a transaction because of the counterparty's potential non-fulfilment (e.g. liquidation, bankruptcy, etc.).

## 2.8 Operational Risk

By operational risk, we mean the chance of loss derived from the inappropriate planning of external/internal processes or their bad execution, the malfunction of technical equipment in use, natural disasters, human errors or intentional fraud.

### 3. Treasury Products

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## 3.1 Prompt FX conversion

Transaction types provided in Clauses 3.1.1 to 3.1.5 are executed based on Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises.

### 3.1.1 Conversions at the Bank's official foreign exchange rate (fixing)

The Bank publishes its official foreign exchange rates on the Bank's website at the date(s) and time(s) specified in its General Business Terms and Conditions for Payment Services (FX fixing). Payments and account transfers involving FX conversion are settled at the fixing exchange rate. Detailed information about the fixing procedure can be found in the General Business Terms and Conditions for Payment Services of the Bank.

### 3.1.2 Conversions at special, market rate

Conversion exceeds the minimum amount specified in the Bank's execution policy and if all the necessary conditions exist, clients also have the option of executing FX transactions at live market rates. In such cases, the Bank delivers pricing from actual market conditions based on the specific client request and the parameters of the deal, according to the competition and the pricing policy. If the client accepts the offered rate, the deal will be executed at that rate; if the client rejects it, the conversion will not be concluded at the offered rate.

By default, market rates are traded for spot value date. The spot value date is the second business day after the deal date (T+2 days).

In practice, it is possible that the client would like to conclude a conversion for shorter maturity than the spot (T+2), for the T or T+1 value date. In this case the Bank will modify the exchange rate quoted for spot value with the actual swap points, which reflect the interest rate difference between the two currencies, so the deal is concluded at this modified exchange rate.

### 3.1.3 Firm order

The client leaves a buy or sell order at a specified FX rate and amount to the Bank (specifying all necessary parameters - currency pair, buy/sell, value date, take-profit/stop-loss, limit rate), and the Bank will execute it when the exchange rate quoted by the Bank reaches the limit order's level. Firm orders can be given for a maximum of 30 calendar days. The Bank will execute orders even overnight, by forwarding live orders to its interbank partners via its own account. For stop-loss orders (i.e. when a client intends to sell at a level below the market rate quoted at the time of giving an order or wishes to buy when the specified limit rate exceeds the current market rate), the Bank cannot guarantee to fulfil them at the pre-agreed stop-loss rate if there are sharp and significant market movements.

#### Example of a firm order:

- You believe the current EUR/HUF exchange rate level – let's assume it 300 – is going to rise in the future, reaching the level of 310. You leave a firm order to the Bank to convert EUR 100,000 to HUF if the exchange rate reaches the expected level (310) within the next 14 days.
- If the exchange rate moves towards the expected direction and the Bank's buy rate reaches your firm order level of 310 at any time during the next two weeks, the Bank will automatically execute the order and notify you immediately.
- If this level is not achieved within the time range set in the order, the order is expired and you will have the option either to convert your EUR 100,000 at the actual market rate or to place a new firm order.

### 3.1.4 Call order

Clients can also place intraday call orders which are live until 5 PM on the call date. No call orders can be given for overnight or beyond. In the scope of call orders, when the exchange rate specified by the client is reached, the Bank's representatives will call the client, so that the client can execute a deal at the actual market rate during the call. When a call order is fulfilled, there is no obligation to execute the deal as the FX transaction will not be concluded automatically. The Bank is not engaged – with particular reference to any technical malfunction of telecommunication devices, rapid market changes or impossibility of reaching the client – being able to notify the client immediately every time the call order rate is reached.

#### Example of a call order:

- You expect the EUR/HUF cross to rise intraday (currently at 300) and may even reach the level of 302. You intend to sell euros, but will be out of office during the day, so you give a call order to the Bank.
- If the call order is filled, our colleague will contact you, and you can decide whether you wish to conclude a deal at the current exchange rate or wait for a potentially even more favourable level.
- If this exchange rate level is not achieved during the day, the order expires and you can conclude the deal at market rate at the end of the day or you can place a new call order next day.

### 3.1.5 Conversions via the bank's electronic platform

Based on a specific agreement, the Bank provides a web-based electronic platform to its clients for concluding deals directly with the Bank without any personal interaction or voice trade with the Bank's employee. It is our pleasure to provide further information about concluding deals on the platform.

#### Spot conversion benefits:

- The spot FX market is the most liquid one, prices are transparent and easy to monitor, and deals are easy to conclude.
- No derivative limit or settlement limit is required if the respective fund is available.
- Spot deals are not subject to MiFID.

#### Spot conversion risks:

- Although the risk of the product itself is low, spot conversions are not suitable for hedging future cash-flow related FX risk.
- The company is exposed to the unfavourable market movements.

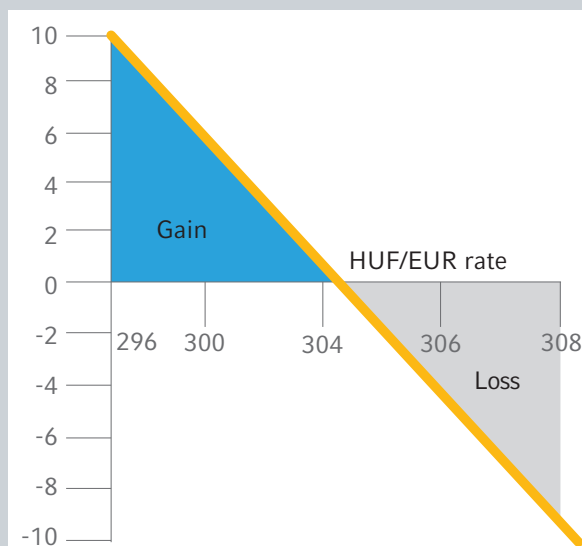


## 3.2 FX Forward

Forward transaction represents a deal where the Bank and the client agree on selling or buying a certain amount of a particular currency at a both pre-defined fixed price and future date. Forward rate calculation is based on two factors: the prevailing spot rate and the interest rate difference of the two currencies in exchange rate points.

Forward transaction is the simplest tool for hedging FX risk, allowing clients to fix the future exchange rate of a given currency. When executing a forward transaction the notional, the outright rate and the value date should be fixed upfront, but the settlement of the deal is due only on the maturity date.

### Example of an FX forward



Your company is going to receive EUR 100,000 from your foreign buyer in 30 days.

- You expect the EUR/HUF exchange rate to go down during the next one month.
- In order to hedge the foreign exchange risk, you ask for quotation for an FX forward transaction. The current spot bid rate is 303.50, and the current interest rate difference (bid swap points) is HUF 0.70 for 30 days, so the outright forward rate is 304.20.
- If you accept the offered rate, the forward deal will be executed by fixing the amount you are selling, the outright rate and the maturity date (30 days later).
- 30 days later, you sell EUR 100,000 at 304.20 (the Bank debits the euro account) and buy (the Bank credits your HUF account) the respective HUF amount (HUF 30,420,000), regardless of the interim volatility.
- The chart shows the gain/loss profile of the forward deal depending on the exchange rate at maturity, its value change is exactly the opposite of the underlying transaction's value. So, this combination (underlying deal + hedge) means a full coverage. In other words, the market rate fluctuation has no impact on the value of the cash flow calculated in the domestic currency.

#### Forward conversion benefits:

- If a deal is concluded to mitigate the underlying FX exposure, it can reduce the client's aggregated market risk. FX risk mitigation can be executed with pre-agreed exchange rates which are already known on trade date.
- Free of additional costs as the quoted exchange rate already includes all costs.
- The deal can be closed out simply with a forward transaction concluded in the reverse direction.
- If HUF interest rate is higher than the base currency's interest rate, the forward rate is higher than the spot rate. So if the export revenue is hedged (foreign currency selling), the interest rate difference will have a positive impact on the forward rate.

#### Forward conversion risks:

- After execution the transaction, both parties are committed that the fixed parameters cannot be modified. However, you can close the deal out anytime with a reverse transaction or with settlement at maturity, which may indicate loss for the client.
- If the underlying exposure is exited, the related forward deal becomes an open FX position.
- If HUF interest rate is higher than the base currency's interest rate, the forward rate is higher than the spot rate. So if import cost is hedged (foreign currency buying), the interest rate difference will have a negative impact on the forward rate.
- Due to the unfavourable exchange rate movement the originally allocated derivative limit can be exceeded, and the Bank may request additional collateral.
- In theory, the potential loss is unlimited.





### 3.3 FX Swap Transaction

FX swap is an agreement between two parties to exchange a given amount of one currency for an amount of another currency based on the current spot rate. The two parties will then give back the original amounts swapped at a later date, at a specific forward rate. The exchange rates for these two swap transactions are typically calculated based on two factors: the prevailing spot rate and the broken-date interest rate difference of the two currencies denominated in pips. Using FX swap deals, clients can roll-over their maturing FX position to a future date, and thus manage their foreign currency liquidity positions in a cost and limit effective way.

A foreign currency position is allowed to be rolled over maximum two times through an FX swap but only if the swap far leg value date does not exceed the end of the calendar year, and the tenor of the swap is no longer than 6

months calculated from the origin FX position's value date. With the help of an FX swap it is also possible to make an early termination of a forward FX position ("backward roll").

#### Example of an FX swap:

- Your company currently has a HUF surplus, but now you need to pay a supplier EUR 100,000 and have no extra euro liquidity. In addition, you know that 30 days from now, your foreign buyer is going to pay you EUR 100,000.
- If so, the Bank recommends an FX swap transaction, allowing you to buy foreign currency now, without having to open a new FX position through a spot conversion in order to secure your euro liquidity.
- You conclude an FX swap with the Bank, buying EUR 100,000 against HUF at the spot rate on the near leg –e.g. EURHUF at 305.00 –, and selling EUR 100,000 on the far leg for a date 30 days later at 305.70.

#### FX swap benefits:

- An FX swap can be considered as a short term loan covered by a placement in another currency, providing a very efficient and cost-effective way of managing liquidity in different currencies.
- FX swaps can be used to fine tune forward transactions that were concluded earlier (when the value date of the hedged cash flow was unknown, only the amount and the direction). So the hedge transaction's maturity date can be matched with the cash flow, and there is no need for extra financing or for placing a deposit.
- Free of additional costs as the quoted exchange rate already includes all costs.

#### FX swap risks:

- If both legs of the FX swap transaction are open, the client runs a risk on both the near and the far leg, because swap points can change being impacted by the FX rates, by the interest rate differences, and by the time until maturity, i.e. it also involves an indirect exchange rate risk. In this case, the respective transaction can be closed out by concluding a reverse FX swap transaction that can generate a loss for the client.
- When only the far leg is live, the client practically has a forward transaction. In this case the client will be obliged to execute the maturity leg even if actual market exchange rates at maturity are more favourable, i.e. they are going to realise an exchange rate loss. In theory, this potential exchange rate loss is unlimited.
- Due to the unfavourable exchange rate changes the originally allocated derivative limit can be exceeded, and the Bank may request additional collateral.
- In theory, the potential loss is unlimited.

### 3.4 FX Options (Plain Vanilla)

A currency option is a contract that gives the buyer the right, but not the obligation, to buy or sell a certain currency at a specified exchange rate on a specified date. There are two types of plain vanilla FX options: European and American. The European options can be exercised on the expiry date only, while the American options any time before the option expires.

After buying the option, the client can sell it at any time before expiry realising the actual value of the option. Or at maturity the client can decide whether to exercise it or not. If the buyer of a call option exercises the option, the counterparty must settle the underlying financial instrument or foreign currency. If the holder of a put option decides to exercise the option, the counterparty must fulfil its obligation to buy the specified financial instrument or foreign currency.

#### European option

The exchange rate is checked at expiry only.

The buyer of the option will exercise the option if the strike price is more favourable than the market rate at maturity.

#### American option

Exchange rate is monitored during the full term, i.e. from the trade date to the maturity date.

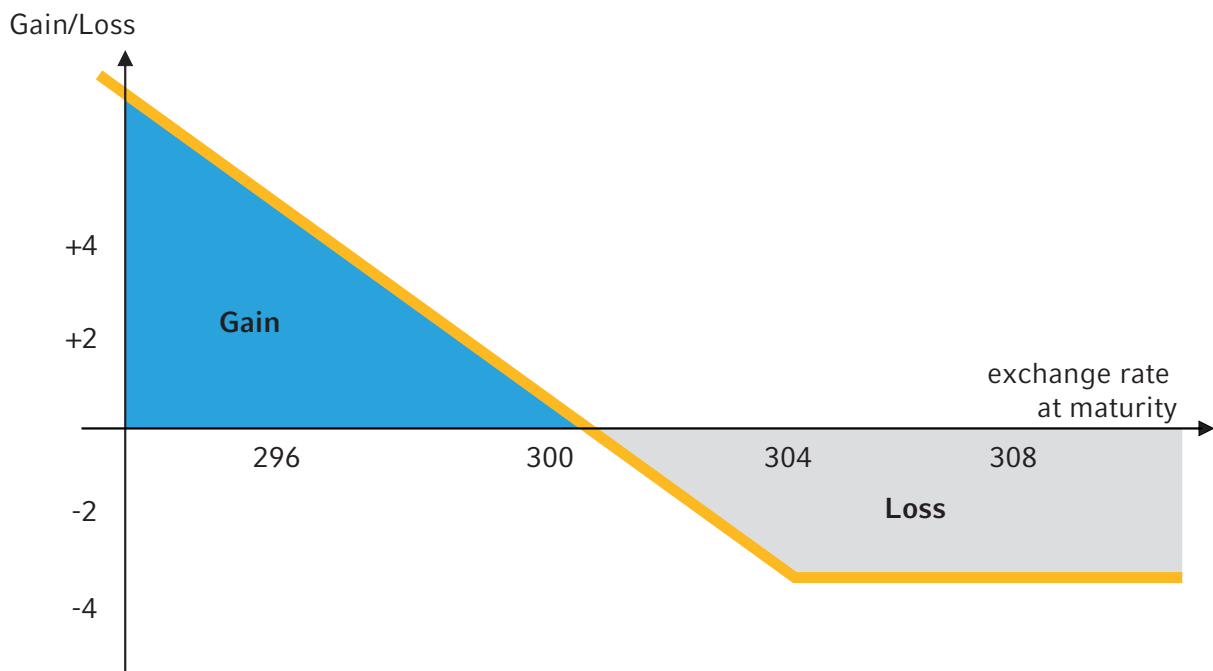
The holder of the option can exercise at any time during the term if the strike price is more favourable than the available market rate.

### 3.4.1 Put options

In a bilateral agreement put options provide the holder the right (but not the obligation) to sell an underlying asset at a pre-agreed rate (the strike price), for a certain period of time or at a certain maturity date. The price of the right is called option premium.

#### Example of buying a put option:

- Your company is going to receive EUR 100,000 in 90 days from your foreign buyer and intends to convert it to HUF.
- The current EURHUF spot rate is 305.00, the forward exchange rate is 306.50. You expect the euro to strengthen further against the forint in the next three months, maybe up to 310.00, but would like to have a full protection at 304.00.
- You decide to buy a put option with a strike of 304.00. You pay the Bank the option premium which is due on spot value date. 90 days later there are two scenarios:
  - 1. If EURHUF spot rate is below the strike (304.00) you will exercise the option and sell EUR 100,000 to the Bank at 304.00;
  - 2. If EURHUF spot rate is above the strike rate (304.00) you will not exercise the option and sell EUR 100,000 at actual market price which is more favourable for you.



#### Put holder's benefits:

- The buyer of the option has a right, not an obligation; it is easy to benefit from the favourable exchange rate movements with a full protection at the strike price.
- Limited loss (maximum the option premium)
- No derivative limit is required for dealing.

#### Put holder's risks:

- The option premium is a cost which is debited at the time of dealing.
- If the option matures without being exercised, the paid option premium is manifested as a "loss".



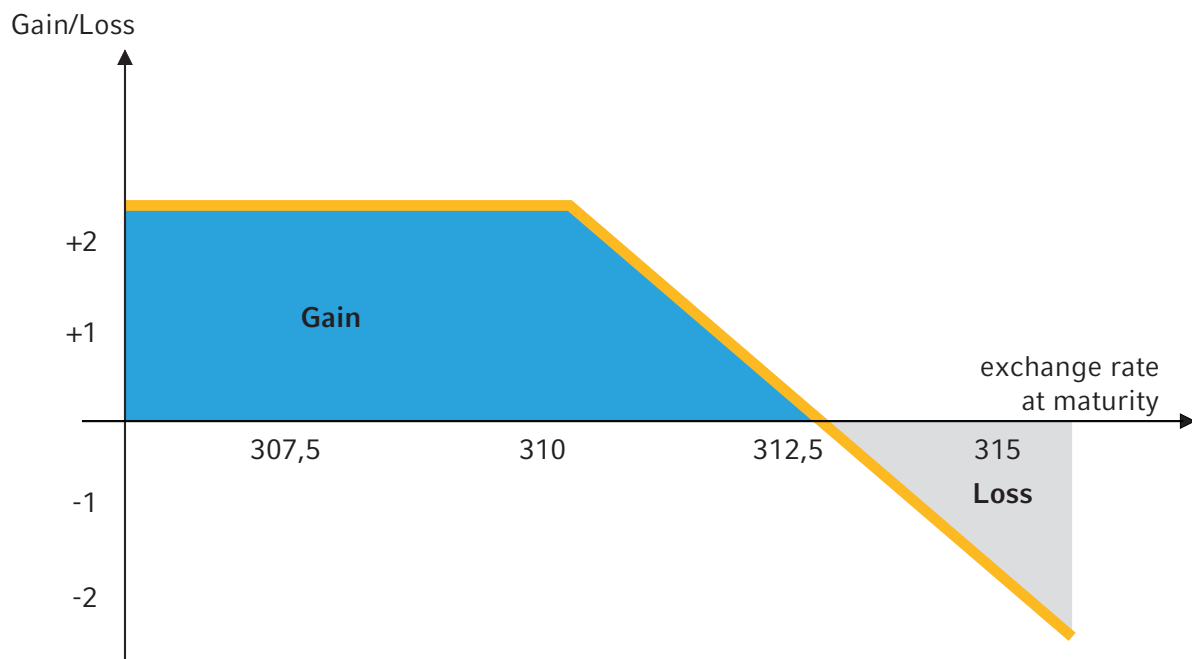


### 3.4.2 Call Options

In a bilateral agreement call options provide the holder the right (but not the obligation) to purchase an underlying asset at a pre-agreed rate (the strike price), for a certain period of time or at a certain maturity date. The price of the purchase is called option premium.

#### Example of selling a call option:

- Your company is going to receive EUR 100,000 in 90 days from your foreign buyer. You intend to sell the incoming foreign currency if the exchange rate is favourable, but as you do not have a strict hedging policy you do not need to convert it immediately upon the arrival.
- The current EURHUF spot rate is 305.00, the forward exchange rate is 306.50. You expect the EURHUF cross to stay around the current levels during the next three months, but would consider the level of 310.00 good enough for selling your foreign currency.
- You decide to sell a call option at a strike of 310.00. The Bank will pay the option premium with spot value date.
- 90 days later there are two possible outcomes depending on the spot rate.
  - 1, If at expiry the exchange rate is at or above 310.00, the Bank will exercise the option and buy the foreign currency from you at strike level (310.00). In this scenario you will have to sell your foreign currency at the level which was considered attractive and more favourable than the original forward exchange rate.
  - 2, If at expiry the exchange rate is below 310.00, the Bank will not exercise the option and the option matures.
- In the second case, you can decide, whether you sell at the current market rate or wait for a more favourable FX level. The booked option premium is an already realised revenue, which will improve your average selling rate.



**Sold call option benefits:**

- The option writer receives an option premium credited when the transaction is concluded.
- If the option is not exercised, the option premium paid to the writer is manifested as a "gain". In a low volatility environment the premium received for the sold option can generate extra revenue.

**Sold call option risks:**

- The sold option will be exercised above the strike price, so the writer cannot benefit from the further favourable market movements.
- Unsuitable for implementing a prudent hedging strategy, offers no protection against unfavourable exchange rate movements.
- In theory, the potential loss is unlimited.
- Available derivative limit is required to sell an option. Due to the unfavourable exchange rate changes the originally allocated derivative limit can be exceeded, and the Bank may request additional collateral.
- Changes in spot FX, volatility, interest rates, and shortening time to maturity might cause unfavourable movements for the seller of the option. In certain cases, liquidity shortages can occur on the option markets, which can negatively affect the tradeable prices.
- If the option is not exercised, the paid option premium is manifested as a "loss".

### 3.5 Dual currency structured investments

A dual currency structured investment is a fixed term, not capital guaranteed saving product that provides a return that is higher than the market interest rate paid for a term deposit. The buyer of the dual currency structured deposit has to be open to take the risk that the invested amount is repaid in an alternative currency if the conversion criteria are met.

Dual currency structured investments include a term deposit and an FX put/FX call option which is sold by the buyer of the product, the notional of the option is equal to the deposited amount. The term deposit serves as collateral behind the FX options.

The Bank will accept the amount deposited in the base currency with the proviso whereby it will repay the principal in the alternative currency on maturity date if the conversion criteria are met.

The commitment to the conditional FX conversion is granted by a higher than a market interest rate for the term deposit. However, interest is always paid in the currency of the deposit, regardless of whether or not the invested amount is converted.

#### Example of a dual currency structured investment (EUR investment):

- You deposit EUR 1 million in a dual currency structured investment for 15 days.
- EURHUF spot market rate: 312.00
- Conditional conversion rate: 314.00 (if at expiry the spot rate is above this level, the investor receives the face value of the deposit in HUF instead of EUR, in other words, this is the strike price of the EUR call option sold by the investor).
- Interest rate paid on the dual currency structured investment: 15% p.a.
- At expiry:
  - If the spot rate is below 314.00, the client will receive EUR 1 million principal and the 15% p.a. interest in EUR. In this scenario there is no FX conversion, the option is not exercised.
  - If the spot rate is above 314.00, the investor will receive the principal in HUF (converted at 314.00), and the 15% p.a. interest in EUR. In this outcome the conversion criteria is met and the option is exercised.

#### Dual currency structured investment benefits:

- Significantly higher interest rate can be achieved compared to the term deposits.
- Depending on the selected conditional conversion rate, if the principal is converted, it could be at a better rate than the spot rate available when the deal was executed.
- No derivative limit is needed for the investment.

#### Dual currency structured investment risks:

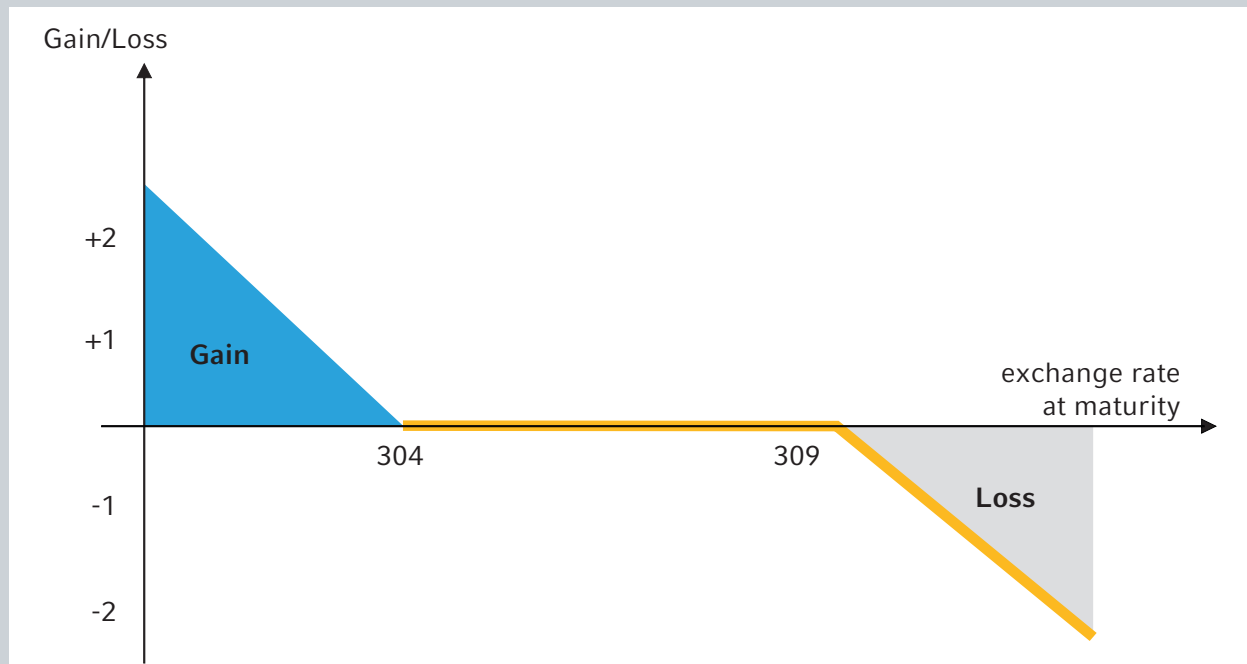
- If the FX conversion criteria are met (i.e. the option is exercised) the originally invested amount will be converted at the pre-agreed conversion rate, which is less favourable than the actual market rate.
- The loss may exceed even the additional gain of the higher deposit rate.
- In contrast to the conventional term deposits, no early termination is possible.
- Contrary to the conventional deposits the principal is not guaranteed, as the value of the investment might decrease due to any possible conversion.
- In theory, the potential loss is unlimited.

### 3.6 Range Forward or Risk-reversal

Range forward transactions are built up from a sold call option plus a bought put option or a bought call option plus a sold put option where the strikes of the option legs are different. Range forward provides bigger flexibility than a simple forward. Using a range forward, the future exchange rate can be fixed in a range around the forward outright. Risk-reversal allows limited participation in the favourable market movements and in return, it secures full protection at an exchange rate level which is less favourable than the forward rate.

#### Example of a range forward (export position):

- Your company is going to receive EUR 100,000 in 90 days from your foreign buyer, and intends to convert it to HUF.
- The current spot rate is 305.00, the forward exchange rate is 306.50. You expect better selling levels in EUR/HUF but you would like to have a full protection at 304.00. You conclude a range forward with a range of 304.00 – 309.00.
- You will be able to sell your incoming euros at a higher level than the forward rate but your selling level is capped at 309.00. At the same time you will enjoy full protection at 304.00



**Range forward benefits:**

- Extra but limited gains can be realised with possibly better FX rate (if at expiry market rate is more favourable than the forward rate).
- It offers full protection.
- The transaction is free of additional costs; the option premium includes all fees.

**Range forward risks:**

- If at expiry the spot rate is above the upper edge of the range, the client has to sell the foreign currency at the upper strike of the range forward, which might generate an FX loss for them.
- The lower strike of the risk-reversal offers full protection at a less favourable level than the forward rate.
- Unwinding the transaction may result in a loss for the company.
- Available derivative limit is required to sell the option. Due to the unfavourable exchange rate movements the originally allocated derivative limit can be exceeded, and the Bank may request additional collateral.
- Changes in spot FX, volatility, interest rates, and shortening time to maturity might cause unfavourable movements for the seller of the option. In certain cases, liquidity shortages can occur on the option markets, which can negatively affect the tradeable prices.
- In theory, the potential loss is unlimited.



### 3.7 IRS/Currency Swap (IRS, CIRS)

An interest rate swap is an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap. For example, depending on your interest rate expectations, the interest payments on a loan or security arising in the future can be exchanged for an alternative interest payment method for the full term or a part of it. Using an IRS, floating loans' variable interest payments can be swapped to fixed payments. For fixed interest loans, an IRS can be used to create floating interest rate payment cash flow. The face value of the swap is not exchanged, as it is necessary only for the calculation of the interest amounts. The risk of rising rates can be managed by swapping a cash flow with variable interest to a cash flow with fixed interest rate. In a lowering rate environment the risk of decreasing interest rates can be mitigated with a floating to fixed IRS (IRS sale for deposits).

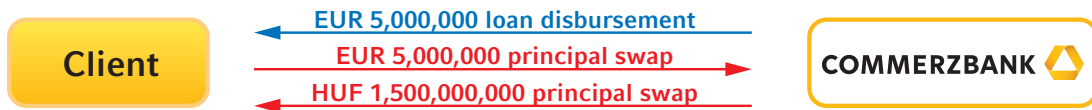
Cross currency swaps (CIRS) is a special type of interest rate swaps, concluding this product two interest rate cash flows denominated in different currencies can be exchanged. There is a notional exchange at the start and at the maturity of the deal, typically at the same initial spot rate. Interest rate swaps can be fixed to fixed, fixed to floating or float to float. CIRS can be used to create a synthetic loan denominated in a different currency than the original loan was drawn down.

### Example of an FX swap (CIRS): Synthetic HUF financing

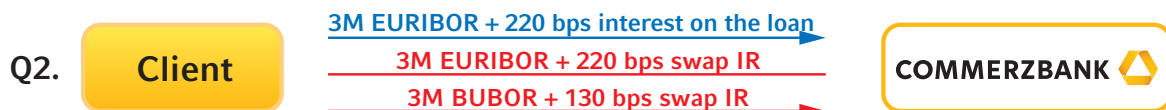
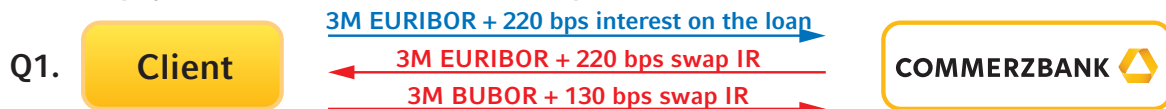
- A company could receive a 5-year HUF bullet investment loan of 1.5 billion at 3M BUBOR + 220 bps.
- However, the company decides to draw down the loan in EUR instead of HUF at 3M EURIBOR + 220 bps (EUR 5 million, with a calculation based on EURHUF 300). At the same time, it concludes a 5-year EUR/HUF cross currency basis swap for the same face value with a spread of -90 bps.
- On the start date of the swap there is an initial principal exchange, EUR 5 million received as a loan to HUF 1.5 billion.
- During the life of the swap the company pays the interest of 3M EURIBOR + 220 bps, but receives this same euro interest amount from its swap partner at each interest payment, and pays the swap partner 3M BUBOR + 130 bps ( $220 - 90 = 130$  bps). The interest payment dates of the swap and the loan are the same.
- At maturity the counterparties swap the principal, meaning that the loan holder will repay HUF 1.5 billion and receive EUR 5 million which amount is used to repay the principal of the euro denominated loan.
- This way, the company secured HUF financing at 3M BUBOR + 130 bps, and the EUR cash flows related to the loan were perfectly matched by EUR cash flows related to the swap.

### Synthetic HUF loan: EUR loan + Cross CCY Swap

#### Disbursement + initial principal swap:

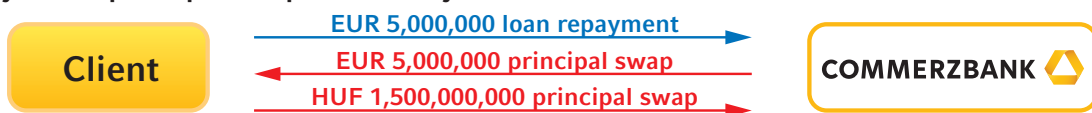


#### Interest payments on the loan and the swap:



Q3. ...

#### Repayment+ principal swap at maturity



**IRS/CIRS benefits:**

- Interest rate risk can be managed by swapping variable interest to fixed interest, so cash flows of the paid variable interest are calculable.
- The financing structure can be tailor-made based on the IR expectations: in a rising interest rate environment the borrower can fix the interest rate payments, while amid lowering rates the interest paid on investments can be fixed.
- Free of additional costs as the interest rate already includes all costs.
- Due to the netting process only the difference of the fixed and the variable interest is settled between the counterparties.
- IR risk of loans or deposits existing at other financial institutions can be also hedged.
- Both bullet loans CFs and amortization loan CFs can be hedged by IRS and CIRS.

**IRS/CIRS risks:**

- With a fixed to floating IRS your company is exposed to the unfavourable interest rate changes, and vice versa, if you fix interests you cannot benefit from the positive market movements.
- A sufficient amount of free derivative limit is required to conclude IRS and CIRS. If the limit is exceeded on the back of unfavourable interest rate shifts, the Bank may request additional collateral.
- A CIRS contains FX risk for the amount of the outstanding face value, so the transaction's market value will keep moving even despite the fact that the underlying exposure is partially or fully eliminated by the deal.
- In case the difference between the two interest rates tightens during the term of the CIRS transaction, the saving on the interest payments will also decrease, i.e. if the interest rates are not fixed, the value of the future IR net settlements will be uncertain.
- If the underlying loan is prepaid, it is recommended to close out the CIRS transaction, since the loan related IR risk does not exist anymore. Depending on the actual market rates, this may have significant cost. Due to market value changes, the client may be requested for providing additional collateral either for interim or for permanent period of time.
- In theory, the potential loss is unlimited.

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Financial instrument	Client classification			Required experience and knowledge (required qualification)	Leverage	Client's loss-bearing capacity	Client's risk tolerance (per PRIIPS grade <sup>1</sup> )	Client goals and needs	Minimum recommended holding	Maturity <sup>2</sup>	Early termination	Client for whom the product is not appropriate	Distribution
	Retail	Professional	Elig. counterparty										
<b>FX products</b>													
<b>FX forward transaction</b>	x	x	x	FX conversions	yes	Transactions include leverage, so, in theory, loss can be unlimited, unless the client uses stop-loss orders. The client should be able to deliver additional collateral if needed to keep the positions.	7	FX risk hedging with fixing exchange rates of future cash flows.	none	from 3 days to 2 years	yes	<ul style="list-style-type: none"> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment</li> </ul>	Execution without investment advice only.
<b>FX swap transaction</b>	x	x	x	FX conversions	yes	Before the first settlement the transaction's market value can change primarily due to the FX risk derived from interest rate movements. After the first settlement the client runs a risk of an FX forward transaction.	7	For managing temporary shortage in a specific currency without having FX risk.	none	from 3 days to 2 years	yes	<ul style="list-style-type: none"> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment</li> </ul>	Execution without investment advice only.
<b>FX option (long put, short put, long call, short call)</b>		x	x	FX forward transaction and/or FX swap transaction	yes	With buying an FX option (having the right to buy or sell) the potential loss is limited to the paid option premium. With selling an FX option (having an obligation to buy or sell) the loss, in theory, can be unlimited. The client should be able to deliver additional collateral if needed. The volatility of the underlying product's price may also have a significant impact on the option value in both cases.	Where options are bought: 7 Where options are sold: 7	Buying an option allows to secure the target exchange rate for selling/buying a given amount of foreign currency without any obligation. With selling an option, the received premium reduces the fee of FX hedging.	none	from 3 days to 2 years	yes	<ul style="list-style-type: none"> <li>Retail client in MiFID classification</li> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment</li> </ul>	Execution without investment advice only.
<b>FX option strategies</b>		x	x	FX forward transaction and/or FX swap transaction	yes	Depending on the chosen strategy, the potential loss can be unlimited (e.g. straddle, collar, seagull) or limited (e.g. spreads, butterfly, condor). The market value of strategies may be affected significantly by the underlying product's volatility, furthermore a potential unwind before maturity should be calculated with wider bid-offer spreads due to the complexity of the structure (high number of components).	If, in theory, limited loss : 7 If, in theory, unlimited loss: 7	Similar to forward transactions, suitable for managing FX risk, but allows bigger flexibility with tailor-made hedging solutions.	none	from 3 days to 2 years	yes	<ul style="list-style-type: none"> <li>Retail client in MiFID classification</li> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment.</li> </ul>	Execution without investment advice only.

<sup>1</sup> The PRIIPS regulation is available in English on the following link:  
[https://ec.europa.eu/info/law/key-information-documents-packaged-retail-and-insurance-based-investment-products-priips-regulation-eu-no-1286-2014/law-details\\_en](https://ec.europa.eu/info/law/key-information-documents-packaged-retail-and-insurance-based-investment-products-priips-regulation-eu-no-1286-2014/law-details_en)

<sup>2</sup> The longest available tenor may differ depending on the trading limit set for the client (where the option is sold) and market liquidity.

Financial instrument	Client classification			Required experience and knowledge (required qualification)	Leverage	Client's loss-bearing capacity	Client's risk tolerance (per PRIIPS grade <sup>1</sup> )	Client goals and needs	Minimum recommended holding	Maturity <sup>2</sup>	Early termination	Client for whom the product is not appropriate	Distribution
	Retail	Professional	Elig. counterparty										
<b>Interest rate products</b>													
Forward Rate Agreement (FRA)		X	X	Loan and/or deposit transaction	yes	Transactions include leverage, so, in theory, loss can be unlimited. The client should be able to deliver additional collateral if needed to keep the positions.	7	Fixing the interest rate for a future interest payment period of an investment or loan.	none	from 3 months to 2 years	yes	<ul style="list-style-type: none"> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment</li> </ul>	Execution without investment advice only.
Interest Rate Swap (IRS)		X	X	Loan and/or deposit transaction	yes	Transactions include leverage, so, in theory, loss can be unlimited. The client should be able to deliver additional collateral if needed to keep the positions.	7	Fixing the interest rate for a future interest payment period of an investment or loan.	none	from 2 to 10 years	yes	<ul style="list-style-type: none"> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment</li> </ul>	Execution without investment advice only.
Cross Currency Interest Rate Swap (CIRS)		X	X	Loan and/or deposit transaction	yes	Both FX and IR changes can have a considerable impact on the market value of the transaction. Transactions include leverage, so, in theory, loss can be unlimited. The client should be able to deliver additional collateral if needed to keep the positions.	7	Fixing of interest and conversion rates valid for later interest periods in a currency other than that of the existing investment or loan transaction.	none	from 2 to 10 years	yes	<ul style="list-style-type: none"> <li>Retail client in MiFID classification</li> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment.</li> </ul>	Execution without investment advice only.
<b>Interest rate products</b>													
Dual currency structured investments		X	X	Deposit transaction or any other complex investment product		Investment does not include any leverage, but does contain FX risk. It is possible that the investor will receive their principal in a different currency at maturity, so the return will also depend on the foreign exchange rate at the time of settlement.	5	For investment purposes with higher returns compared to the term deposits, running low partner risk, but significantly high FX risk.	Until maturity	from 2 weeks to 1 year	none	<ul style="list-style-type: none"> <li>Retail client in MiFID classification</li> <li>Investors seeking a capital guaranteed product</li> <li>Investors not willing to tolerate the risk of full loss of the investment</li> </ul>	Retail client within the meaning of the MiFID ranking

<sup>1</sup> The PRIIPS regulation is available in English on the following link:  
[https://ec.europa.eu/info/law/key-information-documents-packaged-retail-and-insurance-based-investment-products-priips-regulation-eu-no-1286-2014/law-details\\_en](https://ec.europa.eu/info/law/key-information-documents-packaged-retail-and-insurance-based-investment-products-priips-regulation-eu-no-1286-2014/law-details_en)

<sup>2</sup> The longest available tenor may differ depending on the trading limit set for the client (where the option is sold) and market liquidity.



	Description of the PRIIPS Summary Risk Indicator
1	Potential loss resulting from future performance is very low. It is not likely at all that poor market conditions will have an impact on our settlement capability.
2	Potential loss resulting from future performance is low. It is not likely at all that poor market conditions will have an impact on our settlement capability.
3	Potential loss resulting from future performance is moderately low. It is not likely at all that poor market conditions will have an impact on our settlement capability. Please note the FX and IR risks. It is possible that you will receive payments in a different currency, so the return depends on the exchange rate between the two respective currencies.
4	Potential loss resulting from future performance is medium. It can be possible that poor market conditions will have an impact on our settlement capability. Please note the FX and IR risks. It is possible that you will receive payments in a different currency, so the return depends on the exchange rate between the two respective currencies.
5	Potential loss resulting from future performance is moderately high. Poor market conditions will likely affect our settlement capability. Please note the FX and IR risks. It is possible that you will receive payments in a different currency, so the return depends on the exchange rate between the two respective currencies.
6	Potential loss resulting from future performance is high. Poor market conditions will quite likely affect our settlement capability. Please note the FX and IR risks. It is possible that you will receive payments in a different currency, so the return depends on the exchange rate between the two respective currencies.
7	Potential loss resulting from future performance is very high. Poor market conditions will quite likely affect our settlement capability. Please note the FX and IR risks. It is possible that you will receive payments in a different currency, so the return depends on the exchange rate between the two respective currencies.

### INFORMATION PRIOR TO CONCLUDING DEALS ABOUT COSTS ASSOCIATED WITH DEALS

Commerzbank Zrt. kindly informs its Clients that it will not charge any separate fee or commission in case the products which are listed in the Target Market Matrix. The exchange and interest rates offered for Clients include all built-in costs, whose amount depends on the product, on the market liquidity, and on the face value. You can find information about this cost on our website.

Budapest, 15 May 2019