Product Catalogue

ERSTE
Bank

Product Catalogue

is Catalogue covers all of the products offered by Erste Bank Treasury Division relating to FX and money market transactions.

e basic purpose of the catalogue is to present the information in connection with respective products in one document. Basic definition, including explanation of some less known terms, is provided for each product, terms at which it is possible to conclude transactions as well as a practical example of product application are presented for the purpose of facilitated understanding of complex financial instruments.

Information on terms for the conclusion of respective transaction may be received from your representative at the bank or through the contacts listed herein.

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FX Spot

FX Spot means buying and/or selling of a currency to/for other at agreed price with transaction maturity date up to two business days upon transaction contracting. Price at which buying and/or selling is agreed is called FX spot rate.

Conditions of conclusion:

When buying or selling FX, it is necessary for client to file application for FX buying or selling and to state amount and currency type. If foreign currencies are bought for the purpose of payment to abroad, payment instructions are also necessary.

Erste Bank executes FX buying and/or selling transactions in the currencies from its exchange rate list:

AUD (Australian Dollar)
CAD (Canadian Dollar)
DKK (Danish Krone)
JPY (Japanese Yen)
NOK (Norwegian Krone)
RUB (Russian Rouble)
SEK (Sweden Krona)
CHF (Swiss Franc)
GBP (Pound Sterling)
USD (USA Dollar)
EUR (Euro)

e Bank clients may get preferential exchange rates in relation to those listed in the exchange rate list i.e. FX may be exchanged at the market rates valid at the time of exchange.

Foreign Currency Forward - FX Forward

Foreign currency forward (outright/forward) means agreement between two parties on the exchange of respective amount in one currency for the amount of other currency at an agreed date in the future at the price (forward exchange rate) agreed today i.e. on the date of transaction agreement.

Price at which foreign currencies are exchanged is called forward rate which is set up based on FX spot rate and interest rates of currencies subject to exchange with the same maturity.

Formulas for the calculation of forward rates

$$\text{Forward rate}_{\text{Selling}} = \text{Spot rateSelling} \times \frac{1 + (\text{Currency2Rate (sold)} \times \dfrac{\text{Maturity Date - Trade Date)}}{\text{Currency2Base}}}{1 + (\text{Currency1Rate (bought)} \times \dfrac{\text{Maturity Date — Trade Date)}}{\text{Base}^{\text{Currency}}}}$$

$$\text{Forward rate}_{\text{Buying}} = \text{Spot rateSelling} \times \frac{1 + (\text{Currency2Rate (bought)} \times \dfrac{\text{Maturity Date - Trade Date)}}{\text{Base}^{\text{Currency}}}}{1 + (\text{Currency1Rate (sold)} \times \dfrac{\text{Maturity Date — Trade Date)}}{\text{Base}^{\text{Currency}}}}$$

* Notes

- Rates mean interest rates to the currencies subject to buying and selling for the maturity equal to forward duration (e.g. 3M EURIBOR would be rate for EUR currency sold or bought within forward for 3 months)
- Base means number of days in the year which may be 360 or 365

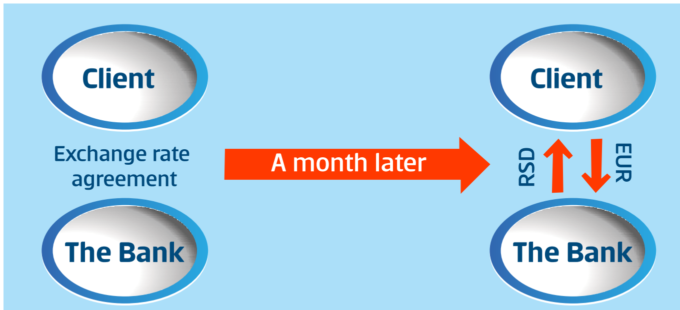
Conditions of conclusion:

– Opened account at Erste Bank
– Execution of framework agreement
– Limit approval (amount and tenor)
– Completion of Questionnaire for Category Assessment
– Statement in which client confirms his purpose of transaction conclusion in accordance with the NBS regulations

Example:

A manufacturing company exports goods in January, whereby it expects collection of its export business in February. Upon goods export in January, it enters into forward agreement with the Bank in which the rate at which euros from the export in February will be sold is agreed. Fixing of the rate at which received FX from the export business will be sold in the future period enables such exporter to, irrespective of rate movement in the next one month, knows in advance the exact amount of RSD to be disposed of in the next month.

In the event of importer, FX Forward Buying is entered into, fixing the rate at which a firm will buy FX at a future date when invoice for imported goods or services is to be paid. In such manner, importer is able to eliminate uncertainty of rate change and, immediately upon entering into import business, to make calculation of cost of imported goods or service.



Foreign Currency Forward with Cover or Covered Forward

Covered FX forward means pre-agreed FX buying at pre-agreed rate, whereby client pays the portion in RSD today, and receives FX at an agreed future date. This product is also known under the name of quasi forward.

Price at which FX buying is agreed is called FX forward rate and it is set up in the same manner as explained above for the forward rate of the above product (classic forward).

For covered forward, price i.e. FX forward rate is preferable, because client immediately pays RSD part to account.

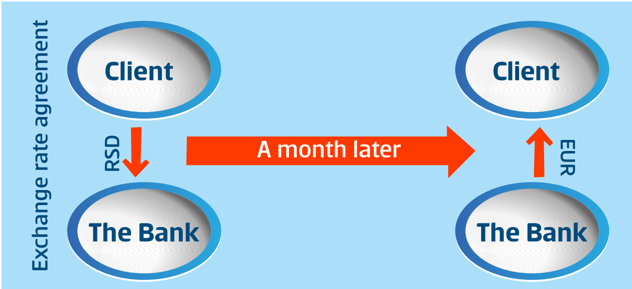
Conditions of conclusion:

– Opened account at Erste Bank
– Execution of framework agreement

Example:

Covered forward provides an opportunity to firms to, in their export business, eliminate uncertainty of rate change and, immediately upon entering into import business, make calculation of cost of imported goods or service.

Covered forward also provides an opportunity to clients to agree and fix FX rate for FX forward on a future date, but also requires engagement and depositing of RSD funds immediately upon agreement execution, whereas it is not the case with FX Forward. The advantage of this forward type is reflected in more favourable price of buying FX.



FX Swap

FX swap is, at the same time, agreement of two sides of a transaction, i.e. FX buying and selling on different dates. Client agrees with the bank spot (today) buying (or selling) of a currency for another and, at the same time, agrees forward selling (or buying) (on a future date) of the same currency.

FX swap comprises two FX transactions (FX buying and selling) where the first is the “first” leg of FX swap whereas the other is the “second” leg of FX swap.

Maturity date of the first leg may be up to two days (Today, Tomorrow, Spot) whereas the second leg must be minimum one day longer (Tomorrow, Spot, Forward).

FX spot rate is used in spot transaction and FX forward rate is used in forward transaction (already explained with the above products).

$$\text{Forward rate}_{\text{Selling}} = \text{Spot rateSelling} \times \frac{1 + (\text{Currency2Rate (sold)} \times \dfrac{\text{Maturity Date - Trade Date)}}{\text{Base}^{\text{Currency}}}}{1 + (\text{Currency1Rate (bought)} \times \dfrac{\text{Maturity Date — Trade Date)}}{\text{Base}^{\text{Currency}}}}$$

$$\text{Forward rate}_{\text{Buying}} = \text{Spot rateSelling} \times \frac{1 + (\text{Currency2Rate (bought)} \times \dfrac{\text{Maturity Date - Trade Date)}}{\text{Base}^{\text{Currency}}}}{1 + (\text{Currency1Rate (sold)} \times \dfrac{\text{Maturity Date — Trade Date)}}{\text{Base}^{\text{Currency}}}}$$

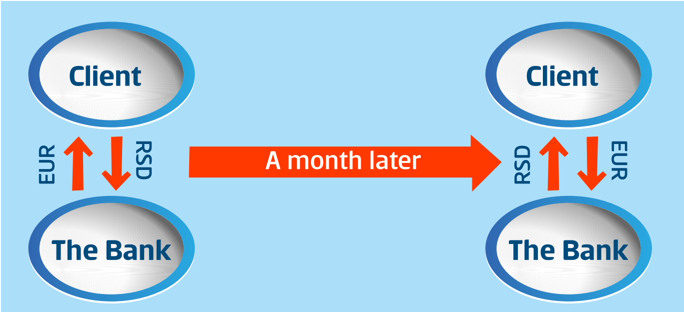
Conditions of conclusion:

– Opened account at Erste Bank
– Execution of framework agreement
– Limit approval (amount and tenor)
– Completion of Questionnaire for Category Assessment

Example:

You have e.g. RSD 10 million which will not be used in the next one month. You enter into the swap agreement based on which you buy EUR today in the amount of 86,207 at the spot rate of 116 and agree the sales of such 86,207 in one month at the forward rate agreed on the day of entering into the swap agreement amounting to 116.5, thus, after one month, you will dispose of RSD 10,043,116.

In this manner, the uncertainty of exchange rate movement has been avoided, because of known amount of dinars to be at your disposal in one month, RSD value has been maintained, because of avoiding loss due to unfavourable exchange rate movement and ensuring liquidity in euros



Interest Rate Swap - IRS

Interest rate swap means agreement of two parties on periodic payments (trade) of interest (defined in agreement) in the same currency during the life of IRS, on specific dates on the basis of “notional” principal amount. One party pays fixed rate whereas the other pays variable rate (usually based on a reference rate, such as LIBOR, EURIBOR...)

Debt principal is not swapped, it is rather used as the calculation basis for determining interests swapped.

In practice, the product is known under the name of “Coupon swap” or “Plain vanilla swap”.

The product is most often used for interest rate risk hedge where a client, having a credit where variable interest is paid, enters into interest rate swap with the bank where the bank pays him variable interest (equal to interest under the loan), and the client pays fixed interest to the bank.

Conditions of conclusion:

– Opened account at Erste Bank
– Execution of framework agreement
– Limit approval (amount and tenor)
– Completion of Questionnaire for Category Assessment

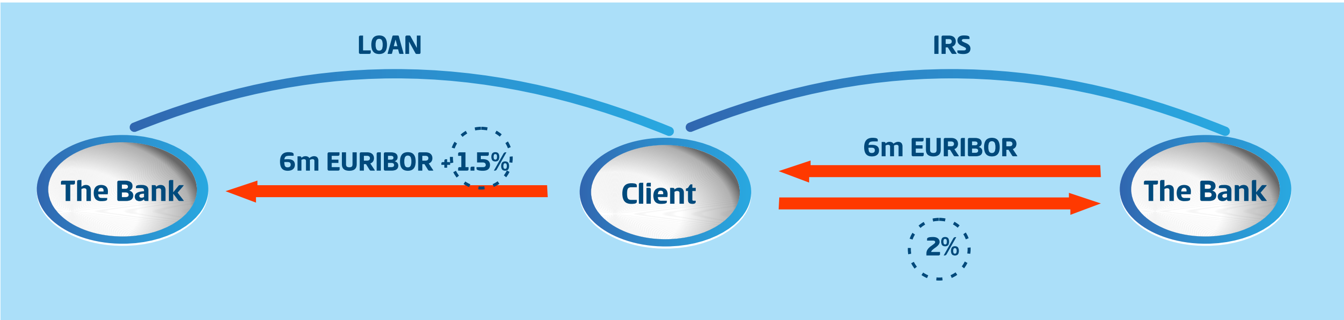
Example:

If EUR 1 million is repaid, where repayment period is 3 years, repayments are semi-annual, interest rate is 6M EURIBOR+1.5%, interest rate swap may be entered into with the Bank, which will cover the same amount of principal and interest repayment period, under which you will be paid by the Bank the variable interest rate EURIBOR and you will pay to the Bank fixed interest rate of e.g. 2%

Your monthly costs based on interests would amount to 3.5% (2% + 1.5%)

Exchange rate list

You will repay your loan at the fixed rate, accordingly, financial result will not depend on EURIBOR movement, whereby you are protected against interest growth



Important Legal Notes

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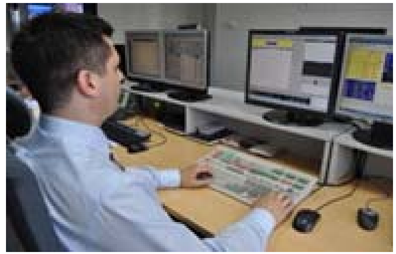

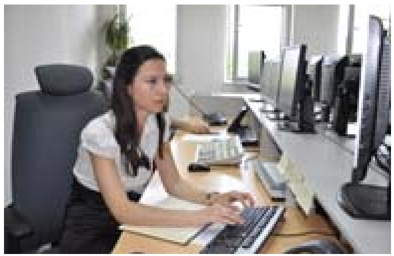

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