PRODUCT INFORMATION

FOREIGN EXCHANGE SWAPS

GLOBAL MARKETS DIRECTORATE OF OTP BANK PLC.

September 06, 2023

Please read this Product Information carefully before concluding a contract on foreign exchange swaps. For further information, please contact our staff.

TABLE OF CONTENTS

1. Presentation of the foreign exchange swap

A foreign exchange swap or FX swap is an agreement between a client and OTP Bank Plc. (hereinafter referred to as "the Bank") whereby one party commits to buy (or sell) a specified amount of foreign currency spot or forward against a specified currency (the near leg of an FX swap) and at the same time, and with a view thereof, commits to sell (or buy) a specific amount, which may be different from that of the near leg, of foreign currency against the same currency at a pre-specified date following the value date of the near leg in the opposite direction to the near leg (the far leg of the FX swap). The transaction is a derivative individual transaction, i.e. a complex financial instrument between the Bank and the client outside the regulated market (OTC).

If on the settlement date of the FX swap's near and far leg the currency is exchanged in the same notional value, the FX swap is referred to as a Round FX swap, whereas in the opposite case it is referred to as Non-round FX swap.

With respect to forward foreign exchange transactions representing the near/far leg of the FX swaps described in this product information, the product information on forward foreign exchange transactions and (if the near leg is a spot transaction) spot foreign exchange transactions shall apply *mutatis mutandis* in addition to the business regulations.

Features

- The FX swap is the combination of spot or forward foreign currency sales/purchase transaction and of forward foreign currency sales/purchase transaction of the opposite direction.
- The price of an FX swap is the difference between the spot/forward price of the near leg and the forward price of the far leg (swap difference) that depends on both the current (spot) rate and the interbank interest rates applicable to the term of the transaction.
- Minimum contract amount is EUR 50,000 or foreign currency equivalent.

- Maturity is typically short-term (less than a year). Longer terms may also be specified in exceptional cases.
- A foreign exchange swap can be concluded in the form of physical delivery for any currency pair for which the bank quotes a foreign exchange rate.
- The transaction entails a performance obligation on the customer's part: the customer must buy/sell at the agreed exchange rate even if the exchange rate level is lower/higher than the agreed exchange rate.
- Similar to spot currency transactions and forward foreign exchange transactions, in the case of an existing, unaccounted foreign exchange swap, the client has the possibility to roll over their open transaction. If the rolling results in the rescheduling of the original maturity date to a date further in the future it is a rollover, while if the purpose thereof is to change it to an earlier date, it is a rollback.
- In the case of rollover the value date of the near leg of the rolling FX Swap is identical with the maturity date of the rolled transaction. The rates of the near and far legs of a rolling FX swap is determined by current market conditions.
- In the case of rollback, the value date of the far leg of the rolling FX swap is identical with the maturity date of the rolled transaction. During rollback, the difference between the rates of the near and far legs of a rolling FX swap can be determined by current market conditions.
- Both rollbacks and rollovers may take place only by concluding a Round FX swap.

Typical customer base

- FX swaps may help companies with foreign currency receivables and payables arising on different dates eliminate losses originating from unfavourable exchange rate movements.

2. Risks of the foreign exchange swap

Market value of the product

All foreign currency swap positions have a market value. The price of an FX swap is determined by changes in the exchange rate of the underlying currency pair, market yields for the given maturity and the term to maturity. The higher the fluctuation (volatility) of the exchange rate of the underlying currency pair is, the riskier the investment may be regarded.

Impact on balance sheet

As the market value of the FX swap depends on exchange rate movements, the market value of the transaction may change continuously during the term of the contract. During the term of the transaction the client's balance sheet may register a significant negative market value. Upon closing the transaction prior to maturity, the customer may incur a material loss. Potential loss on the product is unlimited.

Additional leverage

The product is leveraged if it is concluded in the form of financial settlement instead of physical delivery. The client is not required to have the full amount of capital available at maturity of a transaction to conclude an FX swap transaction; it is sufficient to deposit a pre-determined percentage of the transaction value as collateral. Market movements unfavourable for the customer could exert additional leverage effects, potentially leading to significant losses.

Additional cost of capital, margining

The Bank applies limits and requests the client to provide collateral against the risks associated with the FX swap. The customer is required to provide collateral in the form (cash or security collateral) specified by the Bank. Normally, the collateral requirement for the product is a pre-determined percentage of the nominal value of the FX swap transaction, which may be unilaterally modified by the Bank. In the case of any unfavourable shift in prices, the Bank may require additional margin (i.e. collateral). At the Bank's request, the client is required to provide the additional margin in accordance with the terms of the contract, and any (potentially high) losses sustained as a result are to be borne exclusively by the client. The Bank determines the additional margin requirement of the FX swap based on the current fair market value of the transaction. The margin (i.e. collateral) may be released if the reason for its blocking has ceased to exist, at the express request of the client, on the condition that the Bank's right to collateral under the Global Markets Master Agreement with the client shall continue to apply to the client's financial instruments and funds over which the client has free disposal.

Possibility to unilaterally close a position (forced liquidation)

The Bank requires collateral for the FX swap transaction based on its current fair market value. If, for any reason, the collateral provided by the client is deemed insufficient by the Bank to cover the financial risk of the positions opened and held by the client, the Bank may require the client to provide additional margin. Upon the Bank's call, the customer is required to provide the additional margin in accordance with the terms of the contract, and any losses sustained as a result will be borne exclusively by the customer. If the client fails to provide the required additional collateral in accordance with the terms of the contract despite the Bank's request, the Bank may decide to liquidate the position, which could involve substantial losses for the client. Liquidation costs, potential exchange losses and the consequences of the failure of liquidation shall be borne exclusively by the client.

Obligation to sell and buy at pre-agreed exchange rate

Based on the terms of the contract, the customer is required to purchase/sell the underlying currency at the strike price on both settlement dates of the swap. If the original FX swap's far leg was a sale transaction and upon closing or delivery the exchange rate of the underlying currency pair is higher than the strike price, the customer will sustain a loss on the transaction. Similarly, if the far leg of original FX swap was a purchase transaction and upon closing or delivery the exchange rate of the underlying currency pair is lower than the strike price, the customer will sustain a loss on the transaction.

3. Closing an FX swap transaction

The client is entitled to request the partial or full closing of any FX swap transaction. An FX swap transaction is closed by mutual agreement of the parties by concluding a transaction for the original currency pair but in the opposite direction (closing transaction). A closing transaction concluded on the closing date of the original expiry date can be a forward transaction, which can be concluded no later than the third business day before the expiry date, or a spot transaction, which can be concluded from the second business day before the expiry date up to and including the expiry date, or, if the near leg of an FX swap has not been closed either, the transaction is closed by concluding an FX swap transaction in the opposite direction. By closing the position, the client realises a profit or loss, which is settled on the settlement date agreed at the time of the original transaction. The client can request that the result of the transaction is discounted to the settlement date, in which case settlement will take place as agreed by the parties, but no later than two banking business days after the settlement date. The related conditions are governed by the terms and conditions set out in the Investment Services Business Regulations and the related public announcements, in particular the Fees.

If the client does not request the closing of the forward foreign exchange transaction in question and does not make available the amount required for gross settlement to be paid by the client on the relevant account by 12:00 p.m. on the settlement date of the FX swap transaction, the Bank shall be entitled to unilaterally3.1 close that individual FX swap transaction. The Bank will close the individual FX swap transaction by 6:00 p.m. at the latest through an individual spot foreign exchange transaction based on the current interbank foreign exchange market rate.

3.1. Closure of FX swap transactions by the Bank

When a Closing Event occurs, the Bank is entitled to unilaterally close an FX swap transaction.

3.1.1. The Bank will determine the amounts to be paid on the Closing Date.

The Bank determines the payment liability for each Party on a transaction-by-transaction basis. Upon the client's request, it can discount this amount at the closing date by calculating its present value. In the Fees, the Bank discloses the interest rate used for discounting. The Bank shall settle accounts with the client on a net basis at the time of closing.

3.1.2. The transaction under section 3.1.1 above shall qualify as an agreement aimed at netting at the closing of the position.

3.1.3. The due date for payment of the amounts specified in section 3.1.1 above is the settlement date in the case of discounting or, in its absence, the original settlement date.

4. Sample transaction

4.1. Example for a transaction

According to his original financial plans, the customer should have EUR 500,000 in two days; however, during its economic activity it realises forint revenues. With a view to eliminating the risk arising from the exchange rate fluctuation, upon preparing the financial plan, he fixed the procurement price in advance through a forward FX buy transaction maturing in two days. The project, which necessitates the purchase of euro, is likely to have a delay of six months, and thus the customer would like to roll over his FX long forward position by an EURHUF FX swap with a 6-month maturity from the spot date.

TRANSACTION PARAMETERS	
Maturity	6 months
Currency pair	EUR/HUF
Amount	EUR 500,000
EUR/HUF Spot exchange rate	418.40 (Reuters: EURHUF=D3)
Swap difference	2420 pips
6-month forward exchange rate	442.60

The product is presented under the following EUR/HUF exchange rate scenarios:

1. The EUR/HUF exchange rate changes as expected, i.e. it increases during the term.
2. The EUR/HUF exchange rate decreases during the term.

If the customer buys euro half-year forward and the EUR/HUF exchange rate increases, he may realise a profit when closing the transaction. At the same time, if the EUR/HUF exchange rate decreases, he may recognise a loss.

1. The EUR/HUF exchange rate changes as expected
Rising exchange rate

Spot EUR/HUF exchange rate when concluding the FX swap: 418.40
2-month forward exchange rate at the end of the 4th month: 443.00
Spot EUR/HUF exchange rate at maturity: 443.12

- **Example for physical delivery:**

According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it back for HUF 442.60.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the maturity settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives HUF 500,000 *442.60 = HUF 221,300,000 from the customer.

- **Example for financial settlement, with closing at maturity:**

Upon financial settlement the customer closes the transaction during the term by an FX sales contract. According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it back for HUF 442.60, which he may sell – if the exchange rates change as expected – for HUF 443.12.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the maturity settlement date of the transaction the Bank pays to the customer:
(443.12 – 442.60) * EUR 500,000 = HUF 260,000

- **Example for financial settlement, when the position is closed 4 months after the conclusion of the contract by a forward sell and buy transaction:**

According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it back for HUF 442.60, which he may sell 2 months forward – if the forward exchange rates change as expected – for HUF 443.00, 4 months after the deal date.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the maturity (end of the 6th month) settlement date of the transaction the Bank pays to the customer:
(443.00 – 442.60) * EUR 500,000 = HUF 200,000

- **Example of rollback:**

According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it for HUF 442.60. The project that necessitated the purchase of the euro is completed earlier than expected, and thus the customer needs to pay euro two months earlier than expected. As a result, the client rolls back the HUF 442.60 long forward EUR position with a reverse FX swap transaction to two months prior to maturity. In this case, the rate of the far leg of the initially concluded (rolling) FX swap transaction is adjusted with two months' spread calculated by the bank (HUF 8), i.e. its value will be HUF 442.60 - HUF 8.00 = HUF 434.60.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the day preceding the deal maturity by two months:
The Bank pays EUR 500,000 to the customer (near leg of the rollback FX swap)
The Bank receives HUF 500,000 *434.60 = HUF 217,300,000 from the customer (near leg of the rollback FX swap)

On the deal maturity date:
The Bank pays EUR 500,000 to the customer (far leg of the rolled FX swap)

The Bank receives HUF 500,000 *442.60 = HUF 221,300,000 from the customer (far leg of the rolled FX swap)
The Bank receives EUR 500,000 from the customer (far leg of the rollback FX swap)
The Bank pays HUF 500000 *442.60 = HUF 221,300,000 to the customer (far leg of the rollback FX swap)

The amounts at maturity knock out each other both in forint and euro, and thus no net principal movement takes place at maturity.

- **Example for rollover**

According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it for HUF 442.60. The delay of the project that necessitated the purchase of the euro is be even longer than expected, and thus the customer needs to pay euro one month later than planned. As a result, the client rolls over the HUF 442.60 long forward EUR position with an FX swap corresponding to the direction of the initial transaction to one month after maturity. In this case, the rate of the far leg of the initially concluded (rolling) FX swap transaction is adjusted with the current one-month spread (HUF 4), i.e. its value will be HUF 442.60 + HUF 4.00 = HUF 446.60.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the maturity date of the original deal:
The Bank pays EUR 500,000 to the customer (far leg of the rolled FX swap)
The Bank receives HUF 500,000 *442.60 = HUF 221,300,000 from the customer (far leg of the rolled FX swap)
The Bank receives EUR 500,000 from the customer (near leg of the rollover FX swap)
The Bank pays HUF 500,000 *442.60 = HUF 221,300,000 to the customer (near leg of the rollover FX swap)

The amounts at maturity knock out each other both in forint and euro, and thus no net principal movement takes place at maturity.

On the day one month after the maturity of the original deal:
The Bank pays EUR 500,000 to the customer (far leg of the rollover FX swap)

The Bank receives HUF 500,000 *446.60 = HUF 223,300,000 from the customer (far leg of the rollover FX swap)

- **Example for the collateral requirement:**

The Bank's clients are required to provide collateral in order to take FX swap positions against the Bank; in other words, they must provide sufficient collateral to meet the transaction's initial margin requirement upon the execution of the contract. The initial margin requirement of the FX swap means the loss that the Bank may suffer as a result of the possible exchange rate fluctuations on the horizon deemed critical by the Bank, which during the term of the transaction may vary due to the change in the market conditions.

If, for instance, the original collateral requirement for an FX swap transaction is 10 per cent of the notional value, the security deposit requirement upon the conclusion of the contract will be:
HUF equivalent of EUR 500,000* 0.1 = EUR 50,000.

Furthermore, the customer must provide the amount of EUR 500,000 on his account for by the settlement date of the near leg.

The customer will have to provide additional collateral if, due to the market exchange rate fluctuations – unfavourable for the customer – the margin requirement applicable to his transactions, no longer covered by the provided collaterals, exceeds the maximum acceptable level. When the exchange rate moves unfavourably for the customer, based on the fair market value of the FX swap, the Bank may ask for additional margin, and thus the margin requirement may substantially increase. If upon the Bank's call to this effect the customer fails to provide the required additional margin in accordance with the terms of the contract, the Bank may liquidate the position, which could involve substantial losses for the customer.

2. The EUR/HUF exchange rate declines

Spot EUR/HUF exchange rate when concluding the FX swap: 418.40
Spot EUR/HUF exchange rate at maturity: 412.86

- **Example for physical delivery:**

According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it back for HUF 442.60.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the settlement date of the transaction's far leg:
The Bank pays EUR 500,000 to the customer
The Bank receives HUF 500,000 *442.60 = HUF 221,300,000 from the customer

- **Example for financial settlement, with closing at maturity:**

Upon financial settlement the customer closes the transaction during the term by an FX sales contract. According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity buys it back for HUF 442.60, which he may sell – if the exchange rates decline – for HUF 412.86.

On the spot settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *418.40 = HUF 209,200,000

On the maturity settlement date of the transaction the Bank receives from the customer:
(442.60 – 412.86) * EUR 500,000 = HUF 7,905,000

- **Example for the collateral requirement:**

If, for instance, the original collateral requirement for an FX swap transaction is 10 per cent of the notional value, the security deposit requirement upon the conclusion of the contract will be:
HUF equivalent of EUR 500,000* 0.1 = EUR 50,000.

Furthermore, the customer must provide the amount of EUR 500,000 on his account by the settlement date of the near leg.

If the price moves in an adverse direction, the Bank may require additional margin based on the current fair market value of the FX swap, which may significantly increase the collateral requirement. For instance, if the additional margin requirement is 40 per cent of the nominal value, the margin requirement will increase to the forint equivalent of:

EUR 500,000 * 0.1 + EUR 500,000 * 0.4 = EUR 250,000.

The above calculations are based on a one-time change in the exchange rate due to market movements, and do not imply that there is a maximum limit to the collateral requirement or to the potential capital loss on the transaction.

4.2. Sample transaction

The customer will incur major euro expenses in two days, but he will realise revenues in euro on his economic activity only in six months. With a view to eliminating the risk arising from exchange rate fluctuations, the customer concludes an EURHUF FX swap for six months from the spot date.

TRANSACTION PARAMETERS	
Maturity	6 months
Currency pair	EUR/HUF
Amount	EUR 500,000
EUR/HUF Spot exchange rate	418.40 (Reuters: EURHUF=D3)
Swap difference	2320 pips
6-month forward exchange rate	441.60

The product is presented according to the following EUR/HUF exchange rate scenarios:

1. The EUR/HUF exchange rate changes as expected, i.e. it declines during the term.
2. The EUR/HUF exchange rate rises during the term.

If the customer sells euro half-year forward and the EUR/HUF exchange rate declines, he may realise a profit when closing the transaction. At the same time, if the EUR/HUF exchange rate rises, he may recognise a loss.

1. The EUR/HUF exchange rate changes as expected

Decreasing exchange rate

Spot EUR/HUF exchange rate when concluding the FX swap: 418.40
2-month forward exchange rate at the end of the 4th month: 410.10
Spot EUR/HUF exchange rate at maturity: 406.20

- **Example for physical delivery:**

According to the FX swap contract, the customer buys EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives HUF 500,000 *418.40 = HUF 209,200,000 from the customer

On the maturity settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *441.60 = HUF 220,800,000

- **Example for financial settlement, with closing at maturity:**

Upon net financial settlement the customer closes the transaction during the term with a foreign currency buy contract. According to the FX swap contract, the customer buys EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60, which he may buy – if the exchange rates change as expected – for HUF 406.20 upon maturity.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives EUR 500,000 *418.40 = HUF 209,200,000 from the customer.

On the maturity settlement date of the transaction the Bank pays to the customer:
(441.60 – 406.20) * 500,000 = HUF 17,700,000

- **Example for financial settlement, when the position is closed 4 months after the conclusion of the contract by a forward sell and buy transaction:**

According to the FX swap contract, the customer sells EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60., which he may buy 2 months forward – if the forward exchange rates change as expected – for HUF 410.10, 4 months after the deal date.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives EUR 500,000 *418.40 = HUF 209,200,000 from the customer.

On the maturity settlement date of the transaction the Bank pays to the customer:

(441.60 – 410.10) * EUR 500,000 = HUF 15,750,000

- **Example of rollback:**

According to the FX swap contract, the customer buys EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60. Their customer pays the income from their economic activity considerably sooner, three months ahead of time; therefore, the client rolls back the HUF 441.60 short forward EUR position to the current date with a reverse FX swap. In this case, the rate of the far leg of the initially concluded (rolling) FX swap transaction is adjusted with the current three-month spread (HUF 10), i.e. its value will be HUF 441.60 - HUF 10.00 = HUF 431.60.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives EUR 500,000 *418.40 = HUF 209,200,000 from the customer.

Three months before the maturity of the transaction:
The Bank receives EUR 500,000 from the customer (near leg of the rollback FX swap)
The Bank pays EUR 500,000 *431.60 = HUF 215,800,000 to the customer (near leg of the rollback FX swap)

On the deal maturity date:
The Bank receives EUR 500,000 from the customer (far leg of the rolled FX swap)
The Bank pays EUR 500,000 *441.60 = HUF 220,800,000 to the customer (far leg of the rolled FX swap)
The Bank pays EUR 500,000 to the customer (far leg of the rollback FX swap)
The Bank receives EUR 500,000 *441.60 = HUF 22,800,000 from the customer (far leg of the rollback FX swap)

The amounts at maturity knock out each other both in forint and euro, and thus no net principal movement takes place at maturity.

- **Example for rollover**

According to the FX swap contract, the customer buys EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60. Due to late payment by their customer, the income from their economic activity will only be received a month later; therefore, the client rolls over the HUF 441.60 short forward EUR position with an FX swap corresponding to the direction of the initial FX swap transaction to one month after the maturity date. In this case, the rate of the far leg of the initially concluded (rolling) FX swap transaction is adjusted with the current one-month spread (HUF 4), i.e. its value will be HUF 441.60 + HUF 4.00 = HUF 445.60.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives EUR 500,000 *418.40 = HUF 209,200,000 from the customer.

On the maturity date of the original deal:
The Bank receives EUR 500,000 from the customer (far leg of the rolled FX swap)
The Bank pays EUR 500,000 *441.60 = HUF 220,800,000 to the customer (far leg of the rolled FX swap)
The Bank pays EUR 500,000 to the customer (near leg of the rollover FX swap)
The Bank receives EUR 500,000 *441.60 = HUF 220,800,000 from the customer (near leg of the rollover FX swap)

The amounts at maturity knock out each other both in forint and euro, and thus no net principal movement takes place at maturity.

On the day one month after the maturity of the original deal:
The Bank receives EUR 500,000 from the customer (far leg of the rollover FX swap)
The Bank pays EUR 500,000 *373.35 = HUF 186,675,000 to the customer (far leg of the rollover FX swap)

- **Example for the collateral requirement:**

The Bank's clients are required to provide collateral in order to take FX swap positions against the Bank; in other words, they must provide sufficient collateral to meet the transaction's initial margin requirement upon the execution of the contract. The initial margin requirement of the FX swap means the loss that the Bank may suffer as a result of the possible exchange rate fluctuations on the horizon deemed critical by the Bank, which during the term of the transaction may vary due to the change in the market conditions.

If, for instance, the original collateral requirement for an FX swap transaction is 10 per cent of the notional value, the security deposit requirement upon the conclusion of the contract will be:
HUF equivalent of EUR 500,000* 0.1 = EUR 50,000.

Furthermore, the customer must provide the amount of HUF 209,200,000 on his account by the settlement date of the near leg.

The customer will have to provide additional collateral if, due to the market exchange rate fluctuations – unfavourable for the customer – the margin requirement applicable to his transactions, no longer covered by the provided collaterals, exceeds the maximum acceptable level. When the exchange rate moves unfavourably for the customer, based on the fair market value of the FX swap, the Bank may ask for additional margin, and thus the margin requirement may substantially increase. If upon the Bank's call to this effect the customer fails to provide the required additional margin in accordance with the terms of the contract, the Bank may liquidate the position, which could involve substantial losses for the customer.

2. The EUR/HUF exchange rises

Spot EUR/HUF exchange rate when concluding the FX swap: 418.40
Spot EUR/HUF exchange rate at maturity: 447.80

- **Example for physical delivery:**

According to the FX swap contract, the customer buys EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives EUR 500,000 *418.40 = HUF 209,200,000 from the customer.

On the maturity settlement date of the transaction:
The Bank receives EUR 500,000 from the customer
The Bank pays to the customer EUR 500,000 *441.60 = HUF 220,800,000

- **Example for financial settlement, with closing at maturity:**

Upon financial settlement the customer closes the transaction during the term with a foreign currency buy contract. According to the FX swap contract, the customer buys EUR 1 for HUF 418.40 on the spot market and upon maturity sells it for HUF 441.60, which he may buy – if the exchange rates rise – for HUF 447.80 upon maturity.

On the spot settlement date of the transaction:
The Bank pays EUR 500,000 to the customer
The Bank receives EUR 500,000 *418.40 = HUF 209,200,000 from the customer.

On the maturity settlement date of the transaction the Bank receives from the customer:
(447.80 – 441.60) * EUR 500,000 = HUF 3,100,000

- **Example for the collateral requirement:**

For instance, if the original margin requirement of the FX swap is 10 percent of the notional value, the margin requirement upon concluding the contract will be:
HUF equivalent of EUR 500,000* 0.1 = EUR 50,000.

Furthermore, the customer must provide the amount of HUF 209,200,000 on his account by the settlement date of the near leg.

If the price moves in an adverse direction, the Bank may require additional margin based on the current fair market value of the FX swap, which may significantly increase the collateral requirement. For instance, if the additional margin requirement is 40 per cent of the nominal value, the margin requirement will increase to the forint equivalent of:

EUR 500,000 * 0.1 + EUR 500,000 * 0.4 = EUR 250,000.

The above calculations are based on a one-time change in the exchange rate due to market movements, and do not imply that there is a maximum limit to the collateral requirement or to the potential capital loss on the transaction.

5. Summary of the advantages and risks of foreign exchange swaps

Main advantages of the transaction

- The client can be protected from an adverse movement in the price of the underlying currency.
- Upon the client's request, the FX swap can be closed with a reverse trade during the term with net settlement at maturity or closing.
- By concluding an FX swap, the customer has the opportunity to roll forward (roll-over) or backward (rollback) the existing, not yet settled spot foreign currency transaction, or the forward FX sale/purchase and the FX swap.

Main risks of the transaction

- The transaction entails a performance obligation for the client: the client is obliged to sell/purchase at the fixed exchange rate even if the exchange rates at maturity are lower/higher than the fixed exchange rate, meaning that they may incur losses several times the capital invested.
- If the client closes the position with a reverse contract during the term, depending on the prevailing market conditions, the client may incur losses several times the capital invested.
- If, for any reason, the margin (i.e. collateral) provided by the client is deemed insufficient by the Bank to cover the financial risk of the positions opened and held by the client, the Bank may require the client to provide additional margin. Upon the Bank's call, the customer is required to provide the additional margin in accordance with the terms of the contract, and any losses sustained as a result will be borne exclusively by the customer. If the customer fails to provide the required additional collateral in accordance with the terms of the contract despite the Bank's request, the Bank may decide to liquidate the position, which could involve substantial losses for the customer.

6. Miscellaneous information

Preconditions of concluding FX swaps

- Concluding the Global Markets Master Agreement annexed to OTP Bank Plc.'s Investment Services Business Regulations with the Bank and signing any other required documents
- Concluding agreements for payment accounts denominated in the settlement currency of the transaction
- Meeting the collateral requirements specified by the Bank
- Submitting the declarations on prior information pursuant to Act CXXXVIII of 2007 on investment firms and commodity dealers and laying down rules for their activities (Investment Firms Act).

Guarantees connected to FX swaps

OTC FX swaps fall outside the scope of the insurance coverage provided by the National Deposit Insurance Fund (OBA) and the Investor Protection Fund (BEVA).

Expenses and fees connected to the FX swaps

The Bank's quote for the FX swap includes all direct costs and fees of the transaction. It does not include any indirect costs related to obtaining and holding the financial instrument or to the conclusion, maintenance and performance of the contract (e.g. fee, commission, tax, account management).

Tax implications of FX swaps

The Bank complies with the tax obligations imposed on payment agents in accordance with the legal provisions as in force at any time, which may differ depending on the tax status (e.g. tax residence) of the beneficiary and the legal title of the income. In performing its tax payment obligations as a payer, the Bank issues a slip on the payment and, in the case of payments made to private individuals, it complies with its tax obligations set out in the applicable legal provisions.

Pursuant to Section 65/B of Act CXVII of 1995 on Personal Income Tax in force, income from swap transactions (hereinafter referred to as "swap income") is earnings generated by a private individual from foreign exchange swaps as defined by under the Accounting Act in a fiscal year (swap earnings) minus the certified cost(s) incurred by the private individual only in direct relation to such transactions in that fiscal year (swap expenditure). The Bank as the payer shall establish swap income and/or loss on a transaction-by-transaction basis and issue a certificate broken down by transaction to the private individual by 31 January of the year following the fiscal year and report on it to the tax and customs authorities. The Bank is not liable for any tax (or tax advance) deduction in connection with the swap income. The private individual shall determine the swap income and the corresponding tax amount on a transaction-by-transaction basis following the end of the fiscal year, declare it in the tax return for that fiscal year and pay the tax by the submission deadline for the tax return. If the term of the swap extends beyond the fiscal year and the private individual sustained a swap loss on that swap in a fiscal year covered by the term and declares it on a transaction-by-transaction basis in the tax return for the loss year, the individual will be entitled to tax settlement based on their settlement records.

Please note that accurate information regarding the tax treatment or the tax implications may only be provided in consideration of the individual circumstances of each customer and it may be subject to change in the future.

Miscellaneous information

For general further information, please refer to OTP Bank Plc.'s Uniform Prior Information, OTP Bank Plc.'s Investment Services Business Regulation (Investment Services Business Regulations), including Annex A, constituting an integral part thereof, the General Terms and Conditions for Global Markets Services, the announcements constituting annexes to the Investment Services Business Regulations, the Global Markets Framework Agreement template and the Fees, the MIFID Client

Information, the EMIR announcement and the announcements and annexes referred to therein, which are available on the website http://www.otpbank.hu. Information may also be obtained at the branches of OTP Bank Plc.

7. Important information

1. The following documents form integral part of this product information note: OTP Bank Plc's

- Uniform Prior Information Prospectus, individual product information materials and any documents attached thereto along with all referenced business terms and notices;
- MiFID Customer Information Document;
- Announcement on compliance with certain provisions of the EMIR – in respect of investment services;
- OTP Bank Plc.'s Investment Services Business Regulations, including, in particular, the Global Markets General Terms and Conditions, which form an integral part thereof, and the business regulations, announcement and annexes referred to therein, the Global Markets Master Agreement template and any other related documents required,
- General Business Terms and Conditions of OTP Bank Plc. and documents attached thereto along with all referenced announcements;
- Prospectuses, fund prospectuses, announcements, as well as regular and extraordinary information notes published by the issuer or the broker in relation to individual financial instruments.

Please read all of the aforementioned documents and any other notices referenced or indicated therein in order to ensure that you can make informed decisions, in full awareness of all information pertaining to the transactions presented in this Product Information Note. Moreover, before making an informed decision about the use of the investment or the service, please carefully consider the subject and risk of your investment, the associated fees and charges and the possibility of potential losses, and obtain information regarding the tax regulations pertaining to the product or the investment. Prices of financial instruments and securities are subject to change. Spot trades are made at the current exchange rate, which may entail significant foreign exchange losses.

2. The publication of this Product Information Note and its transfer to the customer do not constitute an offer, investment advice, call for bid, investment advisory service, investment or financial analysis, solicitation for the purchase of any financial instrument, or any other kind of advice on legal, tax, or accounting issues, and the data provided herein are provided for informational purposes, intended solely as the provision of advance information to OTP Bank Plc.'s existing and prospective customers as required by law. The contents of this information note are limited to general information and knowledge and as such, it disregards the unique or specific needs of individual customers and their willingness and ability to take risk; therefore, should you have any questions, please, do not hesitate to contact our staff or refer to your bank consultant before making an investment decision. Should you require investment advice from OTP Bank Plc. prior to making your decision, please contact our staff with a view to concluding an agreement for investment advisory services and making the necessary declarations (particularly a suitability test).

3. All investments involve certain risks that may affect the performance of the investment decision and the investor may not receive the amount of money they had invested or expected to receive, and may even lose some or all of the capital invested or incur a payment obligation in excess of the amount invested.

4. The information in this prospectus cannot serve as a reliable basis for conclusions concerning prospective future yields, changes or performance. All charts and calculations are intended to be examples, presenting potential future situations. No information contained herein shall be interpreted as the presentation of particular transactions even if transaction of the customer is identical or similar to those contained herein. No estimates may be made based on the data contained herein concerning either the current or the future level of interest rates/prices, or expected interest rate/price developments. The data contained herein do not constitute information on the changes or performance of particular financial instruments, whether past or future. Any risks associated with the specific, individual decisions made in reliance on the contents of this Product Information shall be borne solely by the investor, and OTP Bank Plc. shall not be held liable either for the success of the investment decisions or the achievement of the goals set by the investor.

5. OTP Bank Plc. does not act as a fiduciary for or an advisor to any prospective purchaser of the financial instruments discussed herein. Please note that concluding the contract and submitting an order may involve further obligations, such as the margin (i.e. collateral) requirement of the transaction or the provision of supplementary collateral, and a failure to meet such obligations in accordance with the relevant provisions of the contract could result in losses upon the closure of the position. If the specific financial instrument is traded on the regulated market, please consult the websites of the competent regulated market and clearing house to obtain further information and data on the applicable trading terms and settlement.

6. In the case of the individual products and services, please make sure you also assess their consequences on tax settlement and other tax implications, bearing in mind that those can only be judged accurately on the basis of the tax legislation in force and the customer's special circumstances, and such circumstances may change in the future. Unless otherwise indicated, yields presented in this publication are gross, non-annualised yields, which may be reduced by taxes in accordance with the effective regulations.

7. The products and/or services included in this Product Information Note may not be available to certain individuals, or their access to such products/services may be restricted. OTP Bank Plc.'s preparation and posting of the Product Information Note on its website and the presentation of information regarding the specific products and/or services may not be construed, under any circumstances, as an intention on OTP Bank Plc.'s part to make available information pertaining to the products and/or services contained in the Product Information Note for persons in respect of which some country or another competent state bans or restricts the use, purchase or advertising of the product and/or service.

8. This document has been prepared based on information available to OTP Bank Plc. at the date of preparation. Although this Product Information Note was prepared in good faith from sources that OTP Bank Plc. believes to be reliable, the Bank does not represent or warrant their accuracy and the data thus obtained may be incomplete or inaccurate.

9. The business terms, announcements, lists of conditions and product descriptions containing the detailed terms, conditions and fees of the products and services are available at our branches, and on the Bank's website at www.otpbank.hu.

10. The Bank reserves the right to change the terms contained herein. This notice may change in the future without separate notification. Please monitor any changes that may be made to this document.