# INFORMATION RELATED TO TREASURY TRANSACTIONS AND THEIR RISKS

## I. FOREIGN EXCHANGE TRANSACTIONS

### Foreign Exchange Spot Transactions – Simple basic product

Foreign Exchange Spot Transactions are sales of foreign currency for a different foreign currency; the financial settlement of such transactions is carried out within two Business Days.

1. The Transactions may be concluded with the Bank in any of the main currencies (HUF, EUR, USD, GBP, CHF and JPY). The lowest value of the Transactions will be EUR 50,000 or its equivalent. Other currencies and their lowest values will be subject to one-off, one-time agreements with the Bank's Treasury Department.
2. It is the Bank's condition that before the foreign exchange spot is carried out, the amount to be paid must be available on the Client's account held at the Bank, and a transfer or book transfer order for the given deal must also be available. On this order, the Client must mark in the Spectra system the "Individual treasury exchange rate" box or in the MultiCash INT module, among "Additional Information" or in the "Notes" section of the MultiCash HUA module the keyword "Specrate" must be added, and the order must be received by the Bank by 5 p.m. on the day of the transaction. The transfer or book transfer order may be replaced by a valid Annex II/A of the Master Agreement.

### Foreign exchange forwards and swaps

### Foreign Exchange Forward Transaction – Simple basic product

Foreign Exchange Forward Transactions are sales of foreign currency for a different foreign currency; the financial settlement of such transactions is carried out beyond two Business Days but it will take place on a pre-defined expiry date that may not be later than the expiry of the credit limit specified in Section 2.3 of the Agreement.

1. The Transactions may be concluded with the Bank in any of the main currencies (HUF, EUR, USD, GBP, CHF and JPY). The lowest value of the Transactions will be EUR 50,000 or its equivalent. Other currencies and their lowest values will be subject to one-off, one-time agreements with the Bank's Treasury Department.
2. If, no later than at the expiry date, only the settlement of the exchange rate difference is required (financial or net settlement), the Bank and the Client will make a foreign exchange spot transaction in the opposite direction of the original transaction to close the original transaction. The settlement of the difference between the original forward rate and the foreign exchange spot rate, i.e. the crediting or debiting of the difference to the Client's account will take place at the expiry date.

### Flexi Forward Transaction – Simple basic product

A Flexi Forward is a foreign exchange forward contract that allows the Client to fix the bid or ask rate of a currency pair for a specific day within a predefined time interval for a fixed amount. The length of the time period depends on the agreement of the parties at the time the transaction is entered into, typically 1 month. The financial settlement within the period will take place automatically on the last day of the period at this predetermined exchange rate (depending on the agreement of the parties at the time of the transaction, but typically with same-day settlement), following the request/request of the Client and/or the last day of the period. Transactions can be concluded in all major currencies (HUF, EUR, USD, GBP, CHF and JPY). The minimum limit for both transactions and drawdown amounts is EUR 50.000,- or equivalent.

**Foreign Exchange Swap – Simple basic product**

The Foreign Exchange Swap is a combination of a spot and a forward transaction; it combines two simultaneous spot and forward foreign currency conversions of opposing directions between the same currencies, with the foreign currency prices of the two transactions being the same.

1. The Transactions may be concluded with the Bank in any of the main currencies (HUF, EUR, USD, GBP, CHF and JPY). The lowest value of the Transactions will be EUR 50,000 or its equivalent. Other currencies and their lowest values will be subject to one-off, one-time agreements with the Bank's Treasury Department.

Risks of Foreign Exchange Forwards and Swaps
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Foreign Exchange Forwards and Swaps.**

The financial settlement of Foreign Exchange Forwards will be executed at a predefined rate and on a predefined expiry date, which is not earlier than the second Business Day following the deal date. The forward rate is the result of the difference between the spot rate at the time of the quotation and the interest rates of the relevant currencies depending on the term, therefore the forward rate is a forecast for the future and may be different from the fixed forward rate at expiry. Both parties are bound to perform the Foreign Exchange Forward Transaction as a separate transaction.

If at the time the Foreign Exchange Forward Transaction is closed actual performance takes place (a foreign currency transfer or book transfer is carried out), the Bank will complete the transfer at the original forward rate. This rate may differ from the spot market rate on the expiry date. If actual financial settlement cannot or does not take place, the obligation may be cancelled through the conclusion of a Foreign Exchange Forward Transaction of the opposite direction as compared to the original (which may be done at any time during the term). Consequently, if there is a difference between the forward rate quoted on the day of the original transaction and the rate quoted when the position is closed, the parties will be required to pay the difference in the exchange rate for the given foreign currency sum to each other at the expiry date (financial settlement).

Such difference in the exchange rate is the risk of Foreign Exchange Forward contract, its extent is unlimited and is subject to the change of market rates.

As Foreign Exchange Swaps consist of a forward and a spot transaction, their risk is the same as the risk of Foreign Exchange Forward Transactions.

**Foreign exchange options**

**Plain Vanilla Foreign Exchange Option – Simple basic product**
One of the parties grants rights to the other party in exchange for an option fee to buy (call option) or sell (put option) a certain amount of foreign currency at a certain date in the future and at a fixed price (strike price).

**Foreign Exchange Barrier Options**
In the case of Foreign Exchange Barrier Options, the barrier price is a pre-defined level of the exchange rate of the foreign currency the option is for. If the exchange rate of the given currency reaches this barrier rate at any time during the transaction's term, the option will either come into effect or terminate. If the option comes into effect when the barrier rate is reached, it is called a knock-in option; if it terminates, it is called a knock-out option.

Risks of Simple and Barrier Foreign Exchange Options
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Simple and Barrier Foreign Exchange Options** (hereinafter: Foreign Exchange Options).

Financial settlement for foreign exchange option contracts may be executed at a predefined rate and on a predefined expiry date, which is not earlier than the second Business Day following the deal date, inasmuch as the buyer of the option wishes to exercise his/her option rights. The strike price specified at the time of making the option contract is not a forecast for the future and may be different from the spot market rate at maturity. The foreign currency option contract constitutes an obligation for the seller of the option.

In the event that the buyer of the Foreign Currency Option decides to exercise its option rights at the closure of the option, the seller of the option must settle the transaction under the terms specified at the time of the deal. The spot market price valid on the maturity day may be significantly worse than the option strike price, and such difference in the exchange rate will mean a negative financial result for the seller of the option.

Such difference in the exchange rate is the risk of Foreign Currency Option contract, its extent is unlimited and is subject to the change of market rates, and will be borne by the seller of the option.

In the event that the buyer of the option is the client, after the Premium has been paid, the client will not bear any risks in terms of the option owned by the client.

**Digital Option**
In the case of Digital Options, no conversion takes place at all; instead, the parties agree on a payout amount in advance whose payment depends on whether the pre-defined rate (strike price) is reached at any time during the term.

Risks of Digital Options
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Digital Options.**

Financial settlement for Digital Options may be executed in a pre-defined amount at a pre-defined expiry date, which is not earlier than the second Business Day following the deal date. The seller of the option will be obliged to execute financial settlement, depending on whether the daily rate reached the strike price fixed upon making the contract for the pre-define period or upon maturity.

If the buyer of the option exercises his/her option rights upon the maturity of the contract, the seller of the option will not be obliged to perform actual foreign currency selling or buying. At the same time, the seller of the option will have to perform his/her payment obligations – taking into consideration any changes is the exchange rate but at an amount independent from the scale of such change – with the conditions defined when making the contract. In this case there will be a negative financial result for the seller of the option.

This amount is the risk of the transaction, which solely depends on reaching the option strike price from any direction, and such risk is borne by the seller of the option. The amount of the risk exceeds the amount of the option fee (Premium) that the option seller is entitled to, and its extent is defined upon making the deal.

In the event that the buyer of the option is the client, after the Premium has been paid, the client will not bear any risks in terms of the option owned by the client.

The following apply to all foreign exchange transactions:

1. Option transactions can be made with the Bank in HUF, EUR or USD, and the lowest value of the Transactions will be EUR 100,000 or its equivalent, EUR 250,000 or equivalent in the case of Barrier Foreign Exchange Options and EUR 30,000 or equivalent in the case of a Digital Foreign Exchange Option. Other currencies and their lowest values will be subject to one-off, one-time agreements with the Bank's Treasury Department.

2. In the case of Foreign Exchange Options, payment under the given Transaction will fall due in accordance with Section 3 of the Master Agreement ("Terms of Payment") but if the due date is not specified for the given Transaction, the payment will be due on the established expiry date.

3. The buyer of the option will pay a fee (Premium) to the seller of the option, the amount and due date of which will be included in the agreement on the conditions of the Transaction. If the due date is not defined expressly, the fee will be due on the second Business Day after the Agreement is made.

4. In the case of Simple and Barrier Foreign Exchange Options, the exercising of the option is carried out through the request of a spot transaction.

5. European and American versions:
   Buyers of a European type option may exercise their option by 12:00 noon (Budapest time) on the expiry date. If the notification about the exercising of the option is received before the expiry date, it will be assumed that the Party wishes to exercise the option right on the expiry date. The Bank concludes European type option transactions for all kinds of Foreign Exchange Option Transactions.

   Buyers of American type options may exercise their option at any time during the term of the transaction up until the expiry date. The Bank only concludes American type option transactions for Digital Options.

## II. INTEREST RATE TRANSACTIONS

**Forward Rate Agreements (FRA) – Simple basic product**
A transaction in which one of the parties pays a set interest rate for a defined period beginning in the future, while the other party assumes obligation to pay an interest rate for the same period, set at the beginning of such period. The extent of such interest rate will depend on the reference interest rate (generally BUBOR, EURIBOR or LIBOR). The settlement of payouts depends on the difference of the interest rates (futures rate or reference interest rate) (net settlement) and will be due at the beginning of the interest rate period.

Risks of Forward Rate Agreements
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Forward Rate Agreements.**

When making forward rate agreements, the parties agree on a fixed rate for a future period to be paid after a given amount (forward rate). Forward rates are not forecasts for the future, and thus the reference interest rate valid at the start of the interest rate period may differ from the forward rate. Both parties are bound to perform the Forward Rate Agreement.

If on the settlement day the forward rate and the reference rate are different, the parties must pay to difference to one another regarding the defined amount (net settlement) in a way that if the forward rate is larger than the reference rate, the buyer of the Forward Rate Agreement, and if the reference rate is larger than the forward rate, the seller of the Forward Rate Agreement will have to make a payout for the other party.

This difference in the interest rate is the risk of Forward Rate Agreements; its extent is not limited and depends on the changes of the market reference rate.

**Interest Rate Swap – Simple basic product**
A transaction in which one of the parties pays a set interest rate periodically, while the other party pays a floating interest rate at the same times. This latter one will depend on the periodically fixed reference rate (generally BUBOR, EURIBOR or LIBOR). The settlement will depend on the difference between the interest rates (fixed rate and reference rate) (net settlement) and will be due at the end of each interest period.

Risks of Interest Rate Swaps
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Interest Rate Swaps.**

In the case of Interest Rate Swaps, the parties swap the variable base of the cash flow over a specific term in a given foreign currency for a fixed rate, or they swap the fixed rate with a variable rate between themselves. Interest Rate Swaps are not forecasts for the future, and thus the reference interest rate valid at the start of the interest rate period may differ from the agreed fixed rate. Both parties are bound to perform the interest rate swap agreement.

If on settlement days the fixed rate and the reference rate are different, the parties must pay to difference to one another regarding the defined amount (net settlement) in a way that if the fixed interest rate specified in the agreement is higher than the reference rate, the buyer of the Interest Rate Swap Agreement, and if the reference rate is higher than the fixed rate, the seller of the Interest Rate Swap Agreement will have to make payment to the other party.

Such difference in the interest rates in each interest period throughout the entire tenor of the transaction is the risk of the transaction, whose extent is unlimited. The extent of such risk and the present value of the interest rate swap depend on the movement of market reference interest rates and their future values as from time to time determined by the change in the market-based forward interest rates. Reference interest rates and market-based forward interest rates can assume negative values as well.

**Cross Currency Swap (CCS)**
A transaction in which one of the parties pays interest periodically (fix or floating) in a given currency, while the other party also pays interest (fix or floating) at the same times for a set currency amount, but in a different currency. It consists of three items:

- an initial notional exchange at the start of the CCS, (in case of gradually increasing transaction notional, the initial exchange can take place in multiple subsequent steps via a series of notional exchanges)
- a final notional exchange in the opposite direction, with the same notional amount, exchange rate, taking place on the maturity date of the transaction (in case of gradually decreasing transaction notional, the final exchange can take place in multiple subsequent steps via a series of notional exchanges)
- the swap of interest payments,

Within a CCS, the interest rate swap may be made in the following relations: fixed rate for fixed rate, fixed rate for floating rate, floating rate for floating rate – naturally, in different currencies at all times

Interest payments will be due at the end of interest periods.

Risks of Cross-Currency Swaps
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Cross Currency Swaps.**

A Cross-Currency Swap is an Interest Rate Swap based on different currencies. At the beginning of the transaction, the parties agree on an actual swap of principal amounts and on that they will return them at the expiry of the transaction. The swap of foreign currencies is generally carried out on the same rate (usually at the current spot rate at the time the transaction is made). At the end of the interest periods during the term of the transaction, the time-proportionate interest amounts accrued on the principal amount from the swap are swapped between the parties. Both parties are bound to perform the Cross-Currency Swap transaction.

As a result, the exchange rate change during the term generates exchange rate risk for the interest amounts; the extent of this risk is unknown in advance and is not a limited risk. Exchange rate risk is also generated as a result of changes in the reference interest rates and forward interest rates of one or the other or both currencies during the life time of the swap, as well as due to changes in the cross-currency basis swap rates of the two currencies. The extent of such changes are not known in advance and the movements could be unlimited. Reference interest rates and market-based forward interest rates can assume negative values as well.

**Interest Rate Options**

**One of the parties ensures rights to the other party in exchange for a defined option fee to pay or receive, at a certain date or dates in the future, a pre-defined interest rate specified in a contract (strike price), which depends on the reference rate and is specified in the order.**

**Cap – Simple basic product**
The seller will, either at a certain date in the future or at a pre-defined series of future dates, provide compensation to the buyer, if the reference rate defined at the time of making the contract is higher than the interest rate fixed upon making the contract:

**Floor – Simple basic product**
The seller will, either at a certain date in the future or at a pre-defined series of future dates, provide compensation to the buyer, if the reference rate defined at the time of making the contract is lower than the interest rate fixed upon making the contract:

**Collar – Simple basic product**
The collar is the combination of a cap and a floor. One party compensates the other one in cases of cap, whereas the other party does the same in cases of floor.

Risks of Interest Rate Options
In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Interest Rate Options.**

The option contract constitutes a settlement obligation for the seller of the option, under which the seller will be obliged to perform the contract with the conditions defined upon making the contract.

For Interest Rate Options, if the option buyer wishes to exercise his/her option rights, the difference between the interest rate fixing and the interest rate defined in the interest rate option (strike price) may be paid on the expiry date defined based on the interest rate fixing specified in the option. The strike price is not a forecast for the future and may be different from the market reference rate at maturity.

In the event that the buyer of the option is the client, after the Premium has been paid, the client will not bear any risks in terms of the option owned by the client.

If the market reference rate on the maturity date is significantly higher (in the case of “Cap”) or lower (in the case of “Floor”) than the option strike price, this difference in interest rate will create a negative result for the seller of the option.

Such difference in the interest rate is the risk of the transaction, its extent is unlimited and is subject to the change of market reference rates, and will be borne by the Seller of the option.

**Digital Interest Option**

For Digital Interest Options, the payout at the expiry date of the option is known beforehand. Depending on whether the market reference rate reaches or does not reach the set strike price, either the payout at a predetermined amount takes place or the option ceases to exist without any value. Digital Interest Options are only available as parts of complex transactions.

The risks of Digital Interest Options

In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Digital Interest Rate Options.**

The option contract constitutes a settlement obligation for the seller of the option, under which the seller will be obliged to perform the contract with the conditions defined upon making the contract.

In the case of digital interest rate options the seller of the option will have to pay the set amount, subject to the fact whether the difference between the reference interest rate defined in the interest rate option contract and the interest rate defined in the interest rate option (strike price) is advantageous for the buyer of the option. The strike price is not a forecast for the future and may be different from the market reference rate at maturity.

In the event that the buyer of the option is the client, after the Premium has been paid, the client will not bear any risks in terms of the option owned by the client.

If the market reference rate on the maturity date, subject to the given contract, is higher (in the case of “Cap”) or lower (in the case of “Floor”) than the option strike price, this set payout amount will create a negative result for the seller of the option. This is the risk of Digital Interest Rate Option transactions, the extent of which will be limited to the amount of the payout.

**Swap Option (Swaption) – Simple basic product**

The Swaption is the combination of an interest rate swap and an option, where the right regarding the fixed interest rate of the interest rate swap is sold.

By purchasing a Receiver Swaption and paying the option premium, the Buyer obtains the right to receive a fixed interest rate, i.e. he/she will be entitled to sell the interest rate swap.

By purchasing a Payer Swaption and paying the option premium, the Buyer obtains the right to pay a fixed interest rate, i.e. he/she will be entitled to buy the interest rate swap.

By selling a Receiver Swaption and obtaining the option premium, the Seller assumes obligation to pay a fixed rate, i.e. he/she will have to sell an interest rate swap if the Buyer exercises his/her option rights.

By selling a Payer Swaption and obtaining the option premium, the seller assumes obligation to receive a fixed rate, i.e. he/she will have to sell an interest rate swap if the buyer exercises his/her option rights.

Risk of Swap Options

In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Swap Options.**

*The option part of the contract:*

In the event that the buyer of the option is the client, after the Premium has been paid, the client will not bear any risks in terms of the option owned by the client.

The exercising of the option rights under the contract by the buyer will impose an obligation on the seller of the option, whereas the seller will have to perform the interest rate swap in accordance with the conditions set out **upon making the swap option contract**. In other words, if the buyer of the option wishes to exercise his/her option rights, the seller of the option must, depending on the type of the Swap option, sell or buy the interest rate swap contract.

*The swap part of the transaction:*

The risks are the same as the risks described at Interest Rate Swaps.

The following apply to all interest transactions:

1. The Transactions can be made with the Bank in HUF, EUR, USD and CHF currencies, and the lowest value of contracts will be EUR 500,000 or its equivalent. Other currencies and their lowest values will be subject to one-off, one-time agreements with the Bank’s Treasury Department. For Digital Options, the lowest value of transactions (payout) will be EUR 50,000 or its equivalent.

2. The buyer of the option will pay a fee (Premium) to the seller of the option, the amount and due date of which will be included in the agreement on the conditions of the Transaction. If the due date is not defined expressly, the fee will be due on the second Business Day after the Agreement is made.

3. Option rights will be exercised on the day of the interest rate fixing as defined in the option (the second Business Day preceding the starting date of the given interest rate period).

4. On the day of the interest rate fixing the reference interest rate defined in the interest option contract will be compared with the option interest rate (strike price). In the event that the interest rate difference calculated in this way is advantageous for the buyer of the option, the interest rate difference will be paid for the entitled person on the expiry date of the interest period defined in the option. If such day is not a Business Day, the maturity date will be the next Business Day.

**Reference interest rate**

If the Parties have agreed on a variable interest rate in the given Transaction (“reference rate”), the Bank will notify the Client, on the day the reference rate is set or without delay after that day (“Interest Rate Setting Day”), of the underlying reference rate and the amount calculated on the basis of the underlying reference rate.

If necessary, the reference rate will be rounded to 1/100.000 percentage point.

## III. COMMODITY MARKET DERIVATIVE TRANSACTIONS

**Commodity Swaps – Simple basic product**
A transaction in which two parties agree on the sale and purchase of a specific quantity of goods at a pre-defined fixed price and for a pre-defined date (expiry date). The settlement transactions are based on the price differences (i.e. the difference between the actual market price and the fixed price agreed in the Transaction) and they fall due on the expiry date.

Risks of Commodity Swaps

In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Commodity Swaps.**

In the case of Commodity Swaps, the Parties swap the changeable market price of a given commodity to a fixed price for a specific date. Commodity Swaps are not forecasts for the future, and thus the actual purchase price at the time the Transaction expires may differ from the agreed fixed price. Both parties are bound to perform the commodity linked swap agreement.

If on the settlement day the fixed price and the market price of the Transaction's underlying commodity are different, the parties must pay to difference to one another regarding the defined amount (net settlement) in a way that if the fixed price in the agreement is higher than the market price, the buyer of the Commodity Swap, and if the market rate is higher than the fixed price, the seller of the Commodity Swap will have to make a payment to the other party.

Such difference in the price is the risk of the transaction, its extent is limited for the buyer (i.e. the price drops to zero) but is unlimited from the seller's point of view and is subject to the change of market reference rates.

**Commodity Options – Simple basic product**
A transaction in which one of the parties grants rights to the other party in exchange for an option fee to buy (call option) or sell (put option) a certain quantity of commodities at a certain date in the future (expiry date) and at a fixed price (strike price). The buyer of the option will pay a fee (Premium) to the seller of the option, the amount and due date of which will be included in the agreement on the conditions of the Transaction. If the due date of the Premium is not defined separately, it is the agreed expiry date.

**Cap**

A cap is a contract according to which the seller of the option agrees to pay the difference between the market price and the strike price to the buyer in case the market price exceeds the strike price on the expiry date.

**Floor**
A floor is a contract according to which the seller of the option agrees to pay the difference between the market price and the strike price to the buyer in case the market price is lower than the strike price on the expiry date.

**Collar**

The collar is the combination of a cap and a floor. One party compensates the other one in cases of cap, whereas the other party does the same in cases of floor.

Commodity option transactions

In accordance with law, the Bank hereby informs the Client of the special risks borne by the Client and arising due to the nature of **Commodity Option.**

The option commodity contract constitutes a settlement obligation for the seller of the option, under which the seller will be obliged to perform the contract with the conditions defined upon making the contract.

For Commodity Options, if the option buyer wishes to exercise the option right, the difference between the actual price and the price of the Transaction (strike price) may be paid on the expiry date specified in the option. The strike price is not a forecast for the future and may be different from the actual market price at maturity.

In the event that the buyer of the option is the client, after the Premium has been paid, the client will not bear any risks in terms of the option owned by the client.

If the actual market price on the maturity date is significantly higher (in the case of “Cap”) or lower (in the case of “Floor”) than the option strike price, this price difference will create a negative result for the seller of the option.

Such price is the risk of the transaction, its extent is unlimited and is subject to the change of market prices, and will be borne by the seller of the option.

The following apply to all commodity market derivative transactions:

1. The types of commodities for Transactions will be subject to ad hoc agreements with the Bank’s Treasury Department.
2. The Bank will set the market price based on the 2005 ISDA Commodity Definitions.
3. The Bank may set the lower limit of the Transactions individually.
4. In the case of commodity transactions, the Parties will settle the financial result of the Transaction; no physical delivery takes place between them.
5. In the case of commodity market derivative transactions, the settlement (i.e. the debiting or crediting to the Client’s Account) will fall due as follows:

   - in the case of metals, on the second Business Day following the expiry date of the latest period (fixing day);

   - in the case of energy, on the fifth Business Day following the expiry date of the latest period (fixing day);

   - in the case of a commodity option, on the second Business Day following the day the option is exercised (expiry date).

6. For the purposes of this Section, Business Day is understood as a “Business Day” as defined in the 2005 ISDA Commodity Definitions.