ABN·AMRO

Product Information for Foreign Exchange Management

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Your business and potential foreign exchange risks

Do you do business internationally? And do you pay or get paid in foreign currency? This may involve risks. This is because exchange rates move, which can negatively impact your company's profits. Want more certainty? ABN AMRO offers solutions to help you protect your business from unfavourable exchange rate movements.

In this brochure, you will learn about foreign exchange risk and the various products from ABN AMRO for managing foreign exchange. How do they work, what are the benefits, disadvantages and risks?

Feel free to contact us

The products in this brochure are foreign exchange derivatives. Foreign exchange derivatives are complex financial products. It is important for you to have sufficient information to make the right choice of a product that fits your situation and goals. Do you have any questions after reading this brochure? Or is anything unclear? Feel free to contact our FX professionals.

What is foreign exchange risk?

Foreign exchange risk is the risk that exchange rate fluctuations will impact your company's earnings. This risk arises if you have to purchase products, services or raw materials in a currency other than the euro. Or vice versa: if you are paid in a currency other than the euro for goods and services provided. You then need to buy or sell foreign currency. Because exchange rates move, you don't know how much your contract with a foreign supplier or customer will ultimately cost or earn you in euro. If it costs you more, or earns you less than planned, it will have a negative effect on your business earnings. However, currency fluctuations can also be beneficial for your company's earnings.

Foreign exchange risk examples

- **You export** to the United States and your customers pay you in US dollars. With those dollars, you buy euros. If the **euro rate rises** relative to the US dollar, your dollars earn you less euros.
- **You import** from the United States and pay your business partners in US dollars. You buy those dollars with euros. If the **price of the euro falls** in relation to dollars, you pay more euros for your dollars.

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How does an exchange rate work (or: market rate)?

The market rate is the price of a currency at a certain time, as expressed in another currency. For example, the EUR/USD rate indicates the value of the euro, as expressed in dollars. A EUR/USD rate of 1.2000 means that 1 euro is worth USD 1.2000. The current foreign exchange rate is called the "market rate".

The market rate for a currency can change continuously. For example, it is influenced by political developments, major social changes, or new unemployment rates. Central bank intervention can also affect exchange rates.

How strongly the market rate fluctuates and how quickly it moves varies by currency. Some currencies are fairly stable, others have a lot of price movements. In general, the more volatile the market rate of the foreign currency in which you receive or make payments, the more foreign exchange risk your business is exposed to.

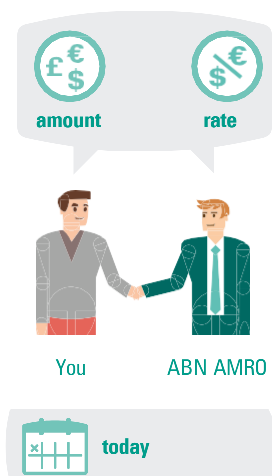
What if your company is exposed to foreign exchange risk?

If your company is exposed to foreign exchange risk, you can decide to accept this risk. This allows you to remain flexible and you can benefit if the rate moves favourably for you. But would you like more certainty about what your international business is going to earn or to cost you?
If so, ABN AMRO offers a variety of solutions to help you reduce your foreign exchange risk. What is appropriate in your case depends on the foreign exchange risk you are exposed to (such as: has the contract with your foreign customer or supplier already been signed?) and your calculation rate (at what rate do you record this contract in your books?). However, what is appropriate also depends on your company's financial situation, goals and risk policies.

Spot transaction: accept foreign exchange risk

Are you willing to accept the foreign exchange risk? Then you do not buy or sell the currency until you have collected the money or are ready to pay. Quick and easy, and at the market rate of the day. We call this a "spot transaction".

That works like this:
Imagine, you are performing a spot transaction today. Then the money will be debited and credited to your euro account and Foreign Currency Account in two business days, at the exchange rate you agree at this moment with the bank. The bank's margin is included in that exchange rate.



How can you mitigate foreign exchange risk?

Would you like to be less exposed to fluctuations in the market rate? And have more certainty about the amount you need to pay or receive? Then there are various products that can help you reduce your foreign exchange risk:

- Forward foreign exchange transactions;
- Foreign exchange options, or
- products that consist of combinations of two or more Foreign exchange options.

Currency derivative: an agreement with the bank about a foreign exchange transaction you want to carry out in the future

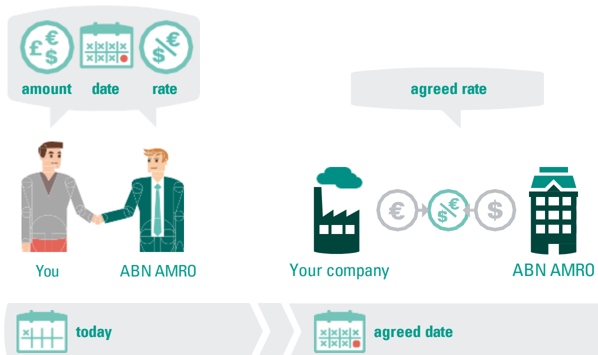
The products in this brochure are foreign exchange derivatives. These are complex financial products that you can use to reduce the foreign exchange risk of your company. When you purchase a foreign exchange derivative, you are entering into an agreement with the bank in which you agree arrangements for the currency transaction you will carry out. For example, this agreement defines what currencies are involved. And also what exchange rate, value date, costs and terms apply. This gives you more certainty about your earnings from international trade.

Important: you can set up foreign exchange derivatives with ABN AMRO in order to mitigate foreign exchange risk ("hedging"). Make sure that a foreign exchange derivative always matches one or more currency flows that derive from your international operations.

Forward foreign exchange transactions: 100% certainty

Do you need to sell euros to buy foreign currencies in the future, or vice versa? And do you want total certainty of how much this will bring you, or will cost you? Then you can arrange a **Forward foreign exchange transaction** with ABN AMRO. You will agree a fixed exchange rate in advance with the bank. On the agreed date, you will buy or sell the currency at that exchange rate. Do you want to arrange a forward foreign exchange transaction for the full amount of the contract with your foreign business partner? That way your full foreign exchange risk is covered.

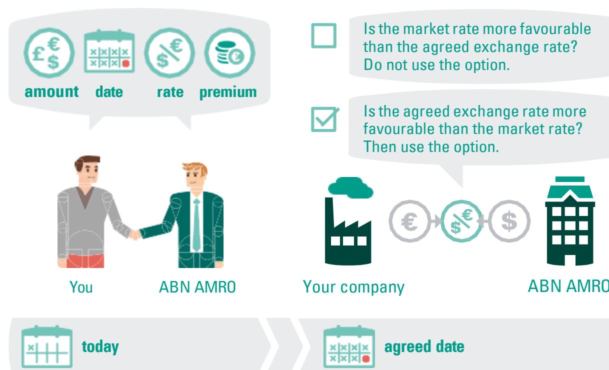
With a foreign exchange future transaction you are making a commitment. You must execute the agreed foreign exchange transaction on the agreed date.



Foreign exchange option: security and flexibility

Do you want protection against price movements that are unfavourable to you, but still be able to benefit if the rate is in your favour? Then you can buy a **Foreign exchange option**. You agree an exchange rate with the bank at which you can buy or sell the foreign currency. But you are not committed to doing anything. At the agreed date, is the market rate better for you? Then you are free to buy or sell the currency at the more favourable market rate.

You pay a single premium in advance for the Foreign exchange option. This will not be refunded to you if you decide not to use the Foreign exchange option.



Combinations: for specific requirements

Foreign exchange options and Forward foreign exchange transactions provide the basis for all the other FX products you can arrange with ABN AMRO. All these other products consist of combinations of two or more Foreign exchange options. These allow you to mitigate your foreign exchange risk in a way that fits your specific needs and goals.

When you sell a Foreign exchange option, you make a commitment

For a number of products, you not only buy a Foreign exchange option (i.e. a right), but you also sell a Foreign exchange option to the bank. You then give the bank the right to buy foreign currency from you at the agreed exchange rate. Selling a Foreign exchange option does involve a risk. You are then obliged to complete the agreed transaction if the Bank decides to exercise its Foreign exchange option – even when that is not in your favour.

Selling an option forms part of the Participating Forward, Cylinder and Target Forward products, among others. If selling an option is part of the product, it is always indicated clearly in this brochure.

Important things to know: pros and cons

Using ABN AMRO's foreign exchange derivatives, you can gain more certainty about the revenues and costs of your international operations denominated in foreign currencies. This mitigates the foreign exchange risks for your business and makes them more manageable. However, foreign exchange derivatives are complex financial products, which also involve disadvantages and risks.
In this brochure, you can see what these are for each product. When executing a foreign exchange derivative, you must always consider the following points:

- What if the market rate moves differently to how you expected? It may then be the case that you did not need the foreign exchange derivative.
  - You then have to buy or sell the currency at a rate that is unfavourable to you (for example, in a Forward foreign exchange transaction) or
  - You may have paid an unnecessary premium (for example, for a Foreign exchange option).
- What if the market rate moves differently to how you expected? Then it may be that a different foreign exchange derivative would have been better for you. For example, you would have done better to choose a Foreign exchange option rather than a Forward foreign exchange transaction.
- Is the amount you receive or need to pay different to what you were expecting? Or did you receive or pay the amount on a different date? Then you may incur additional costs to cover your foreign exchange risk.
- What if you agree on a foreign exchange derivative for just a part of the amount in the contract with your foreign customer or supplier? Then your foreign exchange risk is not completely mitigated.

What if you want to terminate a foreign exchange derivative early?

When you use a foreign exchange derivative, you agree the date on which you will buy or sell the currency with the bank. You cannot always terminate a foreign exchange derivative prior to the agreed date. Sometimes termination is possible, else there may be other solutions. But you will often lose out due to additional costs. In this brochure, you can see exactly what the possibilities and costs are for each product.

Foreign exchange products to manage your liquidity positions

Do you have surplus liquidity or shortfalls? Or would you like to increase your interest income? Then ABN AMRO can offer you several solutions. For example, a Foreign exchange swap, and some "structured foreign exchange deposits". Please note: these products are not intended for and not suitable for hedging foreign exchange risk. More information about them can be read in this brochure.

Hedging your foreign exchange risk:

protection from adverse rate movements

Forward foreign exchange transactions

A Forward foreign exchange transaction means that you agree a fixed exchange rate with the bank in advance. This means that you know in advance exactly what will be the result of your foreign exchange transaction.

Is a Forward foreign exchange transaction useful for you?

A Forward foreign exchange transaction may interest you in the following situation:

- you are expecting to pay or receive an amount in a foreign currency in the future;
- you want to be protected against unfavourable rate movements;
- an exchange rate fixed in advance will give you the certainty you want, and
- you accept that you will be unable to take advantage of any favourable rate movements.

Not suitable if you are still at the quotation stage

Have you issued or received a quote but not yet reached agreement? Then a Forward foreign exchange transaction is not appropriate. Because if the order does not go ahead, you cannot terminate the Forward foreign exchange transaction. A Foreign exchange option might be more appropriate in that case.

How does a Forward foreign exchange transaction work?

These transactions are also referred to as "Forwards". With a Forward foreign exchange transaction, you agree the rate at which you will buy or sell a certain currency on a particular date with the bank now ("the forward rate"). This gives you certainty in advance about what your foreign exchange transaction will earn you. And you know in advance exactly what a contract with a foreign business partner will cost you in euros.

A Forward foreign exchange transaction is a simple way to hedge a foreign exchange risk. Good to know: this method is only suitable if you are certain that you will receive or pay a known amount in a foreign currency. With a Forward foreign exchange transaction you are making a commitment. On the agreed date you must buy or sell the agreed amount of foreign currency at the fixed exchange rate. Even if the contract with your supplier or customer falls through unexpectedly.

When do you pay or receive the money from the bank?

If you agree a Forward foreign exchange transaction, you will agree with the bank on which date the bank purchases or sells the currency for you ("value date"). On the value date, the money will be debited from or credited to your euro account and the Foreign Currency Account.

How might a Forward foreign exchange transaction work out?

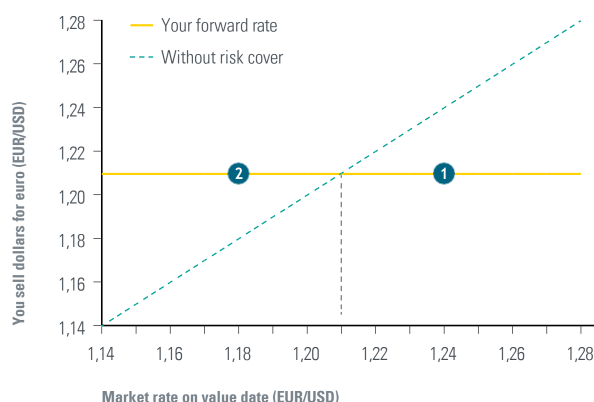
Two possibilities when you receive foreign currency

Let's assume: you are going to receive USD 100,000 in three months and you want to convert it into euros. If you chose a Forward foreign exchange transaction to hedge your foreign exchange risk, there are then two possible situations on the value date.

Data from your Forward foreign exchange transaction

- You sell: USD 100,000 for euros
- Term: 3 months
- Forward rate: EUR/USD 1.2095

Situation	Market rate	You sell dollars for	Result
1 The value of the dollar decreases. On the value date, the market rate is **higher** than your forward rate.	EUR/USD 1.2400 USD 100,000 = € 80,645	your forward rate: EUR/USD 1.2095 USD 100,000 = € 82,679	Thanks to your Forward foreign exchange transaction you are **protected.**.
2 The value of the dollar increases. On the currency date, the market rate is **lower** than your forward rate.	EUR/USD 1.1800 USD 100,000 = € 84,746	your forward rate: EUR/USD 1.2095 USD 100,000 = € 82,679	Because of your Forward foreign exchange transaction you are **unable to benefit from this.**



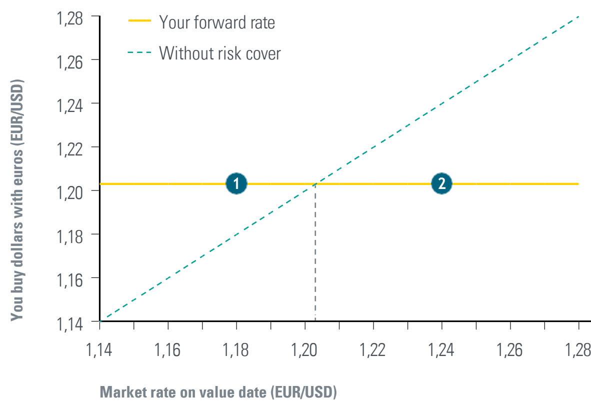
Two possibilities when you have to pay the foreign currency

Let's assume: you need to pay USD 250,000 in three months. You will buy those dollars with euros.
If you chose a Forward foreign exchange transaction to hedge your foreign exchange risk, there are two possible situations on the value date.

Data from your Forward foreign exchange transaction

- You are buying: USD 250,000 with euros
- Term: 3 months
- Forward rate: EUR/USD 1.2030

Situation	Market rate	You are buying dollars for	Result
1 The value of the dollar increases. On the value date, the market rate is **lower** than your forward rate.	EUR/USD 1.1800 USD 250,000 = € 211,864	your forward rate: EUR/USD 1.2030 USD 250,000 = € 207,814	Thanks to your Forward foreign exchange transaction you are **protected**.
2 The value of the dollar decreases. On the value date, the market rate is **higher** than your forward rate.	EUR/USD 1.2400 USD 250,000 = € 201,613	your forward rate: EUR/USD 1.2030 USD 250,000 = € 207,814	Because of your Forward foreign exchange transaction you are **unable to benefit from this.**



What do you agree with ABN AMRO?

In the case of a Forward foreign exchange transaction, you enter into an agreement with ABN AMRO, in which we agree:

1. What currency pair is involved. For example, euros and US dollars. Often one of the currencies is the euro. However, you can also arrange a Forward foreign exchange transaction for two foreign currencies.
2. Which of these two currencies you want to buy or sell. Do you need to pay in pounds sterling in the future? Then you need pounds, so you agree that you are buying pounds and paying for them with euros. Are you expecting a payment in US dollars? Then you agree that you will sell dollars and receive euros.
3. The amount you will buy or sell.
4. On which date you will buy or sell this currency ("value date"). The time between agreeing the Forward foreign exchange transaction and this date is called the "term". There is no minimum term. The maximum term will depend on which currency pair you choose among other factors.
5. At what exchange rate you will buy or sell the currency ("Forward rate").

Benefits of the Forward foreign exchange transaction

- You have certainty about your costs or revenues.
- You are protected against an unfavourable price movement, for the agreed amount and the agreed term.
- Simple: one agreement, one result.

What if you receive, or have to pay, the foreign currency later?

What if the date on which you receive or have to pay foreign currency shifts? Then you can also shift the foreign exchange transaction, using a "Foreign exchange swap". You then agree to buy a certain amount of currency from the bank, and sell the same amount back to the bank at a later date. At an agreed rate. Read more about Foreign exchange swaps in this brochure.

Disadvantages and risks of Forward foreign exchange transactions

- You are unable to benefit from favourable price movements.
- You have a commitment to buy or sell. Even when the agreed rate is unfavourable to you. Or if the contract with a foreign business partner for which you are executing the Forward foreign exchange transaction falls through.
- A Forward foreign exchange transaction cannot be terminated, just "unwound". That may cost you a lot of money.

What does a Forward foreign exchange transaction cost you?

You do not pay the bank a premium for agreeing a Forward foreign exchange transaction. The bank's profit is included in the Forward rate.

What if you want to terminate a foreign exchange transaction early?

It is not possible to terminate the agreement during its term. You can "unwind" the Forward foreign exchange transaction. You do this by agreeing another Forward foreign exchange transaction, but in the reverse direction. Using the same amounts and currencies, but at a new forward rate. Both transactions are executed on the agreed value date:

- First, the original transaction is executed at the original forward rate.
- The bank then executes the opposite transaction at the new forward rate.
- The difference between these two transactions will be netted off to you. This may earn you money (if the new forward rate is more favourable for you), but can also cost a lot of money.

Unwinding: an example

Let's assume your customer goes bankrupt one month before the value date, and the contract you had signed is terminated as a result thereof.
You choose to unwind your Forward foreign exchange transaction.

Details of your original Forward foreign exchange transaction

- You sell: USD 100,000 for euro
- Forward rate: EUR/USD 1.2095

Situation	Transactions on the value date	Result
1 The value of the dollar has **decreased**. At the time of unwinding, the new forward rate is EUR/USD 1.2300.	1. You sell USD 100,000 at a rate of 1.2095. 2. You purchase USD 100,000 at a rate of 1.2300.	The bank nets off both transactions with you. You **receive** € 1,378.
2 The value of the dollar has **increased**. At the time of unwinding, the new forward rate is EUR/USD 1.1900.	1. You sell USD 100,000 at a rate of 1.2095. 2. You purchase USD 100,000 at a rate of 1.1900.	The bank nets off both transactions with you. You **need to pay** € 1,355.

Foreign exchange options

With a Foreign exchange option, you can protect yourself against unfavourable rate movements. But maybe the price moves in your favour? Then you are totally free to buy or sell the currency at the more favourable market rate. You pay a premium in advance for a Foreign exchange option.

Is a Foreign exchange option right for you?

A Foreign exchange option may be of interest to you in the following situation:

- you are expecting to pay or receive an amount in foreign currency in the future;
- you would like to be protected if the market rate moves unfavourably for you;
- but you expect the exchange rate to move in your favour and want to be able to benefit fully from that,
- and you are willing to pay a premium in advance in return for the protection.

Call options and put options

Banks often use the terms "call options" and "put options" when talking about Foreign exchange options. A call option gives you the right to buy a certain currency. A put option allows you to sell a certain currency. What is very important here: is that you know exactly which currency you are buying, and which you are selling.

How does a Foreign exchange option work?

A Foreign exchange option can be useful if you expect to pay or receive an amount in a foreign currency in the future. A Foreign exchange option means that you agree in advance with the bank the rate for which you can buy or sell a particular currency on a particular date (the exercise price or strike). This way you know in advance exactly what the maximum is that your contract with a foreign business partner will cost you in euro, or the minimum it will bring in. And that gives you more certainty about your business earnings.

A Foreign exchange option gives you the right to buy or sell currency. You have no obligation to exercise the Foreign exchange option to buy or sell currency. The market rate at the agreed date may be more favourable for you than the strike price. Then you are totally free to buy or sell the currency at the more favourable market rate. To buy a Foreign exchange option, you pay the bank a premium in advance.

When do you pay or receive the money from the bank?

If you buy a Foreign exchange option, you will agree an "expiry date" with the bank. You decide to exercise the Foreign exchange option? The bank will then purchase or sell the foreign currency for you on that expiry date. Two business days later, the money will be debited and credited to your euro account and Foreign Currency Account. The day the money is debited and credited is called the value date.

Good to know: the expiry date of most currency pairs expires at 10:00 am New York time ("the expiry time"). For much of the year this is 4:00 pm Dutch time. That is the time at which the bank buys or sells the currency for you. Therefore, the money will be debited and credited two business days later. A different expiry time applies for some currency pairs. You can look this up in the agreement with the bank.

How might a Foreign exchange option work out for you?

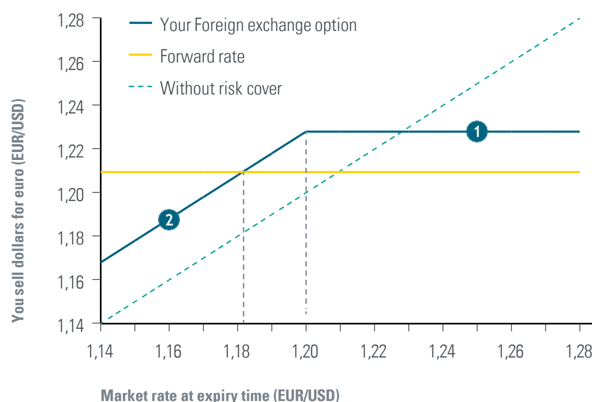
Two possibilities when you are receiving foreign currency

Let's assume: you are going to receive USD 100,000 in three months and you want to convert it into euros. If you choose a Foreign exchange option to hedge your foreign exchange risk, there are two possible situations at the expiry time.

Data from your Foreign exchange option

- You are selling: USD 100,000 for euro
- Term: 3 months
- Current forward rate: 1.2095 EUR/USD (USD 100,000 = € 82,679)
- Strike price: EUR/USD 1.2000
- Premium: USD 0.0280 per dollar (= USD 2,800)

Situation	Market rate	You sell dollars for	Result
1 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your strike price.	EUR/USD 1.2500 USD 100,000 = € 80,000	your strike price: EUR/USD 1.2000 including the premium your result is: EUR/USD 1.2280 USD 100,000 = € 81,433	You exercise your Foreign exchange option. Thanks to your Foreign exchange option you are **protected**.
2 The value of the dollar increases. At the expiry time, the market rate is **lower** than your strike price.	EUR/USD 1.1600 USD 100,000 = € 86,207	the market rate: EUR/USD 1.1600 including the premium your result is: EUR/USD 1.1880 USD 100,000 = € 84,175	You do not exercise your Foreign exchange option. You can sell dollars at the more favourable market rate, and you decide for yourself how many dollars you want to sell.



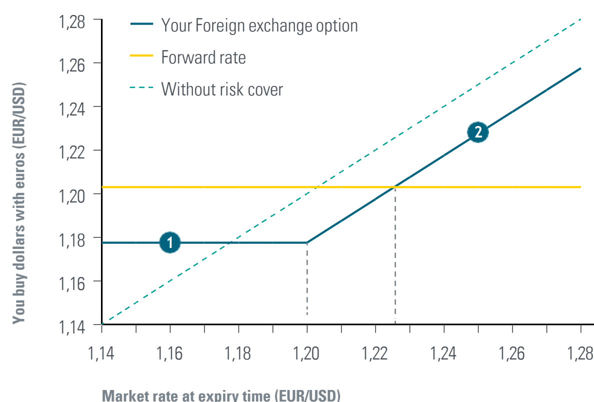
Two possibilities when you have to pay the foreign currency

Let's assume: you need to pay USD 250,000 in three months. You will buy those dollars with euros. If you chose a Foreign exchange option to hedge your foreign exchange risk, there are two possible situations at the expiry time.

Data from your Foreign exchange option

- You are buying: USD 250,000 with euros
- Term: 3 months
- Current forward rate: EUR/USD 1.2030 (USD 250,000 = € 207,814)
- Strike price: EUR/USD 1.2000
- Premium: USD 0.0225 per dollar (= USD 5,625)

Situation	Market rate	You are buying dollars for	Result
1 The value of the dollar increases. At the expiry time, the market rate is **lower** than your strike price.	EUR/USD 1.1600 USD 250,000 = € 215,517	your strike price: EUR/USD 1.2000 including the premium your result is: EUR/USD 1.1775 USD 250,000 = € 212,314	You exercise your Foreign exchange option. Thanks to you Foreign exchange option you are **protected**.
2 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your strike price.	EUR/USD 1.2500 USD 250,000 = € 200,000	the market rate: EUR/USD 1.2500 including the premium your result is: EUR/USD 1.2275 USD 250,000 = € 203,666	You do not exercise your Foreign exchange option. You can buy dollars at the more favourable market rate, and you decide for yourself how many dollars you want to buy.



What do you agree with ABN AMRO?

With Foreign exchange option you conclude an agreement with ABN AMRO, in which we agree:

1. The currency pair it concerns. For example, euros and US dollars. Often one of the two currencies is the euro.
2. Which of these two currencies you want to buy or sell. Do you need to pay in pounds sterling in the future? Then you need pounds, so you agree that you are buying pounds and paying for them with euros. Are you expecting a payment in US dollars? Then you agree that you will sell dollars and receive euro.
3. The amount you will buy or sell. The minimum amount is € 50,000 (or its equivalent in foreign currency).
4. The date on which you can exercise the Foreign exchange option ("expiry date"). You can only exercise the Foreign exchange option on this date. The time from when you make the agreement and this date is called the "term" of your option. There is no minimum term. The maximum term will depend on which currency pair you choose among other factors.
5. The exchange rate at which you can buy or sell ("strike price").
6. The premium you pay to the bank. For a Foreign exchange option, you will pay an amount to the bank in advance.

Benefits of Foreign exchange options

- You are protected against an unfavourable price movement, for the agreed amount and the agreed term.
- The market rate at the agreed date may be more favourable for you than the strike price. Then you are free to buy or sell the currency at the market rate.
- You have the right to buy or sell the currency. No obligation to execute the currency transaction. So you remain flexible.

Disadvantages and risks of Foreign exchange options

- You will never obtain a refund of the premium you paid for your Foreign exchange option. Even if you do not exercise your right to buy or sell currency on the agreed date. Or if you terminate the Foreign exchange option before the agreed date.

What does a Foreign exchange option cost?

If you buy a Foreign exchange option, you will pay an amount to the bank in advance: the premium. The premium includes the bank's fee. The level of the premium depends on the amount, exercise price, term and the volatility of the exchange rate. So the premium will rise if:

- the amount is higher;
- the term is longer, and
- the volatility of the exchange rate is larger.

What if you want to terminate the Foreign exchange option early?

Do you know before the agreed date that you will not be using your Foreign exchange option? Then you can terminate the Foreign exchange option early. This means that you sell the previously purchased foreign exchange option back to the bank.

Good to know: you won't get anything back from the advance premium. Nevertheless, the bank will credit you with the "market value" of the Foreign exchange option at that time. The market value of the Foreign exchange option depends on the remaining term, the amount, the strike price, market rate and market rate volatility. There are two possibilities:

- The Foreign exchange option has a positive market value. The bank will then pay you an amount.
- The Foreign exchange option has no market value. You do not receive or pay anything. Please note: the Foreign exchange option may still gain in market value during the remaining term.

Market value calculation: an example

Let’s assume your customer goes bankrupt one month before the value date, and the contract you had signed is terminated as a result thereof. You choose to terminate your Foreign exchange option. The bank calculates the market value for you.

Data from your original Foreign exchange option

- You are selling: USD 100,000 for euros
- Strike price: EUR/USD 1.2000
- Premium: USD 0.0280 per dollar (= USD 2,800)

Market rate at time of termination	Market value
1.3000	€ 6,590
1.2500	€ 3,517
1.1500	€ 0
1.1000	€ 0

Good to know: this example provides an indication of market value. The exact values can vary daily.

Cylinder

With a Cylinder you know precisely in advance the minimum and maximum amount that your contract with a foreign business partner will earn you or cost you. This means you are protected from strong exchange rate fluctuations.

Is a Cylinder useful for you?

A Cylinder may be of interest to you in the following situation:

- you are expecting to pay or receive an amount in foreign currency in the future;
- you want to ensure that your currency transaction falls within the bandwidth of a minimum and maximum exchange rate;
- you expect the market rate to remain fairly stable, or move somewhat in your favour and you would like to be able to benefit from it, and
- you don't want to pay a premium.

Please also read the information about this product

In order to understand Cylinders well, it is important that you know how a Foreign exchange option works. Please also read the information about Foreign exchange options.

How does a Cylinder work?

As with a Foreign exchange option, you agree in advance with the bank on the exchange rate at which you want to buy or sell a certain currency on a given date. But with a Cylinder we are not talking about a single exchange rate, but about two. There is a minimum and also a maximum exchange rate ("strike price"). You can make sure in advance that your currency transaction will lie within the 'bandwidth' of these two exchange rates. This means you are protected against extreme exchange rate fluctuations.

At the same time, you remain a bit flexible. If the market rate moves in your favour, and the market rate on the expiry date is somewhere between your minimum and maximum exercise price, then you are free to buy or sell the currency at this more favourable market rate.

A Cylinder's minimum and maximum strike price will be fixed using two Foreign exchange options, each with its own strike price:

1. a Foreign exchange option that you buy from the bank, to protect you against unfavourable currency movements.
2. a Foreign exchange option that you sell to the bank. This Foreign exchange option defines the rate at which you are free to buy or sell currency in the market, should the market rate move in your favour.

With a Cylinder, the minimum and maximum strike prices are chosen in such a way that you neither pay nor receive a premium.

Expiry time 10:00 am New York time

With most currency pairs, a Foreign exchange option can only be exercised on the expiry date at 10:00 am New York time. For most of the year this is 4:00 pm Dutch time. Two business days later, the money will be debited and credited to your accounts. A different expiry time applies for some currency pairs. You can look this up in your agreement with the bank.

How might a Cylinder work for you?

There are three possibilities when you are receiving foreign currency

Let's assume: you will receive USD 100,000 in three months' time, and you want to convert these into euro. If you chose a Cylinder to hedge your foreign exchange risk, there are three possible situations at the expiry time.

Data about your Cylinder

- You are selling: USD 100,000 for euros
- Term: 3 months
- Current forward rate: 1.2095 EUR/USD (USD 100,000 = € 82,679)
- Maximum strike price: EUR/USD 1.2300
- Minimum strike price: EUR/USD 1.1880

Situation	Market rate	You are selling dollars for	Result
1 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your maximum strike price.	EUR/USD 1.2500 USD 100,000 = € 80,000	your maximum strike price: EUR/USD 1.2300 USD 100,000 = € 81,301	You exercise your Foreign exchange option. Thanks to your Cylinder, you are **protected**.
2 The dollar value remains fairly stable. At the expiry time, the market rate is **within your bandwidth**.	EUR/USD 1.2000 USD 100,000 = € 83,333	the market rate: EUR/USD 1.2000 USD 100,000 = € 83,333	You do not exercise your Foreign exchange option, the bank does not exercise its Foreign exchange option. You can sell dollars at the more favourable market rate, and you decide for yourself how many dollars you want to sell.
3 The value of the dollar increases. At the expiry time, the market rate is **lower** than your minimum strike price.	EUR/USD 1.1700 USD 100,000 = € 85,470	your minimum strike price: EUR/USD 1.1880 USD 100,000 = € 84,175	The bank exercises its Foreign exchange option. You are **obliged** to sell your dollars at the minimum strike price.

Three possibilities when you have to buy the foreign currency

Let's assume: you need to pay USD 250,000 in three months' time. You are buying those dollars with euros. If you chose a Cylinder to hedge your foreign exchange risk, there are three possible situations at the expiry time.

Data about your Cylinder

- You are buying: USD 250,000 with euros
- Term: 3 months
- Current forward rate: EUR/USD 1.2030 (USD 250,000 = € 207,814)
- Minimum strike price: EUR/USD 1.1800
- Maximum strike price: EUR/USD 1.2200

Situation	Market rate	You are buying dollars for	Result
1 The value of the dollar increases. At the expiry time, the market rate is **lower** than your minimum strike price.	EUR/USD 1.1600 USD 250,000 = € 215,517	your minimum strike price: EUR/USD 1.1800 USD 250,000 = € 211,864	You exercise your Foreign exchange option. Thanks to your Cylinder, you are **protected**.
2 The dollar value remains fairly stable. At the expiry time, the market rate is **within your bandwidth.**	EUR/USD 1.2000 USD 250,000 = € 208,333	the market rate: EUR/USD 1.2000 USD 250,000 = € 208,333	You do not exercise your Foreign exchange option, the bank does not exercise its Foreign exchange option. You can buy dollars at the more favourable market rate, and you decide for yourself how many dollars you want to buy.
3 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your maximum strike price.	EUR/USD 1.2400 USD 250,000 = € 201,613	your maximum strike price: EUR/USD 1.2200 USD 250,000 = € 204,918	The bank exercises its Foreign exchange option. You are **obliged** to buy your dollars at the maximum strike price.

What do you agree with ABN AMRO?

With a Cylinder, you conclude an agreement with ABN AMRO, in which we agree:

1. Which currency pair is involved.
2. Which of these two currencies you want to buy or sell.
3. The amount you want to buy or sell. The minimum amount is € 50,000 (or its equivalent in foreign currency).
4. The date on which you and the bank can exercise the options ("expiry date").
5. The minimum and maximum exchange rate at which you and the bank may buy or sell ("minimum and maximum exercise price"). The range between these two exchange rates is the 'bandwidth' of the Cylinder.

Benefits of the Cylinder

- You are protected from exchange rate fluctuations beyond the Cylinder bandwidth, for the amount agreed and the agreed term.
- What if the market rate moves in your favour within the bandwidth? Then you are free to buy or sell the currency at the more favourable market rate.
- You are hedging a foreign exchange risk without paying a premium.

Disadvantages and risks of a Cylinder

- The Foreign exchange option that you sell to the bank is a commitment. If the bank exercises its Foreign exchange option, you must buy or sell the foreign exchange at the exercise price. Therefore, you cannot benefit from a favourable market rate beyond the Cylinder bandwidth.
- Do you want to end the Cylinder prematurely? Maybe because the contract with your foreign business partner for which you set up the Cylinder has fallen through? The bank then offsets the market value with you. That can cost you a lot of money.

What does a Cylinder cost?

With a Cylinder, the minimum and maximum strike prices are fixed in such a way that you neither pay nor receive a premium. The bank's fee is included in the premium of the Foreign exchange options you buy and sell.

What if you want to terminate the Cylinder early?

Maybe you find out before the agreed date that you will not be using your Cylinder? Then you can terminate the Cylinder early. This means that you will sell the Foreign exchange option that you purchased back to the bank. And vice versa, you buy back the Foreign exchange option that you sold to the bank. The bank then nets off the "market value" of the two Foreign exchange options in the Cylinder with you. In addition, the bank looks at the difference between the market rate and the strike prices. And also at the remaining term and the volatility of the market rate. There are two possibilities:

- The Cylinder has a positive market value. The bank will pay you something.
- The Cylinder has negative market value. You will pay the bank something.

So early termination of your Cylinder may earn you money, but it can also cost a lot of money.

Market value calculation: an example

Let's assume your customer goes bankrupt one month before the value date, and the contract you had signed is terminated as a result thereof. You choose to terminate your Cylinder. The bank calculates the market value for you.

Data from your original Cylinder

- You are selling: USD 100,000 for euros
- Maximum strike price: EUR/USD 1.2300
- Minimum strike price: EUR/USD 1.1880

Market rate at time of termination	Market value
1.3000	€ 4,565
1.2500	€ 1,632
1,1500	- € 2,642
1,1000	- € 6,535

Good to know: this example indicates market value. The exact values can vary daily.

Participating Forward

With a Participating Forward, the full amount for which you agree the Participating Forward is protected. At the same time, you maintain flexibility for a part of the total amount, to buy or sell currency at market rates should they move in your favour. In return for this, the strike price of a Participating Forward is worse than the forward rate of a Forward transaction.

Is a Participating Forward of interest to you?

A Participating Forward may be of interest to you in the following situation:

- you are expecting to pay or receive an amount in a foreign currency in the future;
- you would like to be protected should the market rate move against you;
- but you are expecting strong rate movements in your favour, and you want to benefit partially from these;
- you accept that the strike price of a Participating Forward is worse than the forward rate of a Forward transaction, and
- you don't want to pay a premium.

Please also read the information about these products

To properly understand Participating Forwards, it is important that you understand how a Forward foreign exchange transaction and a Foreign exchange option work. Please also read the information about these products.

How does a Participating Forward work?

As with a Foreign exchange option, a Participating Forward means that you agree with the bank on the amount and the rate for which you can buy or sell a particular currency on a particular date ("the strike price"). This gives you certainty in advance about what your foreign exchange transaction will cost.

But, unlike a regular Foreign exchange option, with a Participating Forward you also agree with the bank that you are only fixing a part of the amount at this strike price. You are therefore required to buy or sell that share of the total amount at the strike price and date. For that part, the Participating Forward therefore behaves like a Forward transaction. The rest of the amount, that you have not fixed, remains flexible. Is the market rate moving in your favour? Then you can buy or sell that flexible part at the more favourable market rate.

With a Participating Forward, you are therefore protected against an unfavourable rate movement for the full amount for which you sign the Participating Forward agreement. At the same time, you retain flexibility on the other part of the amount, able to buy or sell currency at market rates if these move in your favour. Please note: the strike price of a Participating Forward is worse than the forward rate of a Forward transaction.
The Participating Forward is created by signing two Foreign exchange options with the same strike price:

1. a Foreign exchange option that you buy from the bank, for an agreed amount. You are protected for this amount against unfavourable price movements.
2. a Foreign exchange option that you sell to the bank, for the portion of the agreed amount that you are fixing at the strike price. You will remain flexible for the rest of the amount. The size of this part is determined by the strike price you select.

With a Participating Forward, the strike price and the flexible part are set in such a way that you neither pay nor receive any premium.

Expiry time 10:00 am New York time

Normally, a Foreign exchange option can only be exercised on the expiry date at 10:00 am New York time. For most of the year this is 4:00 pm Dutch time. Two business days later, the money will be debited and credited to your accounts. A different expiry time applies for some currency pairs. You can look this up in your agreement with the bank.

How might a Participating Forward transaction work out?

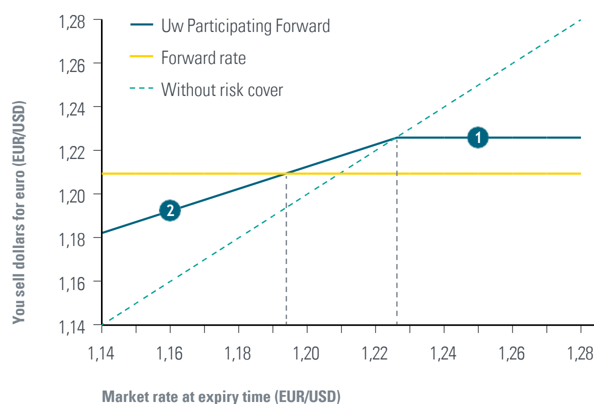
Two possibilities when you receive foreign currency

Let's assume: you will receive USD 100,000 in three months' time, and you want to convert these into euros. If you chose a Participating Forward to hedge your foreign exchange risk, there are two possible situations at the expiry time.

Details of your Participating Forward

- You are selling: USD 100,000 for euros
- Term: 3 months
- Current forward rate: 1.2095 EUR/USD (USD 100,000 = € 82,679)
- Strike price: EUR/USD 1.2260
- Flexible part: 50%

Situation	Market rate	You are selling dollars for	Result
1 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your strike price.	EUR/USD 1.2500 USD 100,000 = € 80,000	your strike price: EUR/USD 1.2260 USD 100,000 = € 81,566	You exercise your Foreign exchange option. Thanks to your Participating Forward you are 100% **protected**.
2 The value of the dollar increases. At the expiry time, the market rate is **lower** than your strike price.	EUR/USD 1.1600 USD 100,000 = € 86,207	your strike price (50%): EUR/USD 1.2260 market rate (50%): EUR/USD 1.1600 USD 100,000 = € 83,886	The bank exercises its Foreign exchange option. You are **obliged** to sell 50% of your dollars at the unfavourable strike price. However, you can sell the remaining 50% of the dollars at the favourable market rate.



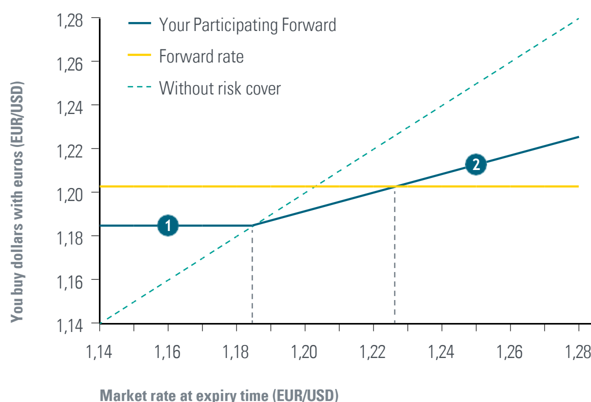
Two possibilities when you have to pay the foreign currency

Let's assume: you need to pay USD 250,000 in three months' time. You are buying those dollars with euros.
If you chose a Participating Forward to hedge your foreign exchange risk, there are two possible situations at the expiry time.

Details of your Participating Forward

- You are buying: USD 250,000 with euros
- Term: 3 months
- Current forward rate: EUR/USD 1.2030 (USD 250,000 = € 207,814)
- Strike price: EUR/USD 1.1850
- Flexible part: 50%

Situation	Market rate	You are buying dollars for	Result
1 The value of the dollar increases. At the expiry time, the market rate is **lower** than your strike price.	EUR/USD 1.1600 USD 250,000 = € 215,517	your strike price: EUR/USD 1.1850 USD 250,000 = € 210,970	You exercise your Foreign exchange option. Thanks to your Participating Forward you are 100% **protected**.
2 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your strike price.	EUR/USD 1.2500 USD 250,000 = € 200,000	market rate (50%): EUR/USD 1.2500 your strike price (50%): EUR/USD 1.1850 USD 250,000 = € 205,485	The bank exercises its Foreign exchange option. You are **obliged** to buy 50% of your dollars at the unfavourable strike price. However, you can purchase the remaining 50% of the dollars at the favourable market rate.



What do you agree with ABN AMRO?

With a Participating Forward you are concluding an agreement with ABN AMRO. In which we agree:
1. Which currency pair is involved.
2. Which of these two currencies you want to buy or sell.
3. The amount you want to buy or sell. The minimum amount is € 50,000 (or its equivalent in foreign currency).
4. The date you would like to perform the foreign exchange transaction ("expiration date").
5. The exchange rate at which you and the bank can buy or sell ("strike price"). The two Foreign exchange options in the Participating Forward always have the same strike price.
6. That part of the total amount is fixed at this rate. You are therefore required to sell that part at the strike price. You will remain flexible for the rest of the amount during the term.

Benefits of Participating Forwards

- You are protected against an unfavourable rate movement for the full amount for which you sign the Participating Forward agreement, for the agreed term.
- You retain flexibility for a part of the amount, able to buy or sell currency at market rates if these move in your favour.
- You are hedging a foreign exchange risk without paying a premium.

Disadvantages and risks of Participating Forwards

- The Foreign exchange option that you sell to the bank is a commitment. If the bank exercises its Foreign exchange option, you must buy or sell the agreed part of the total amount at the agreed strike price. Therefore, you will not benefit to the full amount of the Participating Forward from the favourable market rate.
- The strike price of a Participating Forward is worse than the forward rate of a Forward foreign exchange transaction.
- Do you want to end the Participating Forward prematurely? Maybe because the contract with your foreign business partner for which you set up the Participating Forward has fallen through? The bank then offsets the market value with you. That can cost you a lot of money.

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What does a Participating Forward cost?

With a Participating Forward, the strike price and the flexible part are set in such a way that you neither pay nor receive any premium. The commercial margin is included in the premium of the Foreign exchange options you buy and sell.

What if you want to terminate the Participating Forward prematurely?

If you find out before the agreed date that you will not be using your Participating Forward you can terminate the Participating Forward prematurely. In this case, the bank looks at the difference between the market rate and the strike price. And also, at the remaining term and the volatility of the market rate. There are two possibilities:
- The Participating Forward has a positive market value. The bank will pay you something.
- The Participating Forward has a negative market value. You will pay the bank something.

So, early termination of your Participating Forward may earn you money, but it can also cost a lot of money.

Settlement market value: an example

Let's assume your customer goes bankrupt one month before the expiration date, and the contract you had signed is lost. You choose to terminate your Participating Forward. The bank calculates the market value for you.

Details of your original Participating Forward

- You are selling: USD 100,000 for euros
- Strike price: EUR/USD 1.2260
- Flexible part: 50%

Market rate at time of termination	Market value
1.3000	€ 4,827
1.2500	€ 1,818
1,1500	- € 2,585
1,1000	- € 4,572

Good to know: this example indicates market value. The exact values can vary daily.

Forward Extra

With a Forward Extra, you will agree a fixed exchange rate in advance with the bank. However, if the market rate develops somewhat in your favour, you are free to buy or sell the currency at that favourable market rate. In return, the rate for your Forward Extra is slightly worse than the forward rate for a Forward foreign exchange transaction.

Is a Forward Extra of interest to you?

A Forward Extra may be of interest to you in the following situation:

- you are expecting to pay or receive an amount in a foreign currency in the future;
- you would like to be protected should the market rate move against you;
- you expect the market rate to move somewhat in your favour and you would like to be able to benefit from it;
- you accept that the fixed exchange rate is slightly worse than the forward rate of a Forward foreign exchange transaction, and
- you don't want to pay a premium.

Please also read the information about these products

To properly understand Forward Extras, it is important that you understand how a Forward foreign exchange transaction and a Foreign exchange option work. Please also read the information about these products.

How does a Forward Extra work?

As with a Forward foreign exchange transaction, with a Forward Extra you agree with the Bank the exchange rate at which will you purchase or sell a certain currency on a fixed date ("the protected rate"). What is extra is that you will retain your freedom up to a certain point, if the market rate moves in your favour. To do this, you agree a "threshold rate" with the bank. There are three possibilities on the agreed date:

1. The market rate has moved against you and is less favourable than your protected rate. You are protected against this, and you buy or sell the foreign currency at the protected rate.
2. The market rate has moved in your favour and lies between your protected rate and the threshold rate. Then you are free to buy or sell the foreign currency at the more favourable market rate.
3. The market rate has moved in your favour and has reached or exceeded the threshold rate. You are still required to buy or sell the foreign currency at the protected rate. Even though this is not in your favour at that time.

European or Window

With the European variant of the Forward Extra, ABN AMRO only checks on the expiry date whether the threshold rate has been reached or exceeded. But you can also agree that the bank looks at whether the threshold rate is reached or broken during a certain period (Window variant).

Your Forward Extra is created via three Foreign exchange options using the same strike price:

1. a Foreign exchange option that you buy from the bank, and that entitles you to buy or sell the currency at the protected rate.
2. a Foreign exchange option that you sell to the bank, and that obliges you to buy or sell the currency at the protected rate.
3. a Foreign exchange option with a threshold rate that you buy from the bank. This Foreign exchange option ensures that ABN AMRO can only exercise its Foreign exchange option once the threshold rate is reached.

For a Forward Extra, the protected rate and threshold rate are set such that you neither pay nor receive any premium.

How might a Forward Extra work for you?

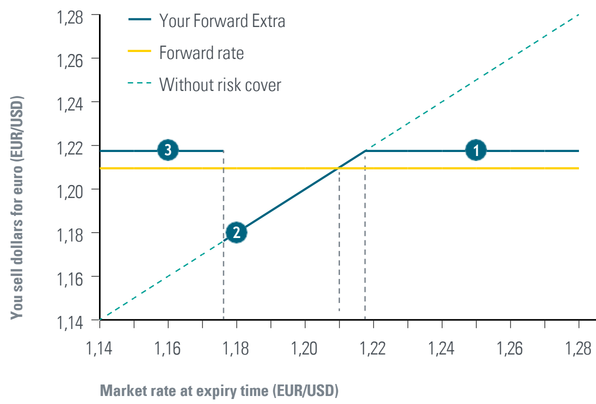
There are three possibilities when you are receiving foreign currency

Let's assume: you will receive USD 100,000 in three months' time, and you want to convert these into euros. If you chose a Forward Extra to hedge your foreign exchange risk, there are three possible situations at the expiry time.

Details of your Forward Extra (European)

- You are selling: USD 100,000 for euros
- Term: 3 months
- Current forward rate: 1.2095 EUR/USD (USD 100,000 = € 82,679)
- Protected rate: EUR/USD 1.2175
- Threshold rate: EUR/USD 1.1760
- You are entitled to: sell dollars at EUR/USD 1.2175 (if market rate is > EUR/USD 1.2175)
- You are obliged to: sell dollars at EUR/USD 1.2175 (if market rate is ≤ EUR/USD 1.1760)

Situation	Market rate	You are selling dollars for	Result
1 The value of the dollar decreases. At the expiry time, the market rate is **higher** than your protected price.	EUR/USD 1.2500 USD 100,000 = € 80,000	your strike price: EUR/USD 1.2175 USD 100,000 = € 82,136	You exercise your Foreign exchange option. Thanks to your Forward Extra you are **protected**.
2 The value of the dollar increases. At the expiration date, the market rate is **lower** than your protected rate and your threshold rate has not been reached.	EUR/USD 1.1800 USD 100,000 = € 84,746	the market rate: EUR/USD 1.1800 USD 100,000 = € 84,746	The bank's Foreign exchange option and your Foreign exchange option with a trigger rate cancel each other out. You can sell dollars at the more favourable market rate, and you decide for yourself how many dollars you want to sell.
3 The value of the dollar increases. At the expiry time, the market rate is **lower than your threshold rate.**	EUR/USD 1.1600 USD 100,000 = € 86,207	your protected rate: EUR/USD 1.2175 USD 100,000 = € 82,136	The bank exercises its Foreign exchange option. You are **obliged** to sell your dollars at your protected price, which is now unfavourable.



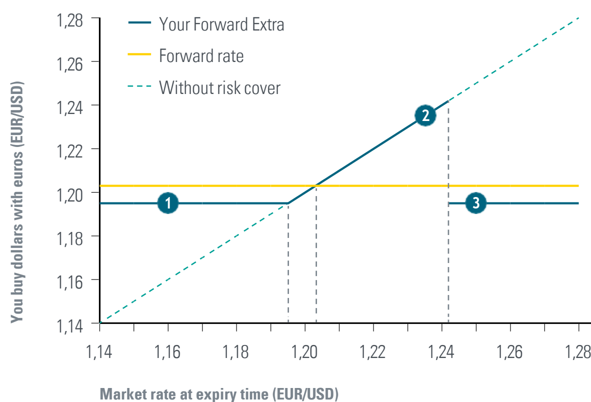
Three possibilities when you have to buy the foreign currency

Let's assume: you need to pay USD 250,000 in three months' time. You are buying those dollars with euros. If you chose a Forward Extra to hedge your foreign exchange risk, there are three possible situations at the expiry time.

Details of your Forward Extra (European)

- You are buying: USD 250,000 with euros
- Term: 3 months
- Current forward rate: EUR/USD 1.2030 (USD 250,000 = € 207,814)
- Protected rate: EUR/USD 1.1950
- Threshold rate: EUR/USD 1.2410
- You are entitled to: buy dollars at EUR/USD 1.1950 (if market rate is < EUR/USD 1.1950)
- You are obliged to: buy dollars at EUR/USD 1.1950 (if market rate is ≥ EUR/USD 1.2410)

Situation	Market rate	You are buying dollars for	Result
1 The value of the dollar increases. At the expiry time, the market rate is **lower** than your protected price.	EUR/USD 1.1600 USD 250,000 = € 215,517	your protected rate: EUR/USD 1.1950 USD 250,000 = € 209,205	You exercise your Foreign exchange option. Thanks to your Forward Extra you are **protected**.
2 The value of the dollar decreases. At the expiration date, the market rate is **higher** than your protected rate and your threshold rate has not been reached.	EUR/USD 1.2350 USD 250,000 = € 202,429	the market rate: EUR/USD 1.2350 USD 250,000 = € 202,429	The bank's Foreign exchange option and your Foreign exchange option with a trigger rate cancel each other out. You can buy dollars at the more favourable market rate, and you decide for yourself how many dollars you want to buy.
3 The value of the dollar decreases. At the expiry time, the market rate is **higher than your threshold rate.**	EUR/USD 1.2500 USD 250,000 = € 200,000	your protected rate: EUR/USD 1.1950 USD 250,000 = € 209,205	The bank exercises its Foreign exchange option. You are **obliged** to buy your dollars at your protected price, which is now unfavourable.



What do you agree with ABN AMRO?

With a Forward Extra, you are concluding an agreement with ABN AMRO. In which we agree:
1. Which currency pair is involved.
2. Which of these two currencies you want to buy or sell.
3. The amount you will buy or sell. The minimum amount is € 50,000 (or its equivalent in foreign currency).
4. The date on which you and the bank can exercise the options ("expiry date").
5. At what (minimum or maximum) exchange rate you will buy or sell the currency ("protected rate").
6. At what exchange rate you are free to buy or sell the currency at a favourable market rate ("trigger price").
7. When the bank checks whether the trigger price has been reached or exceeded. This may be: only on the expiry time ("European variant") or over an agreed period ("Window variant").

Benefits of Forward Extras

- You are protected against unfavourable price movements for the agreed amount and the agreed term.
- As long as the trigger price is not reached or exceeded, you remain free to buy or sell the currency at a favourable market rate.
- You are hedging a foreign exchange risk without paying a premium.

Expiry time 10:00 am New York time

Normally, a Foreign exchange option can only be exercised on the expiry date at 10:00 am New York time. For most of the year this is 4:00 pm Dutch time. Two business days later, the money will be debited and credited to your accounts. A different expiry time applies for some currency pairs. You can look this up in your agreement with the bank.

Disadvantages and risks of Forward Extras

- The Foreign exchange option that you sell to the bank is a commitment. If the bank exercises its Foreign exchange option, you must buy or sell the foreign exchange at the protected price. You therefore are unable to benefit from favourable price movements beyond the trigger price.
- The protected rate for your Forward Extra is slightly worse than the forward rate for a Forward foreign exchange transaction.
- Do you want to end the Forward Extra prematurely? Maybe because the contract with your foreign business partner for which you set up the Forward Extra has fallen through? The bank then offsets the market value with you. That can cost you a lot of money.

Limit rate, Barrier, or Trigger? No difference

Barrier or Limit is also used regularly to indicate a threshold rate. Also the term Knock-out level.

What does a Forward Extra cost?

With a Forward Extra, the protected rate and threshold rate are set such that you neither pay nor receive any premium. The commercial margin is included in the premium of the Foreign exchange options you buy and sell.

What if you want to terminate the Forward Extra prematurely?

Maybe you find out before the agreed date that you will not be using your Forward Extra? Then you can terminate the Forward Extra prematurely. ABN AMRO then offsets the market value with you. In this case, the bank looks at the difference between the market rate and the strike price. And also, at the remaining term and the volatility of the market rate. There are two possibilities:
- The Forward Extra has a positive market value. The bank will pay you something.
- The Forward Extra has a negative market value. You will pay the bank something.

So early termination of your Forward Extra may earn you money, but it can also cost a lot of money.

Settlement market value: an example

Let's assume your customer goes bankrupt one month before the expiration date, and the contract you had signed is lost. You choose to terminate your Forward Extra. The bank calculates the market value for you.

Details of your original Forward Extra (European)

- You are selling: USD 100,000 for euros
- Protected rate: EUR/USD 1.2175
- Threshold rate: EUR/USD 1.1760

Market rate at the time of termination	Market value
1.3000	€ 5,390
1.2500	€ 2,340
1.1500	- € 4,387
1.1000	- € 8,577

Good to know: this example indicates market value. The exact values can vary daily.

Non Deliverable Forward

Are you paying or receiving for an international contract in a foreign currency that is not freely traded on the foreign exchange markets? Or a currency for which there is low demand? Then you can still protect yourself with a Non Deliverable Forward against an unfavourable price movement by agreeing a fixed exchange rate in advance with the bank.

Your currency risk in the case of non-convertible currencies

Let's assume you have a contract with a supplier in Brazil. In three months' time, you will have to pay an amount in Brazilian real to your supplier. Since the Brazilian real is a non-convertible currency, ABN AMRO cannot supply this currency. Instead of Brazilian real, you will pay the agreed amount in euros to your supplier's local Brazilian bank in three months' time. That bank then converts the euros to Brazilian real and credits the amount in Brazilian real to the supplier's account. This is done by the local bank at the exchange rate at that time. As a result, you do not know exactly how much this contract will cost you when you agree the international contract. So you are taking on a foreign exchange risk. You can hedge this risk with a Non Deliverable Forward (NDF).

How does a Non Deliverable Forward work?

With a Non Deliverable Forward, you agree now with ABN AMRO what exchange rate ("the forward rate") you will use for your currency transaction in a non-convertible currency. In addition, you define the exchange rate to be used as a standard ("reference rate"). This is usually the exchange rate published by the central bank of the country concerned.

On the agreed date ("expiry date") ABN AMRO compares your forward rate to the reference rate. The bank will offset the difference between these two rates – to your benefit or detriment – with you. You receive or pay this difference in euros or US dollars. This gives you more advance certainty about your foreign exchange transaction.

The local bank exchange rate may also differ from the reference rate

With a Non Deliverable Forward, ABN AMRO only offsets the difference between the forward rate and the reference rate. The actual currency exchange will be done by you at the local bank. It may be that the local bank will apply a different exchange rate to the reference rate. This may affect the outcome for you. If you exchange the currency at the local bank on the expiry date of your Non Deliverable Forward, you will have the lowest risk of the exchange rate differing from the reference rate.

Is a Non Deliverable Forward useful for you?

A Non Deliverable Forward may be of interest to you in the following situation:

- you are expecting to pay or receive an amount in a foreign currency in the future;
- you want to be protected against unfavourable rate movements, and
- an exchange rate that is fixed in advance will give you the certainty you want.

Please also read the information about this product

In order to understand a Non Deliverable Forward properly, it is important that you know how a Forward foreign exchange option works. Please also read the information about Forward foreign exchange options.

Non-convertible currencies

Non-convertible currencies are currencies that are not traded freely on the currency market. For example, you may need to trade with Taiwan, Korea, India or Brazil.

How might a Non Deliverable Forward work for you?

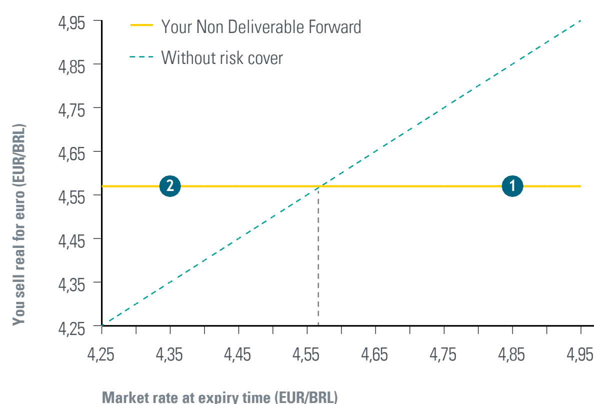
Two possibilities when you are receiving foreign currency

Let's assume: you will receive 1,500,000 Brazilian real in three months' time, and you want to convert them into euros. If you chose a Non Deliverable Forward to cover your foreign exchange risk, there are two possible situations on the expiry date.

Data from your Non Deliverable Forward

- You are selling: BRL (Brazilian real) 1,500,000 for euros
- Term: 3 months
- Forward rate: EUR/BRL 4.5700
- Reference rate: official exchange rate published by the Central Bank of Brazil

Situation	Market rate	Forward rate	Result
1 The value of the real decreases. On the expiry date, the reference rate is **higher** than your forward rate.	EUR/BRL 4.7000 BRL 1,500,000 = € 319,149	EUR/BRL 4.5700 BRL 1,500,000 = € 328,228	Thanks to your Non Deliverable Forward you are **protected**. The bank offsets the difference with you. You will receive € 9,079 from the bank. Please note: you still need to change your real for euro at the local bank. Please try to do this on the expiry date.
2 The value of the real increases. On the expiry date, the reference rate is **lower** than your forward rate.	EUR/BRL 4.4600 BRL 1,500,000 = € 336,323	EUR/BRL 4.5700 BRL 1,500,000 = € 328,228	Because of your Non Deliverable Forward you **cannot benefit from this**. The bank offsets the difference with you. You must pay the bank € 8,095. Please note that you still need to change your real for euro at the local bank. Please try to do this on the expiry date.



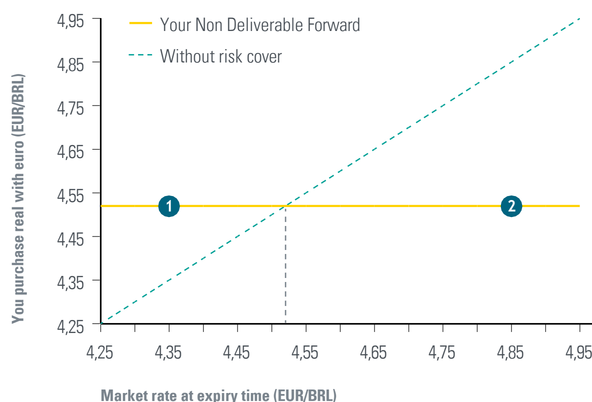
Two possibilities when you have to pay the foreign currency

Let's assume: you need to pay 2,000,000 Brazilian real in three months' time. You will buy those real with euro. If you opted for a Non Deliverable Forward to cover your foreign exchange risk, there are two possible situations on the expiry date.

Data from your Non Deliverable Forward

- You are buying: BRL (Brazilian real) 2,000,000 using euros
- Term: 3 months
- Forward rate: EUR/BRL 4.5200
- Reference rate: official exchange rate published by the Central Bank of Brazil

Situation	Market rate	Forward rate	Result
1 The value of the real increases. On the expiry date, the reference rate is **lower** than your forward rate.	EUR/BRL 4.3700 BRL 2,000,000 = € 457,666	EUR/BRL 4.5200 BRL 2,000,000 = € 442,478	Thanks to your Non Deliverable Forward you are **protected**. The bank offsets the difference with you. You will receive € 15,188 from the bank. Please note that you still need to change your real for euro at the local bank. Please try to do this on the expiry date.
2 The value of the real decreases. On the expiry date, the reference rate is **higher** than your forward rate.	EUR/BRL 4.6900 BRL 2,000,000 = € 426,439	EUR/BRL 4.5200 BRL 2,000,000 = € 442,478	Because of your Non Deliverable Forward you **cannot benefit from this**. The bank offsets the difference with you. You must pay the bank € 16,039. Please note: you still need to change your real for euro at the local bank. Please try to do this on the expiry date.



What do you agree with ABN AMRO?

In a Non Deliverable Forward, you conclude an agreement with ABN AMRO, in which we agree:

1. Which currency pair is involved. Often one currency is the euro or US dollar (e.g. EUR/BRL).
2. Which of these two currencies you want to buy or sell. For example, Brazilian real.
3. The amount you will buy or sell. The minimum amount is EUR 100,000 (or its equivalent in foreign currency).
4. On which date you will buy or sell this currency ("expiry date"). The time between the closing of the Non Deliverable Forward and this date is called the "term". There is no minimum term. The maximum term will depend on which currency pair you choose among other factors.
5. What exchange rate you want ("forward rate").
6. Which exchange rate the forward rate is compared with ("reference rate").
7. Whether the difference is offset in euros or dollars.

Benefits of Non Deliverable Forwards

- You achieve more certainty about the costs or income from transactions in a non-convertible currency.
- You are protected against an unfavourable price movement, for the agreed amount and the agreed term.

Disadvantages and risks of Non Deliverable Forwards

- When setting up a Non Deliverable Forward, you are making a commitment. The bank will offset the difference between the forward rate and the reference rate. Even when it is unfavourable for you.
- The local bank exchange rate may differ from the reference rate. This may affect your final outcome.
- You cannot terminate a Non Deliverable Forward, only "unwind" it. That may cost you a lot of money.

What does a Non Deliverable Forward cost?

For signing a Non Deliverable Forward, you do not pay any premium to the bank. The bank's profit is included in the forward rate.

What if you want to terminate the Non Deliverable Forward prematurely?

It is not possible to terminate the agreement during its term. You can "unwind" the Non Deliverable Forward. To do this, you set up another Non Deliverable Forward, but in the opposite direction. With the same amounts, currency and expiry date, only with a new forward rate. That forward rate will include a fee for the bank. On the expiry date, the bank compares both forward rates with the reference rate and offsets the difference to you.

Managing your liquidity positions in (foreign) currencies

Foreign exchange swaps

A Foreign exchange swap allows you to exchange foreign currencies temporarily with the bank. This allows you to smooth shortfalls and surpluses on your accounts. Which improves your interest costs.

Is a Foreign exchange swap right for you?

A Foreign exchange swap may be of interest to you in the following situation:

- you have a temporary shortfall in a particular currency;
- you want to avoid paying interest on a negative balance;
- in addition, you have a temporary surplus in another currency, but
- you expect that you will need this surplus at a later date.
- or: you want to shift the date of a previously agreed Forward foreign exchange transaction.

How does a Foreign exchange swap work?

'Swap' basically means 'exchange'. With a Foreign exchange swap, you are exchanging different currencies with the bank for an agreed period of time. So you agree to buy (or sell) a certain amount of currency from or to the bank, and sell (or buy back) the same amount to or from the bank at a later date. At predefined exchange rates.

Let's assume you have a temporary shortfall in dollars. And a surplus of euro. But: you expect that you will need those euros at a later date. In that case, by using a Foreign exchange swap, you can cover the temporary lack of dollars, by temporarily exchanging euro for dollars. This will prevent you from paying a lot of interest on a negative balance on your dollar account.

Please note that by signing a Foreign exchange swap you will be taking on a commitment. On the agreed date you must buy or sell the agreed amount of foreign exchange at the agreed exchange rate. Even if the contract with your overseas supplier or customer falls through unexpectedly.

FX Roll

The FX Roll is a variant of an FX Swap. The FX Roll allows you to extend or shorten the settlements date of an open FX Forward position. Like an FX Swap, an FX Roll has two underlying transactions that are executed simultaneously. One transaction to reverse the previously executed FX forward transaction on the original settlements date and one transaction to realize settlement on the new desired date. This product is particularly suited for managing settlement risk if there is a delay in incoming cashflows or if you need to pay earlier than anticipated. FX Roll transactions can be applied to open FX Forward contracts and are only available via the Franx platform. Within the Franx platform the trade you want to change the settlement date for can be selected. Franx will display the real-time rates that are applicable for the new settlement date.

An example if you are receiving foreign currency

In your Foreign Currency Account, you have a temporary shortfall of USD 100,000. For example, because of a late payment. On your current account, you have a surplus of € 100,000. Because you do not want to pay interest on a negative balance in your Foreign Currency Account, you decide to set up a Foreign exchange swap.

Your Foreign exchange swap

- A spot transaction: you purchase USD 100,000 at a spot price of EUR/USD 1.2010 (= € 83,264).
- A Forward foreign exchange transaction: you sell USD 100,000 in two months' time, at a forward rate of EUR/USD 1.2030 (= € 83,126).

Please also read the information about these products

To properly understand Foreign exchange swaps, it is important that you understand how a spot transaction and a Forward foreign exchange transaction work. Not yet familiar with these? Then read the information about these products first.

An example when you need to pay foreign currency

In your Foreign Currency Account, you have a temporary surplus of USD 250,000. For example, because of a deferred payment. On your current account, you have a shortfall of € 200,000. Because you do not wish to pay interest by overdrawing your current account, you choose to set up a Foreign exchange swap.

Your Foreign exchange swap

- A spot transaction: you sell USD 250,000 at the market rate of EUR/USD 1.1960 (= € 209,030).
- A Forward foreign exchange transaction: you buy USD 250,000 in two months' time, at a forward rate of EUR/USD 1.1980 (= € 208,681).

What have you agreed with ABN AMRO?

A Foreign exchange swap consists of two transactions: a spot transaction and a Forward foreign exchange transaction. You conclude an agreement for this with ABN AMRO, in which we agree:

1. Which currency pair is involved.
2. The amount involved. For a common currency there is no minimum or maximum amount.
3. Which of these two currencies you want to buy (or sell) right now. Good to know: this is a spot transaction. So it is processed at the market rate.
4. On what date you will resell the currency (or repurchase it). This is the value date of the Forward foreign exchange transaction.
5. At what exchange rate you will resell the currency (or repurchase it). This is the forward rate.

Benefits of the Forward foreign exchange swap

- You want to avoid paying unnecessary high interest charges on a negative balance.
- You can use a Foreign exchange swap to change the date of a Forward foreign exchange transaction.

Disadvantages and risks of the Foreign exchange swap

- You have a commitment to buy or sell. Even when the agreed rate is unfavourable to you. Or if the contract with a foreign business partner for which you originally set up the Forward foreign exchange transaction unexpectedly falls through.
- A Foreign exchange swap cannot be terminated, just "unwound". That may cost you a lot of money.

Align your Foreign exchange swap to your specific needs

A normal Foreign exchange swap consists of a spot transaction and a Forward foreign exchange transaction. But you can choose another product instead of the Forward foreign exchange transaction. For example, would you like some certainty, but also be able to benefit from a favourable movement in the exchange rate? Then you can combine a spot transaction with a Forward Extra. But there are also other options. Your FX Sales Adviser can tell you more about them.

What does a Foreign exchange swap cost?

You do not pay the bank a premium for setting up a Foreign exchange swap. The bank's fee is included in the spot rate for the spot transaction and in the forward rate for the Forward foreign exchange transaction.

What if you want to terminate the Foreign exchange swap prematurely?

It is not possible to terminate the agreement during its term. What you can do is to "unwind" the Forward foreign exchange transaction within the Foreign exchange swap. That unwinding process works like this: you set up another Forward foreign exchange transaction, but in the opposite direction. With the same amounts and currencies, but at a new forward rate. That forward rate will include a fee for the bank. Both transactions are executed on the agreed value date.

For an example of "unwinding", see the product information about Forward foreign exchange transactions.

Potentially increase your interest revenue

Potentially increase your interest revenue

Do you have temporary surplus liquidity in a particular currency? Could you manage without that cash for a certain period of time? Then you can place an amount on deposit, for an agreed period and at a fixed rate. Would you like to earn a higher interest rate on your surplus liquidity? Then ABN AMRO offers you the opportunity to place your excess liquidity in a “structured foreign exchange deposit”.

In this chapter you can find out more about the Dual Currency Deposit offered by ABN AMRO. How does it work, what are the benefits, disadvantages and risks?

Do not use to hedge foreign exchange risks

Structured currency deposits can be used when you have surplus liquidity. These products are not intended for, and are not suitable for, hedging foreign exchange risks.

No Deposit¬ Guarantee Scheme

Unlike regular deposits, structured foreign exchange deposits – such as the Dual Currency Deposit in this chapter – are not covered under the Deposit Guarantee Scheme.

Understand and accept the risks

Whether a structured currency deposit works out favourably for you, depends to a large extent on how the market rate moves. Only set up a structured currency deposit if you clearly understand, and accept, the risks it involves.

Potentially higher interest in exchange for additional risk

With the structured currency deposit described in this chapter, you have the opportunity of receiving a higher interest rate than for a regular deposit. In return for that, you accept an additional risk. Because unlike a regular deposit account, in a structured currency deposit your interest rate depends on the market exchange rate. If the market rate is as you expect, you will receive a better result than with a regular deposit. But: what if the rate differs from what you were expecting? Then that will affect your result negatively. Your result may end up being lower than for a regular deposit.

The money is tied up until the end date

The amount you place in a (structured) deposit remains locked in until the end date. You cannot withdraw it before the end date. Need the money in the meantime? Or would you like to have flexible access to it? Then a (structured) deposit is not the right choice.

Dual Currency Deposits

You can temporarily place your excess liquidity in a given currency on deposit in a Dual Currency Deposit or "DCD", at a higher rate. In return for this higher interest, ABN AMRO may pay you back in a different currency at an agreed rate.

Is a Dual Currency Deposit useful for you?

A Dual Currency Deposit account may be of interest to you in the following situation:

- for a period of two weeks or more you have surplus liquidity in a particular currency, and you would like to receive higher interest on this than you can get from a regular deposit;
- you have a clear expectation of how the exchange rate will move, and
- if the rate does behave differently than you expect, you accept that the bank may repay you in another currency.

Your money is locked in until the end date

Useful to realise when making a Dual Currency Deposit: the money you put into a Dual Currency Deposit can never be withdrawn before the end date. Even if you need it in the interim.

How does a Dual Currency Deposit work?

Let's assume you have a temporary surplus of US dollars. Then you can place your dollar surplus in a Dual Currency Deposit. You will receive a higher interest rate than you would receive on a regular deposit. In exchange for that higher interest, you give ABN AMRO the right to repay you the deposited amount in another currency (e.g. euros) on the end date. You also agree what exchange rate the bank may use for this ("conversion rate"). If, at the expiry time, the conversion rate is equal to the market rate or less favourable to you than the market rate, then the bank will pay you back in the other currency, applying the conversion rate. The interest is paid to you in the original currency.

Eligible currency pairs

With a Dual Currency Deposit, you select yourself in which other currency the bank can reimburse you. A currency in which you frequently do business is a suitable one for this. Because you can use that currency at some point in the future.

Expiration time: two business days before the end date

Two business days before the end date of the deposit, at 10:00 am New York time, the bank will decide which currency it will use to repay you. This is called the "expiry time". For most of the year, 10:00 am in New York is 4:00 pm in Dutch time.

An example, if you have surplus liquidity in dollars

You have surplus liquidity of USD 250,000 in your Foreign Currency Account for a period of three months. You would like to put your dollars on deposit, but at a better interest rate than you would receive on a regular dollar deposit. You opt for a Dual Currency Deposit. In exchange for a higher interest rate, you accept the risk that you may be repaid in euros. You are expecting the value of the dollar to rise. There are two possible situations at the expiry time:

Your Dual Currency Deposit

- Amount: USD 250,000
- Term: 3 months
- Standard dollar deposit interest: 1.10% annually
- DCD interest: 3.15% annually
- Current forward rate: EUR/USD 1.2095
- Conversion rate: EUR/USD 1.1800

Situation	Market rate	Result
1 The value of the dollar decreases. At the expiry time, the market rate is **higher** than the conversion rate.	EUR/USD 1.2100	The bank will not exercise its right to repay you in euros. On the expiry date, the bank will pay you back **in dollars**. You will receive USD 250,000. In addition, you will receive an interest payment of USD 1,969 (= 90/360 x 3.15% x 250,000). You **benefit** from the higher interest rate on your Dual Currency Deposit.
2 The value of the dollar increases. At the expiry time, the market rate is **lower** than the conversion rate.	EUR/USD 1.1600 USD 250,000 = € 215,517 Conversion rate: EUR/USD 1.1800 USD 250,000 = € 211,864	This time, the bank will exercise its right to repay you in euros. On the expiry date, the bank will pay you back **in euros**. You receive € 211,864. In addition, you will receive the interest payment of USD 1,969. The bank pays you back in euros at the conversion rate, which is unfavourable for you. You **do not benefit** from the lower conversion rate on your Dual Currency Deposit.

What do you agree with ABN AMRO?

When setting up a Dual Currency Deposit, you conclude an agreement with ABN AMRO, in which we agree:

1. In which currency you will deposit an amount.
2. The amount of money that you are depositing. The minimum amount is € 50,000 (or its equivalent in foreign currency).
3. The date until which you will deposit this amount ("end date"). The minimum term is two weeks.
4. In which currency the bank may repay you.
5. What exchange rate the bank may use for this ("conversion rate").
6. How much interest you will receive. This is an annualised interest rate. For a half year period, you will receive half of the annual interest.

Benefits of a Dual Currency Deposit

- You receive more interest than for a regular deposit.

Include a threshold rate in a Dual Currency Deposit

You agree a conversion rate with the bank for your Dual Currency Deposit. This is the exchange rate the bank may use to refund you in the other currency. In addition to the conversion rate, you can also include a "threshold rate" in a Dual Currency Deposit. Then the bank will only be able to repay you in the other currency if the market rate reaches or passes the threshold rate. If the threshold rate has not been reached, then you will be repaid in the original currency. This gives you better protection against the risk of being repaid in the other currency. However, the conversion rate will be worse than the conversion rate for a Dual Currency Deposit without a threshold rate.

An example:
You deposit USD 250,000 in a Dual Currency Deposit (European variant). You agree with the bank that they may repay in euro at a conversion rate of EUR/USD 1.1900. In addition, you agree a threshold rate of EUR/USD 1.1700. The bank may then only repay you in Euros (at the conversion rate of EUR/USD 1.1900) if the market rate at the expiry time has reached or passed 1.1700 EUR/USD.

Disadvantages and risks of a Dual Currency Deposit

- Your money is locked in for the entire term. You cannot use it, even if you need it.
- If, at the expiry time, the conversion rate is less favourable to you than the market rate (or equals the market rate), the bank will pay you back in the other currency. Using the unfavourable conversion rate. That can cost you a lot of money.
- What if the bank pays you back in the other currency and you actually need the original currency at that time? Then you need to buy it yourself at a market rate that is not favourable to you at that time.

How much interest will you receive?

You receive more interest than for a regular deposit. Exactly how high the interest rates are depends, amongst other things, on the level of interest rates for deposits. But it also depends on the volatility of the foreign exchange market, the conversion rate, the amount you deposit, and the term. In addition: in the case of a volatile market, a longer term or a worse conversion rate for you, the interest rates will be higher. Please note: with higher interest rates, you are also more likely to be repaid in the other currency.

What does a Dual Currency Deposit cost?

The conversion rate for a Dual Currency Deposit is defined by a Foreign exchange option that you sell to the bank. Normally you would receive in return a premium for this from the bank. With a Dual Currency Deposit this does not happen. The bank retains part of this premium as its fee. The other part is applied to offering you the higher interest rate.

What if you want to terminate the Dual Currency Deposit early?

It is not possible to terminate a Dual Currency Deposit before its end date or to transfer to another party. You will also not be able to transfer the amount you have deposited to another account.