

Currency Par Forward

Currency Par Forward is a financial derivative, by means of which it is possible to ensure the current rate for the series of currency forwards with different settlement dates, but of the same currency pair, whereby the exchange rate will be the same for all the forward transactions and the settlement of transactions will take place in the future as of the specified date.

When should Currency Par Forward be utilised:

The client already knows that in cca. a month s/he will need to pay the invoice in the amount of EUR 100,000, in cca. two months the second invoice in the amount of EUR 60,000 and in cca. three month the third invoice in the amount of EUR 10,000. Because s/he seeks to avoid any exchange fluctuations in the future, s/he secures the current rate by means of the future settlement of all of these three invoices.

a) Arrangement of a Currency Par Forward – e.g. the client is purchasing EUR and selling CZK

The date of the arrangement of the Currency Par Forward 1.9.2014
The number of forward transactions implemented within the Currency Par Forward 3

Forward	FWD value	Exchange rate	FWD value	Date of the settlement
Forward No. 1	EUR 100,000	27.50 CZK per EUR	CZK 2,750,000	1.10.2014
Forward No. 2	EUR 60,000	27.50 CZK per EUR	CZK 1,650,000	1.11.2014
Forward No. 3	EUR 10,000	27.50 CZK per EUR	CZK 275,000	1.12.2014

The total value of the Currency Par Forward (in CZK) CZK 4,675,000
The amount of the deposit of 5% as of 1.9.2014 CZK 233,750 (CZK 4,675,000 x 0.05)

b) Settlement of a Currency Par Forward in the amount of EUR 100,000 as of the date of the settlement

Forward	FWD value	Exchange rate	FWD value	Date of the settlement
Forward No. 1	EUR 100,000	27.50 CZK per EUR	CZK 2,750,000	1.10.2014

(The current exchange rate: 28.00 CZK per EUR)

The amount of the deposit of 5% as of 1.9.2014 CZK 137,500 (CZK 2,750,000 x 0.05)

The client transfers to Citfin CZK 2,612,500

(i.e. CZK 2,750,000 as the value of the Currency Par Forward - the deposit of CZK 137,500)

Citfin transfers to the client EUR 100,000

c) Settlement of the Currency Par Forward prior to the agreed date of the settlement

Forward	FWD value	Exchange rate	FWD value	Date of the settlement
Forward No. 2	EUR 60,000	27.50 CZK per EUR	CZK 1,650,000	1.11.2014

The client wishes to settle Currency Par Forward No. 2 on 20.10.2014

SWAP

Exchange No. 1 the client is selling EUR 60,000; exchange rate EUR/CZK 27.50 as of 1.11.2014

Exchange No. 2 the client is purchasing EUR 60,000; exchange rate EUR/CZK 27.505 as of 20.10.2014

The difference between the originally secured rate of CZK 27.50 per EUR and the currently traded rate of CZK 27.505 per EUR is defined in terms of PIP points, which constitute an integral feature of the calculation of the forward exchange rate, by taking into account the time value of EUR as of 1.11.2014 and as of 20.10.2014.

The difference between the current and the original value of the transaction = 1,650,300 – 1,650,000 = CZK 300

The client transfers to Citfin CZK 1,567,800

(CZK 1,650,000, i.e. the original value of the Currency Par Forward with a window - the deposit of CZK 82,500)

Citfin transfers to the client EUR 60,000

d) Settlement of the Currency Par Forward using a SWAP

If the settlement date of the Currency Par Forward occurs and the client does not wish to or is unable to settle this forward transaction on the due date of 1.12.2014, s/he arranges a SWAP, whereby the client "shifts" the liability arising from the Currency Par Forward to a future date.

Forward	FWD value	Exchange rate	FWD value	Date of the settlement
Forward No. 3	EUR 10,000	27.50 CZK per EUR	CZK 275,000	1.12.2014

SWAP

The current exchange rate CZK 28.00 per EUR

Exchange No. 1 the client is selling EUR 10,000; exchange rate EUR/CZK 28.00 as of 1.12.2014

Exchange No. 2 the client is purchasing EUR 10,000; exchange rate EUR/CZK 28.02 as of 1.1.2015

The difference between the originally secured rate of CZK 27.50 per EUR and the current swap rate of CZK 28.00 per EUR is an exchange difference, by means of which the client is able to increase the rate and that, at the same time, also represents a deposit.

The difference between the current rate of CZK 28.00 per EUR and the future rate of CZK 28.02 per EUR is defined in terms of PIP points, which constitute an integral feature of the calculation of the forward exchange rate, by taking into account the time value of EUR as of 1.12.2014 and as of 1.1.2015.

The original value of the forward = 27.50 x 10,000 = CZK 275,000

The current value of the forward = 28.00 x 10,000 = CZK 280,000

The difference between these values = 280,000 – 275,000 = CZK 5,000

The original deposit implemented by the client = CZK 13,750

The current value of the deposit following the SWAP = CZK 18,750

The balance of the deposit = CZK 5,000

Calculation of the Deposit

Citfin requires a 5% deposit on forward transactions, which the client transfers upon the completion of the arranging of these transactions. In the event that the exchange rate were to fluctuate significantly within the duration of the forward transaction to the detriment of an open position and should its securing by the deposit fall below 2.5%, Citfin may ask the client to replenish the deposit to a level of 5%.

The client is purchasing EUR using CZK

The date of the forward transaction	1.9.2014
The exchange rate	CZK 27.50 per EUR
The value of the forward transaction (in EUR)	EUR 100,000
The value of the forward transaction (in CZK)	CZK 2,750,000
The amount of the deposit (5%)	CZK 137,500
The date of the settlement of the forward transaction	1.10.2014

CZK strengthens over the duration of the forward transaction

The current date	15.9.2014
The current exchange rate	CZK 26.80 per EUR
The current deposit	CZK137,500 (2,750,000 x 0.05)
The original value of the forward transaction	CZK 2,750,000 (EUR 100,000 x EUR/CZK 27.50)
The current value of the forward transaction	CZK 2,680,000 (EUR 100,000 x EUR/CZK 26.80)
Potential profit/loss	CZK -70,000 (CZK 2,750,000 - CZK 2,680,000)

Current securing of the forward transaction in CZK **CZK 67,500**
(the deposit of CZK 137,500 – CZK 70,000 for potential loss)

Current securing of the forward transaction in % **2.45%**
(current securing of CZK 67,500/CZK 2,750,000 of the original value x 100)

How much should the deposit at Citfin amount to **CZK 207,500**
(a 5% deposit of CZK 137,500 + CZK 70,000 for potential loss)

It is necessary to replenish the deposit in the amount of **CZK 70,000**
(the requisite amount of the deposit of CZK 207,500 – CZK 137,500 of the current deposit)

In the event that the crown should subsequently return to a weaker level, Citfin will return the replenished amount of the deposit to the client.