

Currency Swap

A Currency Swap is a financial derivative that addresses a shortage of funds in one currency while there is a surplus in another currency.

When should Currency Swap be utilised:

The client currently has a surplus of EUR while at the same time also a shortage of CZK and s/he already knows that in a month s/he will have an excess of CZK and a lack of EUR.

Arrangement of a Currency Swap

The date of the arrangement of the Currency Swap	1.9.2014
The date of the settlement of the Currency Swap	1.10.2014
The value of the Currency Swap in EUR	EUR 100,000
The value of the Currency Swap in CZK	CZK 2,750,000
The exchange rate	CZK 27.50 per EUR
The amount of the deposit of 5% as of 1.9.2014	CZK 137,500 (CZK 2,750,000 x 0.05)

a) Exchange No. 1 as of 1.9.2014

The client is selling EUR and purchasing CZK at an exchange rate of 27.50 CZK per EUR

The client transfers to Citfin	EUR 100,000
Citfin transfers to the client	CZK 2,750,000
The client transfers a 5% deposit in the amount of	CZK 137,500

b) Exchange No. 2 as of 1.10.2014

The client is selling CZK and purchasing EUR at an exchange rate of 27.52 CZK per EUR

The client transfers to Citfin	CZK 2,752,000
Citfin transfers to the client	EUR 100,000
Citfin transfers to the client a 5% deposit in the amount of	CZK 137,500

The difference between the originally secured rate of CZK 27.50 per EUR and the currently traded rate of CZK 27.52 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 1.9.2014 and as of 1.10.2014.

On the date of the conclusion of Currency Swap, i.e. on 1.9.2014, the client arranges both the two exchanges and all the four settlements with the dealer. Settlement No. 1 will actually take place on 1.9.2014, while Settlement No. 2 will actually take place on 1.10.2014. As a result, this means that the client is implementing an exchange transaction today, including its settlement, and today s/he will already secure the exchange rate at which the mirror exchange, including its settlement, will subsequently take place in the future.

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.