CYRRUS currency hedging

CONDITIONS FOR PROVIDING CURRENCY WARRANTS

Keep your currency risk under control

As the currency of a small, open economy, the Czech koruna is, and will remain in the foreseeable future, one of the currencies most susceptible to fluctuations in times of uncertainty. We saw this both during the Covid pandemic and as a result of the war in Ukraine. The exchange rate of the domestic currency will continue to be affected by global influences and the sentiments of major foreign investors.

If you don't want to bear the risk of koruna fluctuations, which are often associated with the fickle mood of global investors, take advantage of our currency hedging.

FX WARRANT

An FX warrant is an attractive and convenient solution for clients who want to limit the impact of adverse currency market developments on their transactions.

With an FX warrant, you won't be **caught off guard** by market developments

- This is a type of financial instrument whose underlying asset is **a currency pair.**
- An FX warrant provides coverage in the form of financial performance in the event of a negative development of the selected currency pair corresponding to the amount of this negative development.
- This service allows the client to benefit from changes in currency rates **without having to physically own the currencies.**
- Its advantage over a normal currency hedging instrument is that **you don't have to exchange the currency at the end of the fixed period** if the current market value of the exchange rate is more favourable than the fixed value.

Example of a currency swap

The client has to pay for an assembly order in five years, and because he signed the contract today, he knows that he will pay EUR 100,000 in two years, but because he produces and delivers his products in the Czech Republic, his revenue is in CZK. To avoid an exchange rate loss due to adverse market movements in the future payment, he decides to fix the exchange rate with an FX warrant.

1 → The client expresses his interest in fixing and asks for an approximate price of **an FX warrant** in the amount of EUR 100,000 for five years.

2 → CYRRUS tells the client the amount of the warrant premium is ~2% of the fixed amount. The warrant premium is the client's fixing cost.

3 → The client sends a warrant premium of EUR 2,000 to CYRRUS.

Comparison of currency hedging in the form of a warrant

PARAMETER	FX WARRANT	FX FORWARD
Price	Warrant premium	Forward points
Collateral	None	5 %
Settlement	Conditional (in the form of a coupon)	At the agreed rate
Length of fixation	Up to five years	Up to three years
Impact on cash flow	None	Option to top up collateral for the duration of the open position
Hedging	Negative margin	Specific exchange rate
Minimum volume	EUR 100,000	EUR 10,000
Exchange rate loss	No	Limited by agreed FWD rate
Exchange rate gain	Yes, no limit	Limited by agreed FWD rate

validity from 1 February 2024

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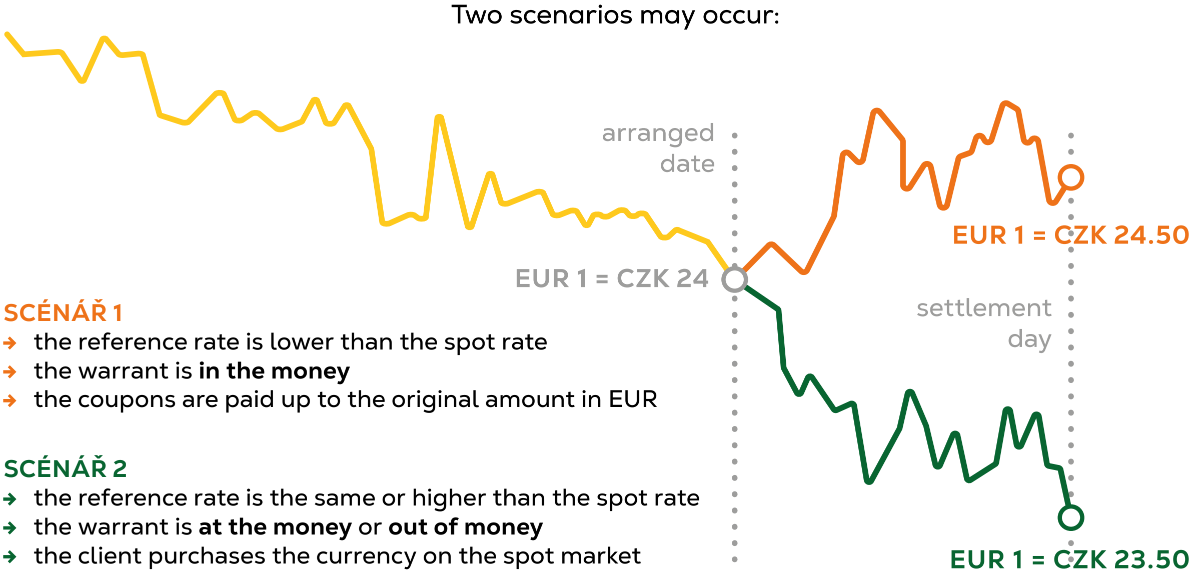
The trade will be settled on the preset day.
Two scenarios may occur:



SCÉNÁŘ 1
- the reference rate is lower than the spot rate
- the warrant is **in the money**
- the coupons are paid up to the original amount in EUR

SCÉNÁŘ 2
- the reference rate is the same or higher than the spot rate
- the warrant is **at the money** or **out of money**
- the client purchases the currency on the spot market

4

The client makes the order to fix the exchange rate, CYRRUS begins to fulfil this order.

5

After the exchange rate is fixed, CYRRUS informs the client that the fixed exchange rate is EUR 1 = CZK 24.3.

6

The FX warrant is delivered to the client's asset account with CYRRUS in the form of securities.

Exchange. CYRRUS

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