Foreign exchange transactions

The foreign exchange market is one of the largest and fastest growing markets. In economic terms, the foreign exchange market can be considered an efficient market, as it combines organised, liquid and multi-actor characteristics with 24-hour opening, the immediate impact on exchange rates of changes in supply and demand reflecting political or macroeconomic news, and the possibility to trade in a large number of currency pairs. By its nature, the foreign exchange market is volatile and therefore risky.

1. To whom do we recommend Foreign Exchange Transactions?

- those who wish to convert their available foreign currency into another currency pair at a future date at a predetermined exchange rate.
- those who wish to buy or sell foreign currency at a future date without leverage.

2. Product parameters, definitions

Market	Foreign currency transactions are executed on the OTC market.
Base Currency	The base currency whose value is expressed in the other currency (also known as the Quote Currency). The first element of the currency pair denotes the Base. For example, if EUR/HUF=300, the Base Currency is the
Expiry	Foreign Exchange Transactions refer to a future date, the third or fourth business day after the order is placed (T+3/T+4).
Exchange rate quotation	The Bid price is the price at which the Market Maker is willing to buy the given currency pair from the investor and the Offer or Ask price is the price at which the Market Maker is willing to sell the given currency pair to the investor. The price is determined on the basis of the spot market and the interest rate for the future date.
Bid-ask spread	The difference between the bid and ask price of a foreign currency.
Operation	When an order is placed for a foreign exchange transaction, the exchange rate to be used within the transaction (see point 4), the amount of foreign exchange and the specific date by which the transaction will be executed are specified. When the order is placed, the amount of foreign currency corresponding to the limit amount of the order is pledged as collateral. If the total amount is not available, no FX Transaction can be concluded.

3. Risk factors

Under a Foreign Exchange Transaction, a transaction is concluded at a future date at the exchange rate determined at the time the order is placed. It may happen that at the time of execution the spot market price of the foreign currency would be more favourable to the Customer than the price specified in the order, but in this case the transaction will still be executed at the pre-fixed exchange rate.

4. Determination of the forward price in a Foreign Exchange Transaction

$$F = S_0 \times \frac{(1+r_1)^t}{(1+r_2)^t}$$

where

F- Forward Rate

S_0 - Spot Rate at the time of the transaction. For example, for a EUR/HUF currency pair, HUF is the Alternative Currency and EUR is the Base Currency.

r_1- is the interest rate of the Alternative Currency for the relevant maturity. To buy a currency pair means to sell the Alternative currency and in this case the borrowing rate of the Alternative currency is used, otherwise the deposit rate is used.

r_2- is the interest rate of the Base Currency for the relevant maturity. To buy a currency pair means to purchase the Base currency and in this case the deposit rate of the Base currency is used, otherwise the borrowing rate is used.

For example, buying a EURHUF forward means buying EUR for a HUF loan. In this case, we can calculate the forward price from the spot price by taking into account the euro deposit rate and the HUF borrowing rate. Selling EURHUF forward is the opposite of the above transaction, i.e. we have a euro loan and a forint deposit. So, we can calculate the forward price from the euro borrowing rate and the forint deposit rate knowing the spot price.

t- the maturity of the forward, in this case 3 or 4 working days from the date of the order

5. Tax information

Foreign Exchange Transactions are taxed in accordance with the provisions of Act CXVII of 1995 on Personal Income Tax (Personal Income Tax Act).

The tax information is not exhaustive. Before making your decision, please check out the information in detail on the tax treatment of controlled capital market transactions, the legal conditions for a long-term investment account (TBSZ) and other taxation issues (including if the transaction is not concluded through an investment service provider) and consult your tax adviser as the tax conditions and the choice of the TBSZ scheme can only be assessed on the basis of the investor's individual circumstances. Tax laws and their interpretation may change and Erste Befektetési Zrt. cannot be held liable for the consequences thereof.

*The information contained in this document is not exhaustive and does not constitute an offer, invitation or solicitation to bid, investment advice, recommendation or tax advice. It is intended solely to provide investors with certain specific information about the Foreign Exchange Transactions to assist them in obtaining sufficient information about this form of investment prior to entering into a transaction. Further information on the Foreign Exchange Transactions is also contained in our **Terms and Conditions of Business**, which are available on the website of Erste Befektetési Zrt. (www.ersteinvestment.hu). Please contact our staff and they are happy to help you if you need further information on this Product in addition to the above in order to make a prudent investment decision. Before making your investment decision, you should also carefully consider the object of your investment, its risks, its charges, the fees and expenses associated with the keeping of your account and the potential losses that may arise from your investment and familiarise yourself with the risks associated with Forex Transactions, which may be different from the risks of the instruments underlying the product, and about which information is provided in this document as well.*