PRODUCT INFORMATION

FORWARD RATE AGREEMENT TRANSACTIONS

OTP BANK PLC. GLOBAL MARKETS DIRECTORATE

5 May 2020

Please read this Product Information carefully before concluding a contract for forward rate agreement transactions. Should you have any questions, please do not hesitate to contact our staff.

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1. Description of forward rate agreement transactions

A forward rate agreement transaction (FRA) is an agreement between the customer and OTP Bank Plc. (hereinafter: Bank) to settle interest amounts calculated in a pre-determined manner against a future reference interest rate, based on the notional value of the transaction, at a future date. The transaction is a complex, derivate financial transaction between the Bank and the customer outside the regulated market (OTC).

Features

- Minimum contract amount is HUF 300 million or its foreign currency equivalent.
- The transaction is for settlement against a reference interest rate (e.g. 3-month BUBOR or 6-month EURIBOR).
- The term of the transaction is 1 month to 2 years.
- In the forward rate agreement, the two counterparties settle their obligations in net terms.

Typical clientele

- Forward rate agreements for hedging purposes can provide efficient help to manage interest rate, credit, and liquidity risks in mitigating—and possibly eliminating—potential losses from unfavourable shifts in interest rates.
- Forward rate agreements for speculative purposes are typically concluded by investors who have a clear expectation of the future development in the yield curve.

2. Risks of forward rate agreements

Market value of the product

All forward rate agreement positions have a market value. The price of the FRA is determined by the evolution of the forward interest rates, their volatility, and the term to maturity. The higher the fluctuation (volatility) of the underlying interest rates, the riskier the investment.

Impact on balance sheet

As the market value of the forward rate agreement depends on the evolution of forward interest rates, the market value of the transaction can change continuously during the term. It is possible that the customer will recognise a highly negative market value on his balance sheet during the term of the transaction. In addition, the closing of the position before expiry may result in a significant loss for the customer. While the profit achievable on the product is limited, the extent of potential loss is unlimited.

Additional leverage

The product is leveraged. The customer does not need to provide the total principal amount in order to enter into a forward rate agreement; it is enough to deposit a pre-determined percentage of the transaction value as collateral. Market movements unfavourable for the customer can exert additional leverage, potentially leading to significant losses.

Additional cost of capital, collateralisation

The Bank applies limits and requests the customer to post collateral against the risks associated with the forward rate agreement. The Bank requires collateral for the forward rate agreement based on the current fair market value of the transaction. The customer is required to post collateral in the form (cash or security collateral) and in the currency specified by the Bank. Normally, the collateral requirement of the instrument is a pre-determined percentage of the nominal value of the FRA, which may be modified by the Bank unilaterally. In case of interest rate or price movements that are unfavourable for the customer, the Bank may require additional margin.

Upon the Bank's call, the customer is required to provide the additional margin in accordance with the contractual terms, and any resulting losses—which could be substantial—will be borne exclusively by the customer. The Bank determines the additional margin requirement of the forward rate agreement based on the current fair market value of the FRA transaction. The collateral may be released as soon as the reason for the blocking of the collateral ceases to exist.

Possibility of the unilateral liquidation of the position

If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer. Liquidation costs, potential capital losses, and the consequences of the failure of liquidation shall be borne exclusively by the customer.

Settlement obligation

In accordance with the contractual terms, on the transaction settlement date the customer has an obligation to settle the difference between the price of the forward rate agreement and the underlying settlement price in net terms based on the Bank's calculations. If the customer's liabilities arising from the FRA are higher than the receivables, the customer will sustain a loss on the transaction.

3. Example of a forward rate agreement

Two starting points – One transaction

- To finance his current assets, the customer takes out a variable interest EUR loan with a 6-month term in 3 months, with the annual interest rate of the 6-month Euribor applicable in 3 months + 50 bp. To eliminate the risk arising from the fluctuations in the reference EUR interest rate, the customer wishes to fix the interest rate of the loan.
- The customer expects the 6-month Euribor to increase over the next 3 months.

In both cases, the customer purchases 3*9 FRA transactions.

PARAMETERS OF THE FORWARD RATE AGREEMENT	
Type	Forward Rate Agreement
Term	3 months
Notional	EUR 5 million
Direction of the transaction (for the customer)	Buy
Customer pays	Fixed interest rate of the FRA
Customer receives	Reference interest rate (6-month Euribor)
Fixed interest rate of the FRA	0.15%
Reference interest rate value at the time of entering into transaction	0.10% (Bloomberg: EUR006M Index):
Settlement of the transaction	end of 3rd month

The product is presented according to different 6-month Euribor scenarios:

1. The 6-month Euribor increases during the term.
2. The 6-month Euribor decreases during the term.

If the customer purchases a FRA with a maturity of three months, it pays a fixed interest in the FRA, in exchange for which it receives a variable interest, i.e. in the case of an increase in the reference interest rate the customer could realise a profit when closing the position. Likewise, if the reference interest rate drops, the customer could incur a loss.

1. 6-month Euribor increases

Increasing reference interest rate

6-month Euribor when entering into the transaction: 0.10%
6-month Euribor at the end of the 3^{rd} month: 0.50%

- **Example for settlement of FRA on maturity:**

Fixed interest rate of the FRA: 0.15%

EUR 5 mil*((0.50%-0.15%)*(180/360)) / (1+0.50%*(180/360))= EUR 8,728

On maturity, that is upon the net settlement at the end of the 3^{rd} month, the customer gets EUR 8,728 from the Bank.

- **Example for settlement of FRA at the end of 2nd month:**

In the case of closure before maturity, the customer enters into a liquidation transaction during the term. For example, if liquidation takes place at the end of the 2^{nd} month, when the net present value of the FRA is EUR 6,018, the customer gets EUR 6,018 from the Bank on the second working day following the liquidation.

- **Example for collateralisation requirement:**

Global Markets customers of the Bank are required to post collateral in order to take forward rate agreements against the Bank; in other words, they must provide sufficient collateral for meeting the initial collateral requirement upon the conclusion of the contract. The initial collateral requirement means the possible loss arising from interest rate and price movements during the period deemed critical by the Bank, which may change during the term of the contract in response to changes in market conditions.

For instance, if the original collateral requirement of the product is 10 per cent of the notional value, the collateral requirement upon the conclusion of the contract (initial margin) will be:
EUR 5,000,000 * 0.1 = EUR 500,000.

The customer will have to provide additional collateral if, due to unfavourable shifts in market prices, the collateral requirement of the customers' transactions that cannot be covered by the pledged collateral exceeds the maximum acceptable limit. In case of price movements unfavourable for the customer, the Bank may require additional margin based on the current fair market value of the forward rate agreement, which could increase the collateral requirement significantly. If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer.

2. 6-month Euribor decreases

Decreasing reference interest rate

6-month Euribor when entering into the transaction: 0.10%
6-month Euribor at the end of the 3rd month: -0.30%

- **Example for settlement of FRA on maturity:**

Fixed interest rate of the FRA: 0.15%

EUR 5 mil*((-0.30%-0.15%)*(180/360)) / (1+(-0.30%)*(180/360)) =
EUR –11,267

On maturity, that is upon the net settlement at the end of the 3rd month, the customer pays EUR 11,267 to the Bank.

- **Example for collateralisation requirement:**

Global Markets customers of the Bank are required to post collateral in order to take forward rate agreements against the Bank; in other words, they must provide sufficient collateral for meeting the initial collateral requirement upon the conclusion of the contract. The initial collateral requirement means the possible loss arising from interest rate and price movements during the period deemed critical by the Bank, which may change during the term of the contract in response to changes in market conditions.

For instance, if the original collateral requirement of the product is 10 per cent of the notional value, the collateral requirement upon the conclusion of the contract (initial margin) will be:
EUR 5,000,000 * 0.1 = EUR 500,000.

The customer will have to provide additional collateral if, due to unfavourable shifts in market prices, the collateral requirement of the customers' transactions that cannot be covered by the pledged collateral exceeds the maximum acceptable limit.

In case of price movements unfavourable for the customer, the Bank may require additional margin based on the current fair market value of the forward rate agreement, which could increase the collateral requirement significantly. For instance, if the additional margin requirement is 40 per cent of the notional value, the collateral requirement will increase to:
EUR 5,000,000 * 0.1 + EUR 5,000,000 *0.4 = EUR 2,500,000.

If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer.

From the perspective of the customer, a customer with a long FRA position will face the greatest risk in the case of an extreme fall in the reference interest rate. The interest rate figures used in the examples are based on a one-off, market stress induced change in the interest rate, and do not imply a maximum limit either for the collateral requirement or for the potential capital loss arising from the transaction.

4. Summary of the advantages and risks of forward rate agreements

Main advantages of the transaction

- Forward rate agreements may provide a predictable cash flow, which makes them suitable for hedging interest rate risk.
- The customer can typically enter into a forward rate agreement with a low collateral requirement, and control high-value positions with small capital investment.
- A forward rate agreement can protect the customer from any unfavourable shifts in the yield curve.
- Upon the customer’s request, a forward rate agreement can be closed by a liquidation transaction during the term.

Main risks of the transaction

- Under the forward rate agreement the customer undertakes a performance obligation: the customer must settle with the Bank even if the interest rate proves to be lower/higher than the fixed interest rate, which could involve a substantial capital loss.
- If the customer closes the position with a liquidation during the term, depending on the current market conditions, he may incur unlimited losses.
- If, for any reason, the collateral pledged by the customer is deemed insufficient by the Bank to cover the financial risk of the positions opened and held by the customer, the Bank may require additional margin. Upon the Bank’s call, the customer is required to provide the additional margin in accordance with the contractual terms, and any losses sustained as a result will be borne exclusively by the customer. If the customer fails to provide the required additional margin in accordance with the contractual terms despite being called upon by the Bank, the Bank may decide to liquidate the position, which could involve substantial losses for the customer. Liquidation costs, potential capital losses, and the consequences of the failure of liquidation shall be borne exclusively by the customer.

5. Miscellaneous information

Prerequisites to utilising forward rate agreements

- Agreeing to the Sales Terms and Conditions of OTP Bank Plc.'s Global Markets Directorate, signing the Global Markets Master Agreement annexed thereto with the Bank and signing any other required documents
- Signing agreements for payment accounts denominated in the settlement currency of the transaction
- Compliance with the deposit (collateral) requirements specified by the Bank
- Providing all data required for obtaining preliminary information pursuant to Act CXXXVIII of 2007 on Investment Firms, Commodities Dealers and the Rules of Their Activities (hereinafter: Act on Investment Firms) and filling out the fitness/compliance test prescribed by the Act on Investment Firms.

Guarantees relating to forward rate agreements

The insurance coverage available under the National Deposit Insurance Fund (NDIF) and the Investor Protection Fund (IPF) is not applicable to OTC interest rate agreements.

Fees and charges related to forward rate agreements

The Bank's quotation for the forward rate agreement includes the transaction's direct fees and charges. It does not include any indirect costs related to obtaining and holding the financial instrument or to the conclusion, maintenance, and performance of the contract (e.g. fee, commission, tax, account management).

Taxation information relating to forward rate agreements

OTP Bank Plc. makes the tax payments prescribed by prevailing regulations for the payment agent, which may involve liabilities of various degrees, depending on the taxation law status of the beneficiary (e.g. tax residency) and the legal title of income earning. Upon the fulfilment of its paying agent tax obligations, OTP Bank Plc. issues a certificate on the payment and, as required by law, calculates, deducts, pays and submits a tax return on the tax liability burdening the payment, and fulfils its reporting obligation with respect to the payment toward the tax authority. Please note that adequate information regarding the tax treatment or the tax implications may only be provided in consideration of the individual circumstances of each customer and may be subject to change in the future.

Miscellaneous information

For further general information please refer to OTP Bank Plc. Uniform Prior Information, the Sales Terms and Conditions of the Global Markets Directorate of OTP Bank Plc. and the announcements attached thereto, the Global Markets Framework Agreement and the List of Conditions, the Investment Services Division Business Regulations, the Information for Clients on MiFID, the General Information on Short Selling, the EMIR Announcement and any other notices referenced therein as well as Annexes thereto, all of which are accessible at the Bank's website at http://www.otpbank.hu or are available upon request at the branches of OTP Bank Plc.

6. Notices and disclaimers

1. The following documents are inseparable parts of this Product Information:

- Preliminary Announcement on certain Global Markets services rendered by at the Global Markets Directorate of OTP Bank Plc.; individual product information materials and any documents attached thereto along with all referenced business terms and notices;
- Uniform Prior Information;
- Information for Clients on MiFID;
- General Information on Short Selling;
- Announcement on compliance with certain provisions of the EMIR – in respect of investment services;
- Sales Terms and Conditions of OTP Bank Plc.'s Global Markets Directorate, documents attached thereto along with all notices referenced therein, Global Markets Framework Agreement along with any other relevant and required documents;
- Investment Services Business Regulations of OTP Bank Plc. along with any other business regulations and notices referenced therein, as well as annexes thereto;
- General Business Terms and Conditions of OTP Bank Plc. and documents attached thereto along with all referenced notices;
- Prospectuses, base prospectuses, notices, as well as regular and extraordinary announcements published by the issuer or the broker in relation to individual financial instruments.

Please read all of the above documents and any other notices referenced or indicated therein in order to ensure that you can make informed decisions, in full awareness of all information pertaining to the transactions presented in this Product Information. Moreover, before making an informed decision about the use of the investment or the service, please be advised to carefully consider the subject and risk of your investment, the associated fees and charges and the possibility of potential losses, and to obtain information regarding the tax regulations pertaining to the product or the investment. Prices of financial instruments and securities are subject to change. Spot trades are transacted at the current exchange rate, which may involve a capital loss.

2. The publication of this notice and its delivery to the customer do not constitute an offer, investment advice, call for bid, investment advisory service, investment or financial analysis, encouragement to invest, or any other kind of advice on legal, tax, or accounting matters, and the data provided herein is provided for information purposes, intended solely as the provision of prior information to OTP Bank Plc.'s existing and prospective customers as required by law. The contents of this notice are limited to general information and knowledge and as such, it disregards the unique or specific needs of individual customers and their willingness and ability to take risk; therefore, in the case of any questions, please contact our staff or refer to your bank consultant before making an investment decision. Should you require investment advice from OTP Bank Plc. prior to making your decision, please contact our staff with a view to concluding an investment counselling agreement and making the necessary statements (particularly a suitability test).

3. Each investment carries certain risks that can affect the outcome of the investment decision, and investors may not necessarily realise their expected investment goal or recover their cost of the investment; accordingly, some or all of the invested capital may be lost, and may also incur additional payment obligations.

4. Before entering into a contract for the execution of the transaction contained in this Product Information, OTP Bank Plc. will provide detailed information in respect of the transactions regarding their risks, market position, volatility and any limitations that may apply to market entry, changes in prices, as well as any other information relating to the transactions contained herein.

5. All data and information contained herein are based on estimates and no reliable conclusions may be made concerning prospective future yields, changes or performance in reliance hereon. All charts and calculations are intended to be examples, presenting potential future situations. No information contained herein may be perceived as demonstrations of particular transactions even if client is involved in transactions identical or similar to those contained herein. No estimates may be made based on the data contained herein concerning either the current or the future level of interest rates, or expected interest rate developments. The data contained herein do not constitute information on the changes or performance of particular financial instruments, whether past or future. Any risks associated with the specific, individual decisions made in reliance on the contents of this

Product Information shall be borne solely by the investor, and OTP Bank Plc. shall not be held liable either for the success of the investment decisions or the achievement of the goals set by the investor.

6. OTP Bank Plc. does not act as a fiduciary for or an advisor to any prospective purchaser of the financial instruments discussed herein. Please note that the conclusion of a given contract and the submission of orders may involve further obligations, such as the collateral requirement of the transaction or the provision of supplementary collateral, and a failure to meet such obligations in accordance with the relevant provisions of the contract could result in losses upon the closure of the position. If the specific financial instrument is traded on the regulated market, please visit the websites of the competent regulated market and clearing house to obtain further information and data about the applicable trading terms and settlement.

7. In the case of the specific products and services, please make sure you also assess their consequences on tax settlement and other tax implications, bearing in mind that those can only be judged accurately on the basis of the tax laws in force and the customer's special circumstances, and such circumstances may change in the future. Unless otherwise indicated, yields presented in this publication are gross, non-annualised yields, from which tax may be deducted taxes in accordance with the effective legal regulations.

8. The products and/or services included in this notice may not be available to certain individuals, or their access to such products/services may be restricted. OTP Bank Plc.'s preparation and posting of the Product Information Note on its website and the presentation of information regarding the specific products and/or services may not be construed, under any circumstances, as an intention on OTP Bank Plc.'s part to make available information pertaining to the products and/or services contained in the Product Information Note for persons in respect of which some country or another competent state bans or restricts the use, purchase or advertising of the product and/or service.

9. This document has been prepared based on information available to OTP Bank Plc. at the date of preparation. Although this Product Information Note was prepared in good faith based on sources that OTP Bank Plc. believes to be reliable, the Bank assumes no warranty, guarantee, or obligations for the accuracy and completeness of the data therein.

10. The business regulations, notices, lists of conditions, and product descriptions containing the detailed terms, conditions, and fees of the products and services are available at our branches, at the Customer Desk when using OTP Bank Plc.'s Global Markets services, and on the Bank's website at www.otpbank.hu.

11. The Bank reserves the right to change the terms contained herein. This notice may change in the future without separate notification. Please monitor any changes that may be made to this document.

12. OTP Bank Plc. (company registration number: 01-10-041-585; registered office: H-1051 Budapest, Nádor utca 16; supervisory authority: Magyar Nemzeti Bank – H-1013 Budapest, Krisztina krt. 39; HFSA license numbers: III/41.003-22/2002 and E-III/456/2008). All rights reserved. This notice is the exclusive property of OTP Bank Plc., and any further use, reproduction, distribution, making accessible, retransmission thereof, and any reference made thereto, or the integration thereof in any other website (service) shall be subject to OTP Bank Plc.'s prior written permission.