Risk Disclosure for Par Forward

PRODUCT DESCRIPTION

A Par Forward is an agreement to exchange a series of cashflows over time from one currency to another currency with all exchanges occurring at the same exchange rate. Therefore, a Par Forward is a series of forward contracts at one agreed rate and the cashflows are not necessary to be of the same notional amount.

Example: A client has an investment project which requires the client to pay its supplier USD 1 million annually over the 3 years period. The project exposes the client to foreign exchange risk, if the client does not hedge its exposure.

If the client chooses to hedge with a series of forward contracts, the client would enter into three separate contracts as follows:

Remark: Please note that all numbers and rates are for illustrative purpose only

Figure 1 Three separate contracts

Contract	Tenor	Client buys	FX USD/THB	Client pays (THB)
1	1 Year	USD 1,000,000.00	34.35	34,350,000.00
2	2 Years	USD 1,000,000.00	34.36	34,360,000.00
3	3 Years	USD 1,000,000.00	34.37	34,370,000.00

However, if the client wants to make exchange rate in each payment equal, they would enter into a 3-year Par Forward contract at 34.36 using only one contract with the following cashflows:

Figure 2 One Par Forward contract

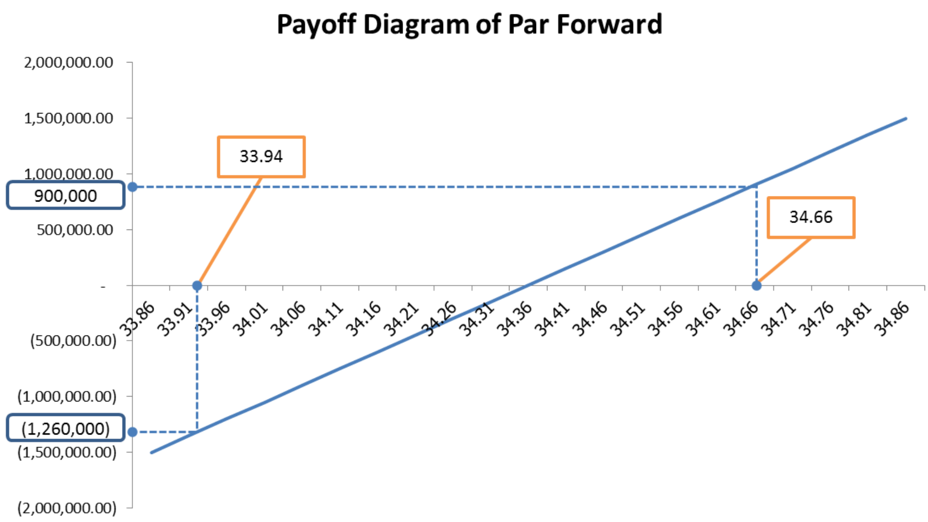
Contract	Tenor	Client buys	FX USD/THB	Client pays (THB)
1	1 Year	USD 1,000,000.00	34.36	34,360,000.00
	2 Years	USD 1,000,000.00	34.36	34,360,000.00
	3 Years	USD 1,000,000.00	34.36	34,360,000.00

Potential Client

A Par Forward contract is suitable for a client who has series of buying one currency and selling the other currency on the pre-determined dates.

PAYOFF DIAGRAM & MAXIMUM LOSS

Figure 3 Payoff Diagram of Par Forward contract, a client buying USD/THB



Assuming that the client is a Thai importer, if the client enters into USD/THB Par Forward contract buying USD/THB at a contract rate of 34.36 at one million US dollars annually for 3 years totaling USD 3,000,000, the client will suffer loss in case that USD is weaker than 34.36 (THB is stronger).

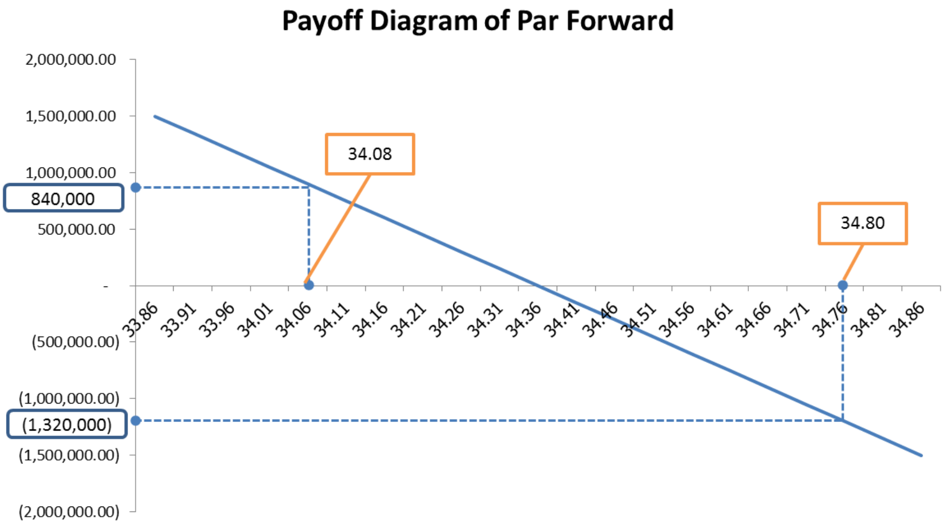
As shown in Figure 3, if the spot rate changes from 34.36 to 34.66, the client will gain 900,000 ((34.66 – 34.36) x 3,000,000) baht from this contract. On the other hand, if the spot rate changes from 34.36 to 33.94, the client will lose 1,260,000 ((33.94 – 34.36) x 3,000,000) baht from this contract.

Figure 4 Spot rate sensitivity of the Par Forward contract on the delivery date

	Client Buy USDTHB Par Forward										
Spot Move	**99.00%**	**90.00%**	**60.00%**	**30.00%**	**10.00%**	**At Cost**	**-10%**	**-30%**	**-60%**	**-90%**	**-99%**
Spot Rate at Delivery Rate	68.38	65.28	54.98	44.67	37.80	34.36	30.92	24.05	13.74	3.44	0.34
Profit/(Loss) in Million THB	102.06	92.76	61.86	30.93	10.32	0.00	(10.32)	(30.93)	(61.86)	(92.76)	(102.06)

From the client's perspective, the maximum loss is limited because USD/THB can move to a floor of zero, and the client will incur loss equivalent to the difference between the contract rate and the market rate. **Therefore, if the USD/THB changes from 34.36 to 24.05 (THB being 30 percent stronger than the contract rate), the client will lose 30,930,000 ((24.05-34.36) x 3,000,000) baht.**

Figure 5 Payoff Diagram of Par Forward contract, a client selling USD/THB



Assuming that the client is a Thai exporter, if the client enters into USD/THB Par Forward contract selling USD/THB at a contract rate of 34.36 at one million US dollars annually for 3 years totaling USD 3,000,000, the client will suffer loss in case that THB is weaker than 34.36 (USD is stronger).

As shown in Figure 5, if the spot rate changes from 34.36 to 34.08, the client will gain 840,000 ((34.36 – 34.08) x 3,000,000) baht from this contract. On the other hand, if the spot rate changes from 34.36 to 34.80, the client will lose 1,320,000 ((34.36 – 34.80) x 3,000,000) baht from this contract.

Figure 6 Spot rate sensitivity of the Par Forward contract on the delivery date

	Client Sell USDTHB Par Forward										
Spot Move	**99.00%**	**90.00%**	**60.00%**	**30.00%**	**10.00%**	**At Cost**	**-10%**	**-30%**	**-60%**	**-90%**	**-99%**
Spot Rate at Delivery Rate	68.38	65.28	54.98	44.67	37.80	34.36	30.92	24.05	13.74	3.44	0.34
Profit/(Loss) in Milion THB	(102.06)	(92.76)	(61.86)	(30.93)	(10.32)	(0.00)	10.32	30.93	61.86	92.76	102.06

From the client's perspective, **the maximum loss is unlimited** because USD/THB can move to an indefinite exchange rate, and the client will incur loss equivalent to the difference between the contract rate and the USD/THB market rate. **Therefore, if the USD/THB changes from 34.36 to 44.67 (THB being 30 percent weaker than the contract rate), the client will lose 30,930,000 ((34.36 - 44.67) x 3,000,000) baht.**

Transaction process

If the client would like to enter into Par Forward with the bank, the client is required to follow the steps below:

1. The client contacts the Relationship Manager (RM) for credit line set-up, and signs the product risk disclosure.
2. The bank sends the indicative Par Forward rate to the client.
3. After the client agrees with the Par Forward rate, the client will receive initial confirmation via email and the client will need to sign such confirmation or reply the email to confirm the transaction.
4. The client will then receive a formal long-form confirmation or short-form confirmation, and will need to sign and return the confirmation back to the bank with authorized signatures.

Required documents for transaction

- Know your customer form (KYC) and Client Suitability form
- Product risk disclosure with authorized signature from the clients
- Underlying documents (if required by related regulations)
- Initial confirmation
- Long form/ Short form confirmation with authorized signature from the clients

Termination Process, Cost and associated Risk(s)

In case the client informs the bank of its intention to terminate the contract, the bank will thoroughly consider the justification provided by the client and related regulations. In the event such termination is agreed upon by the bank, the client will bear the risk that there may be gain or loss based on the market value on the termination date and associated costs. The changes in market conditions may adversely impact the termination cost paid by the client.

RISK DISCLOSURE STATEMENT

IMPORTANT NOTICE

THIS NOTICE DOES NOT PURPORT TO DISCLOSE OR DISCUSS ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF ANY TRANSACTION. IT IS THE CLIENT'S SOLE RESPONSIBILITY TO DETERMINE WHETHER ANY TRANSACTION IS SUITABLE FOR ITSELF AND TO SEEK RECOMMENDATION FROM THE CLIENT'S OWN INDEPENDENT ADVISORS TO REACH SUCH CONCLUSION IF NECESSARY.

1. CONTRACTUAL TERMS

The client has the responsibility to fully understand the terms and conditions of the Transactions to be undertaken including, without limitation, (a) the terms as to Forward Rate, Term, Settlement Dates, Business Days, and other terms material to the Transaction; (b) the circumstances under which the client may become obliged to make or take delivery of the underlying interest of the Transaction; and (c) the legal risks surrounding the Transaction including, but not limited to, the circumstances under which the Transaction may be illegal, resulting in it being void and unenforceable.

2. SEVERAL INSTRUMENT TRANSACTIONS

Where a Transaction is made up of several instruments, the client should be aware that there is a risk associated with each instrument evaluated separately and a risk of the Transaction evaluated as a whole. As such Transaction is usually executed over-the-counter, the client should be aware that it may be difficult to liquidate an existing position of, determine a fair price for, or assess the client's exposure to risks under, such Transaction. This uncertainty should be factored in by the client in the overall consideration of the potential impact on the client's investment in the Transaction.

3. MARKET RISKS

The client's payments or receipts under a Transaction will be linked to changes in the particular financial market or markets to which the Transaction is linked, and the client will be exposed to price, currency exchange, interest rate or other volatility in that market or markets. The client may sustain substantial losses on the contract, trade, product or financial investment if the market conditions move against the client's positions.

It is in the client's interest to fully understand the profit/loss impact of market movements and the extent of loss if the client has to liquidate a position if market conditions move against the client. The lack of market transparency, liquidity and efficiency may subject the Transaction and the parties involved to high volatility and large price differences.

4. LIQUIDITY RISKS

Under certain market conditions the client may find it difficult or impossible to liquidate a position, assess a fair price or assess risk exposure. This can happen, for example, where the market for a Transaction is illiquid or where there is a failure in electronic or telecommunications systems, or where there is the occurrence of an event commonly known as "force majeure" (which shall include, without limitation, any form of restriction, moratorium or suspension on trading imposed by an exchange, market or other authority regulating trading of the Transaction).

5. CURRENCY RISKS

The fluctuations in foreign currency rates have an impact on the profit/loss and the financial investment where the Transaction is denominated or settled in a currency different from the currency of ordinary business.

6. TAX RISKS

Before entering into any Transaction, the client should understand the tax implications of doing so, e.g., income tax. Different derivatives transactions may have different tax implications. The tax implications of Transaction are dependent upon the nature of the client's business activities and the Transaction in question. The client should, therefore, consult a tax adviser to understand the relevant tax considerations.

7. COUNTERPARTY RISKS AND CONFLICT OF INTEREST

The client must note that the bank deals with the client at arms-length as a counterparty. The bank is not the client's fiduciary. Any dealing, trading or engagement or Transaction with the bank by the client could result in a loss to the client and a gain to the bank.

8. NON-TRANSFERABILITY AND NON-MARKETABILITY

Generally, a Transaction is not assignable or transferrable without a prior consent of the other party. The bank is not obliged to repurchase a Transaction from the client because the Transactions are customised and not fungible. The client acknowledges that engaging in a Transaction with another dealer to offset a Transaction that the client has entered into with the bank will not automatically close out those positions (as would be true in the case of equivalent exchange-traded futures and options) and will not necessarily function as a perfect hedge.

9. RISKS NOT COVERED IN THIS DOCUMENT

The following risks which are not strictly related to the Transactions are not covered in this document:

Country risks. A country risk can arise if a country hinders currency trading by imposing economic sanctions or currency restrictions; and

Economic risk. In particular, the impact of the global economy and the bigger nations on the world economic market which impact on interest and inflation rates.

This document also does not deal with the issues of taxation or any other legal consequences pertaining to the Transactions (e.g. duties of disclosure) as these issues are very often dependent on the client's individual situation. The bank recommends that the clients contact their tax specialist or lawyer.