

Foreign Exchange Option for Currency Sellers

Product Description Sheet

Customer Treasury Services UK



Your view anticipates exchange rate uncertainty ✓	Rate protection with this product ✓	Cost paid as a premium ✓
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The product – in brief

Features

A Foreign Exchange Option is a product that gives the holder the right but not the obligation to exchange one currency for another at a predetermined rate.

You can sell a purchased Option back to the bank before expiration and receive any residual value.

This product can be customised to suit specific amounts and dates in all major currencies.

Active periods for options commence and finish at 10 A.M. New York time as per market convention, unless otherwise stated.

Scenario

Your company has a currency exposure arising in three months time.

You believe that the spot rate may be in your favour in three months and you want to take advantage of such a move.

You also want protection at a worst case rate should the spot rate not be in your favour in three months.

When evaluating this product you incorporate the cost of the premium.

Action

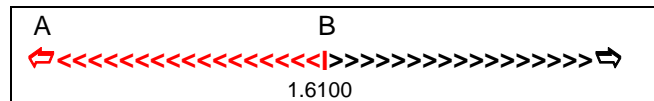
You purchase a three month Foreign Exchange Option at an agreed strike rate.

How does the product work?

Example: USD Seller GBP Buyer

You need to sell USD in exchange for GBP for a known obligation in three months time. The three month forward rate is trading at 1.5700.

- 1) You purchase a three month Foreign Exchange USD Put Option with a strike of 1.6100. This gives you the right but not the obligation to sell (Put) USD to the bank at 1.6100 in three months.
- 2) You pay a premium for this product.
- 3) Area between A and B (below) highlights the range of your possible achieved exchange rate.



- A. Best Case Exchange Rate Unlimited
- B. Worst Case Exchange Rate

Potential outcomes at expiration in three months time

Outcome (1)
The spot rate is at or above 1.6100. You will exercise your option and sell USD at 1.6100

Outcome (2)
The spot rate is below 1.6100. You will let your option expire unutilised and you will sell your USD at the prevailing spot rate.

For all outcomes you need to incorporate the cost of the premium when evaluating this product.



Do not use this product if:

The use of this structure is out of line with your company's treasury policy.

You do not have the underlying commitment outlined in this structure.

You do not understand the benefits/risk of this structure.

In the worst case scenario, you cannot forego rate gains and endure any potential loss embedded in this structure.

Products to consider

Below is a range of FX products which should be considered when evaluating FX risk.

Average Rate Option
Cylinder Option
Foreign Exchange Option
Foreign Exchange Swap
Forward Contract
Forward Extra
Participating Forward

For further details on these products refer to the relevant product description sheet.

Note: Rates are based on indicative mid-rates at the time of production and for illustration purposes only.

Other issues to consider

The Bank may require confirmation as to the capacity of an entity to enter into particular treasury transactions. The requirements will vary depending on the type of entity involved and its place of incorporation. For example, for entities incorporated in overseas jurisdictions, a legal opinion which confirms capacity to enter into treasury transactions may be required. For certain companies, the Bank may require that the entry into treasury transactions is included as a specific object in the memorandum of association. These requirements can be discussed with you.

Having considered these points, your Treasury Relationship Manager at Customer Treasury Services UK would be pleased to discuss any queries you may have and also to offer you a competitive price should you wish to proceed.

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