Knock-into-forward

Tailor-made solution to hedge your foreign currency exposure

What you should know about the knock-into-forward
The knock-into-forward is a hedging instrument that offers complete protection against currency losses without requiring the payment of a premium. More specifically, it allows you to be hedged at the pre-defined rate while benefiting from a limited favorable market move until a barrier level. If the barrier is touched, the instrument will become similar to a forward transaction, meaning the transaction will be completed at the pre-defined rate at the maturity date.

Your needs
- You are looking for a tailor-made solution to safeguard the company against unfavorable exchange rate fluctuations.
- You want to hedge your regular cash flows more easily and efficiently, but still need some flexibility.
- You do not expect the barriers to be touched at any time during the life of the product.

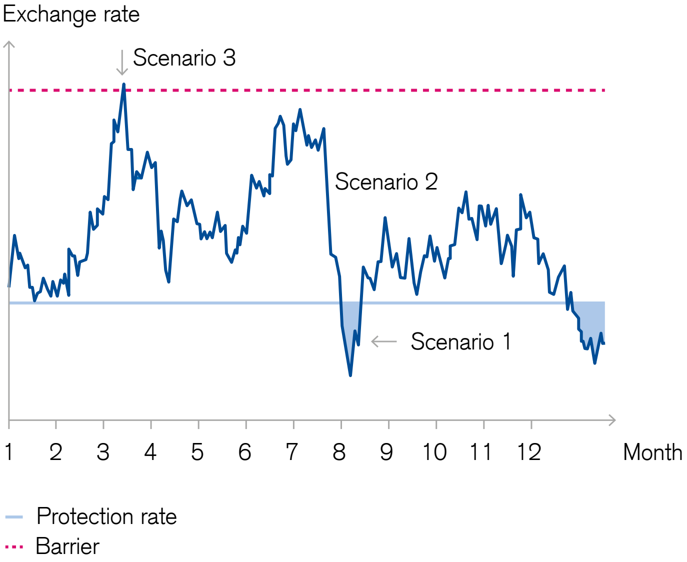
Your benefits at a glance
- You are fully protected at a known worst-case rate at expiry.
- You can benefit, to a limited extent, from a favorable movement in the currency pair.
- No premium has to be paid (zero cost strategy).
- You can choose from more than 80 currency and precious metal pairs.
- Our specialists will structure the solution to perfectly meet your company's needs.

Possible risks
- The chance to benefit from favorable market moves is limited to the barrier.
- If the barrier has been touched during the life of the product, you are obligated at expiry to buy (if a buyer of the currency pair) or sell (if a seller of the currency pair) the notional amount at the protection rate, which may be worse than the market rate at expiry.
- If you wish to close or restructure the knock-into-forward, costs or gains may occur according to market conditions.

How it works
In order to set up a knock-into-forward, you will need to define the following parameters:
- Currency pair
- Periodicity/term
- Notional amount per expiry
- Protection rate
- Barrier levels

An OTC trading limit is required for selling options.

Example for a seller (export company)



For illustrative purposes only

On each expiry, the following scenarios can occur: Example for a seller of a currency pair (e.g. exporting companies).

Scenario 1 – If the exchange rate trades below the protection rate regardless of whether the barrier has been touched or not, you will sell the notional amount at the protection rate and will be hedged against further depreciation.

Scenario 2 – If the exchange rate trades at or above the protection rate and the barrier has not been touched, no transaction takes place. You may trade at the daily market rate.

Scenario 3 – If the exchange rate has touched the barrier during the life of the product, regardless of where the exchange rate is at expiry, you will sell the notional amount at the protection rate.

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