Deutsche Bank
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Foreign Exchange Management at Deutsche Bank

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1. Why is this prospectus important?

In this prospectus we will provide general information about foreign exchange products.

It is important that you read this prospectus, because a foreign exchange derivative can have a significant impact on your financial situation. It is important to us that you understand how these products work. We also want to point out a number of important risks. Therefore, please read this prospectus carefully.
The prospectus consists of six (6) sections:

We will explain every subject in the following sections. If you are unsure whether a certain foreign exchange product matches your financial situation, please contact us for additional information. We will analyse your personal situation together and provide you with advice free of charge. Our contact details are shown on page 5.

2. How does a foreign exchange product work?

2.1. General

The foreign exchange market is a global market on which different currencies are being traded. This market determines the different exchange rates. Changes in these rates are important for companies that operate in multiple countries. For example, your production facilities could be located in a country other than where you sell your products.

Foreign exchange products can be used to hedge risks, either in full or in part, or to take on new risks with the objective to make a profit (speculate). If you wish to protect yourself against currency risk, you can take out a derivative or plain vanilla product with Deutsche Bank. This will give you the certainty – in the currency that you desire – regarding the amount that you will have to pay. This means that you can convert a dollar liability into a euro liability by entering into a derivative.

For the purpose of this prospectus, we have assumed that you wish to enter into a derivative because you wish to hedge a currency risk and not in order to speculate. If you decide to enter into a derivative to hedge risk you will enter into a new agreement. If the underlying value changes, for example if you do not receive the expected cash inflows of the foreign currency, the conditions of the derivative contract will continue to apply in full.

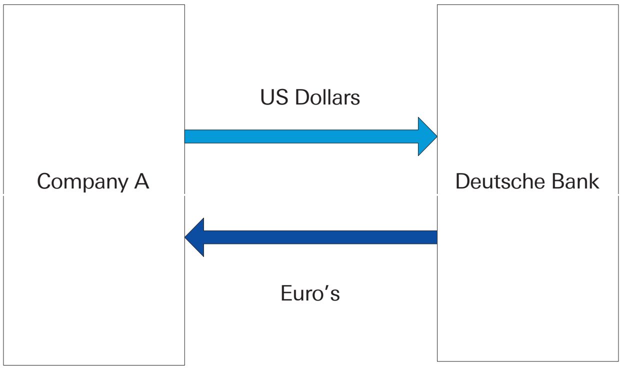
2.2. How a spot transaction works

The simplest form of a product used to trade a certain currency is a spot transaction. A spot transaction provides the option to 'exchange' one currency against another. A spot transaction is often carried out within two working days. Spot transactions do not require a contract and the short transaction tenor means interest does not need to be factored into the transaction. Therefore, the spot transaction is solely dependent on the exchange rate at that particular time and any small margin applied by your counterpart (often the bank).

Example of a spot transaction

Company A exports products from the Netherlands to the United States. Company A has received an amount in US dollars for a goods delivery. Since company A is located in the Netherlands and therefore maintains its account in euros, it wishes to exchange the US Dollars for euros. The company therefore decides to enter into a spot transaction with Deutsche Bank.

The diagram below illustrates the cash flows.



A sample calculation could look as follows:
Assume that company A is paid $ 92,000 for the goods delivery. The exchange rate at the time when company A enters into the spot transaction is 1.15 $/€. This exchange rate means that company A will receive € 1 for every $ 1.15 it exchanges.

Using the current exchange rate, company A is able to exchange their US dollars for $ 92,000 / 1.15 = € 80,000. As a result of the spot transaction, company A pays $ 92,000 and receives € 80,000 in return from Deutsche Bank.

3. What kind of foreign exchange products exist in addition to spot transactions?

Spot transactions are the simplest form of a foreign exchange product. However, spot transactions do not offer any protection against future changes in currency rates. The following products can help you to hedge a certain amount of future currency risk.

3.1. Forward transaction

If your future revenue or expenditure is in another currency, you will have a currency risk. Using a forward transaction, you can hedge all or part of this risk. A forward transaction entails that you agree to exchange two set amounts (in different currencies) against a certain currency rate on a future date. These two amounts are then exchanged at a future date and against an exchange rate that is agreed upon in advance. This is referred to as a forward contract and means you have entered into an obligation that will stand even if there is a negative development in the exchange rate.

Example of a forward transaction

Assume that your company expects to receive ¥ 150,000,000 Japanese yen in a year's time. The current exchange rate is ¥ 145 for € 1; however, you cannot know what the exchange rate will be a year from now. Since your expectation is that the yen will decrease in value compared to the euro, you wish to hedge this risk. You can now enter into a forward contract with Deutsche Bank. Your arrangement is that in a year's time, you will exchange the amount of ¥ 150,000,000 for € 1,000,000. The contract will be based on an exchange rate of ¥ 150: € 1. As you have now entered into a contract, you have an obligation to exchange these amounts in a year's time.

Scenario 1

The exchange rate of the Japanese yen after one year is ¥ 120 for € 1.

This means that ¥ 1 is worth 1/120 = € 0.00833. If you had not entered into a forward contract, you would have been able to exchange your yen for ¥ 150,000,000 * € 0.00833 = € 1,250,000.

However, you did enter into a forward contract and you are now obliged to exchange your ¥ 150,000,000 (€ 1,250,000) for € 1,000,000. This means you have obtained € 250,000 less than you could have obtained without the forward contract.

Scenario 2

The exchange rate of the Japanese yen after one year is ¥ 150 for € 1.

Since the exchange rate is exactly the same as the agreed exchange rate, the forward contract does not offer any advantage or disadvantage to you. You are obliged to exchange ¥ 150,000,000 for € 1,000,000.

Scenario 3

The exchange rate of the Japanese yen after one year is ¥ 180 for € 1.

This means that ¥ 1 is worth 1/180 = € 0.00556. If you had not entered into the forward contract, you would have been able to exchange your Japanese yen for ¥ 150,000,000 * € 0.00556 = € 833,333.

Because you entered into a forward contract, you are able to exchange the Japanese yen, ¥ 150,000,000 (€ 833,333), for € 1,000,000. This means you are able to obtain €166,667 more as a result of having entered into a forward contract a year ago.

3.2. Swap

A commonly used forward transaction is a swap. A swap entails that two parties agree to exchange currencies at agreed intervals during a set period. This means that throughout the term, set amounts in a specific currency will be exchanged for set amounts of another currency. At the start of the swap, the parties agree on the currency rate that is used to exchange these amounts. A swap can therefore be regarded as a combination of a spot transaction and a forward contract. A swap means there is no currency risk for you as the initial and final exchange rate are set when you enter into the swap. The difference between these two rates is determined by the interest rate differential between the two currencies involved. Developments on the currency market mean that a swap can have both a negative and positive value during its term. You can read more about this in the risk section of this prospectus.

3.3. Options

An option entitles the holder to exchange one currency for another at a specific exchange rate and at a specific future date. The holder is free to exercise option only when the exchange rate agreed in the contract is more advantageous than the current exchange rate. Such an option is subject to a premium, which is due and payable at the time the option is taken out.

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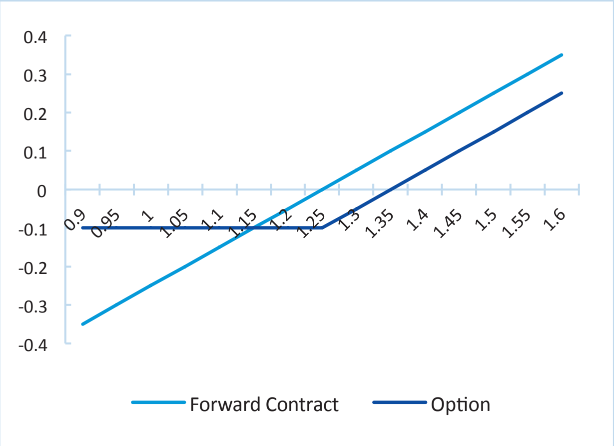
Forward contract

Agreed exchange rate: 1.25 $/€
Principal: $ 1,250,000
Value date: 1-1-2016

Option

Agreed exchange rate: 1.25 $/€
Principal: $ 1,250,000
Exercise date: 1-1-2016
Premium: € 100,000 (or 0.1 $/€)

The following graph illustrates the different outcomes for the forward and the option contract. This relates to the outcome for you on 1 January 2016. The vertical axis shows the difference in the exchange rates and the horizontal axis indicates the exchange rate in the future.

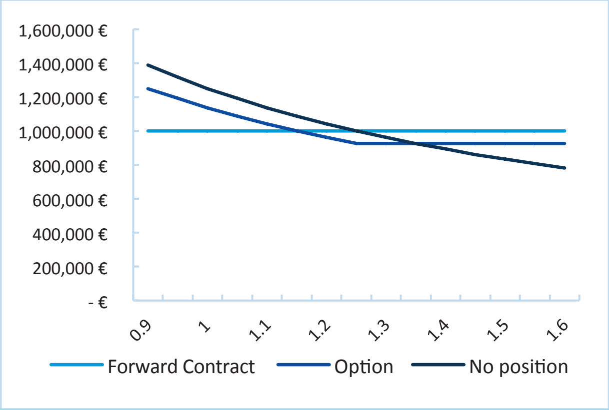


In the case of a forward contract (light blue line), the outcome is directly linked to the exchange rate prevailing on the exercise date. If the exchange rate drops below the agreed $ 1.25 per € 1, you would have been able to earn more on the notional principal amount. The difference between the actual exchange rate and the currency rate that was agreed in the contract represents your loss. If the currency rate is higher on the exercise date, you would have received more for your principal amount if you had not entered into the forward contract.

In the case of an option, the outcome will be different. If the currency rate is lower than $ 1.25 per € 1, you choose not to exercise your right to exchange in accordance with the agreed exchange rate. In this case, however, you do lose the premium that you paid when you entered into the contract, which is 0.1 $/€. If the future exchange rate is higher than 1.25 $/€, you do exercise the contract, in which case you benefit from the option. Your profit is equivalent to the difference in the exchange rate, less the premium that was paid previously.

Comparison with a situation without a position

The graph below indicates the impact of the two positions on the amounts that are received on the exercise date. The graph also shows what situation you would be in the event that you do not have a financial product (dark blue line).



If your choice is to not conclude a transaction, you will be completely dependent on the exchange rate that is applicable on 1 January 2016. This means you will then exchange the amount of $ 1,250,000 to euros at the exchange rate valid at that particular time.

As can be seen from the graph, the income you receive in the case of a forward contract is constant. After all, you agreed to receive a fixed amount of euros in return for dollars.

In the case of an option contract, you will benefit if there is a positive development in the exchange rate. This is shown in the graph where the exchange rate is lower than the agreed $ 1.25 per € 1. However, if the exchange rate exceeds the $ 1.25 per € 1 you will be protected as a result of the option you took out. You now exchange the amount of $ 1,250,000 for the agreed amount of € 1,000,000. Remember, however, that you previously paid a premium of € 100,000 to be able to do so.

4. What are the risks?

If you trade with different countries in different currencies, you will be exposed to currency exchange risks. Derivatives are financial products that can help you manage your financial position. However, the use of these derivatives is not free of risk. In this section we will outline the key risks to you. We are unable to provide an exhaustive list. It is therefore important that you ask for advice before taking out a derivative.

4.1. Disappointing results

When taking out a foreign exchange product, you will have an obligation in future to exchange cash flows in different currencies. You will at all times be required to honour this agreement, even if the change in the exchange rate is unfavourable for you. As an example, assume that in future you wish to exchange dollars for euros and you agree to exchange at $ 1.20 for € 1. You can effect this in the form of a forward contract or several forward contracts if there are multiple payments. If the currency rate drops to $ 1.10 for € 1, you will not be able to profit from this change. In this case, you will pay $ 0.10 per € 1 more than you would have if you had not taken out this derivative.

4.2. Market value risk in the event of early termination of your contract

In some cases, you may want to terminate your contract prior to the agreed date. In this case, the settlement will be based on the market value of the product. If the market value is positive, you will receive a certain amount. If it is negative, you will have to pay a certain amount.

If any changes occur that affect your position, please ask us for advice.

In case of an option, no market value risk applies. The option bought by the holder can never have a negative market value, since there is no obligation. However, you will be required to pay a premium when entering into an option. This premium price is the maximum you would lose compared to a situation without an option.

4.3. Overhedge

An overhedge is said to apply where the notional principal amount of your derivative exceeds the principal amount of the underlying transaction. An overhedge may arise if the underlying transaction changes or is cancelled. As an example, let's assume that your buyer intended to purchase goods for an amount of $ 1,000,000 in six months' time. However, this order is now reduced or perhaps even cancelled in full. In order to hedge the currency risk, you had previously taken out a forward contract with Deutsche Bank, enabling you to sell $ 1,000,000 to the bank in six months' time at a rate of 1.20$/€.

In this case your obligation changes into a risk. You will have to meet this obligation, regardless of the fact that you will not receive the relevant principal amount. In such cases, you will in fact be exposed to changes in the exchange rate whereas the derivative was set up to mitigate risk. Does an overhedge apply in your situation or could this problem arise in the future? If so, please ask us for advice.

4.4. Underhedge

An underhedge is said to apply where the principal amount of your derivative is smaller than the principal amount of the transaction. An underhedge may arise if the underlying transaction changes or is cancelled. This could happen if your buyer, who intended to purchase goods for an amount of $ 1,000,000 in six months' time, now decides to purchase goods for an amount of $ 1,250,000 at the same exchange rate that was previously agreed in respect of the amount of $ 1,000,000. You now have an underhedge equivalent to $ 250,000. Depending on the market rate that is applicable at the time, this may result in a profit or a loss for you.

4.5. Credit risk

When concluding a currency transaction, you will be entering into an agreement. Your agreement will be with Deutsche Bank AG. If Deutsche Bank were to be declared bankrupt or experience financial difficulties, then the risk to you is that Deutsche Bank may no longer be able to fulfil its duties towards your company.

5. Are there any alternatives?

In addition to entering into currency transactions, you have other options at your disposal to reduce risks associated with exchange rates. You can also choose one of the following options.

5.1. Accept the risk

If you are able to absorb a negative development in the exchange rate and are willing to accept this risk, you could choose to exchange the cash flows for the appropriate currency at the time they occur. In such cases, you are able to exchange your currency at the exchange rates prevailing at the time (spot transaction). Alternatively, if you have the opportunity to do so, you could hold on to your foreign currency in anticipation of a more favourable moment to exchange.

5.2. Entering into agreements with foreign partners

If you prefer to manage your income and expenses in your own currency, you could also try to make arrangements with your foreign partners. You will be able to avoid currency risks if you are able to stipulate in the contracts with your suppliers or buyers that payments will be made in your preferred currency.

6. Please ask us for advice if you have any questions

You may wish to obtain advice regarding your current situation, for example because you want to ensure your FX derivatives are properly matching your underlying exposures or because you wish to avoid financial losses. Deutsche Bank offers all of its clients advice free of charge. If you would like advice, please feel free to contact us on +31 (0)20 555 4882.

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