

Bank of Ireland Global Markets

Foreign Exchange Risk Management

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For Business use only

Bank of Ireland 

For small steps, for big steps, for life

Agenda

- Factors Affecting Exchange Rates
- Foreign Exchange Risk
- Foreign Exchange Risk Management
- Bank of Ireland FXPAY

Factors that affect Exchange Rates

- **Economic**
 - Inflation rates
 - Unemployment rates
 - Current account & national debt
- **Political**
 - Instability
- **Central Bank Policy**
 - Interest rates
 - Other measures
- **Sentiment**

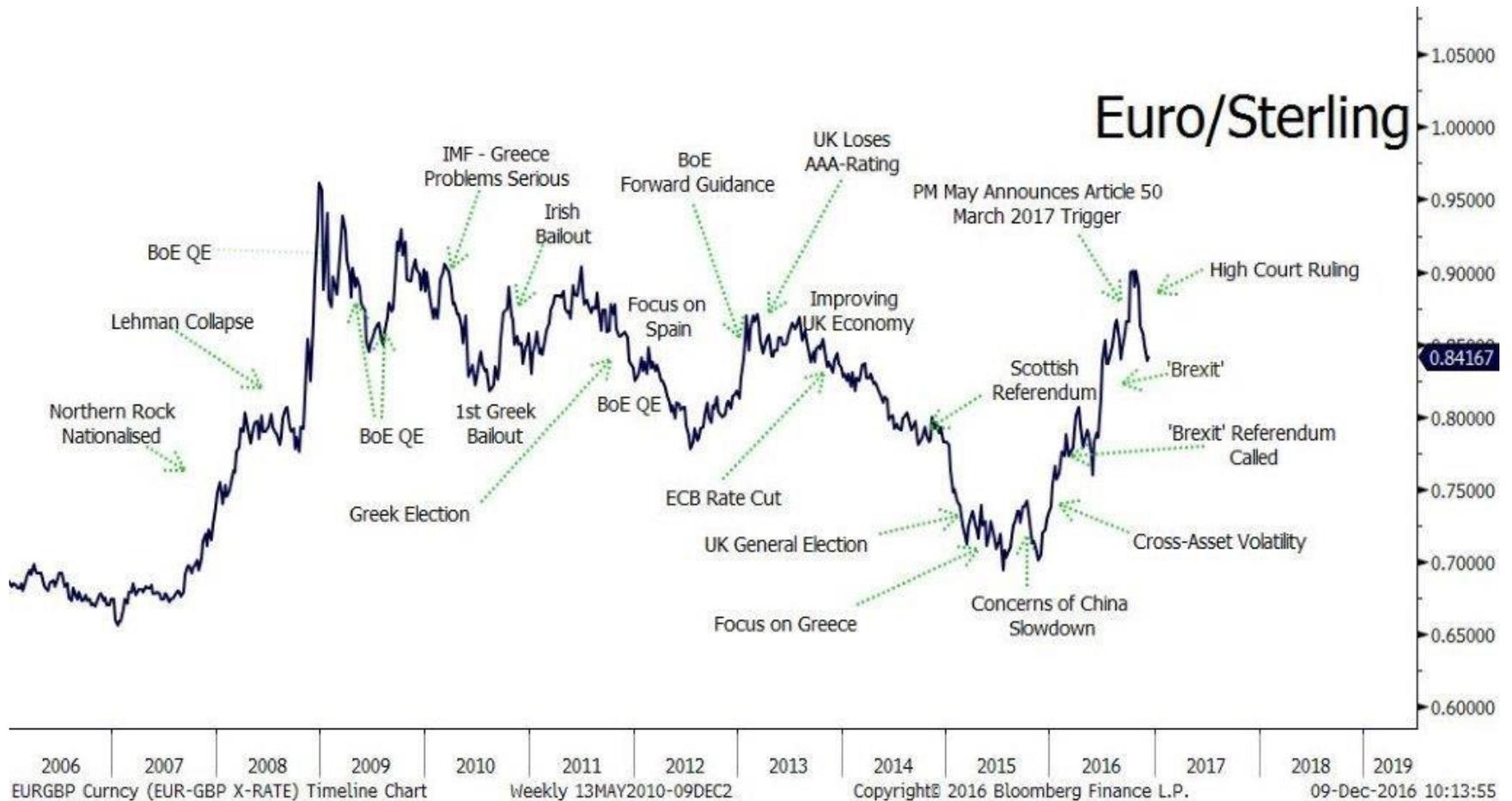
What is Foreign Exchange Risk?

- Potential for financial loss from exposure to foreign exchange rate fluctuations

Typically arising from

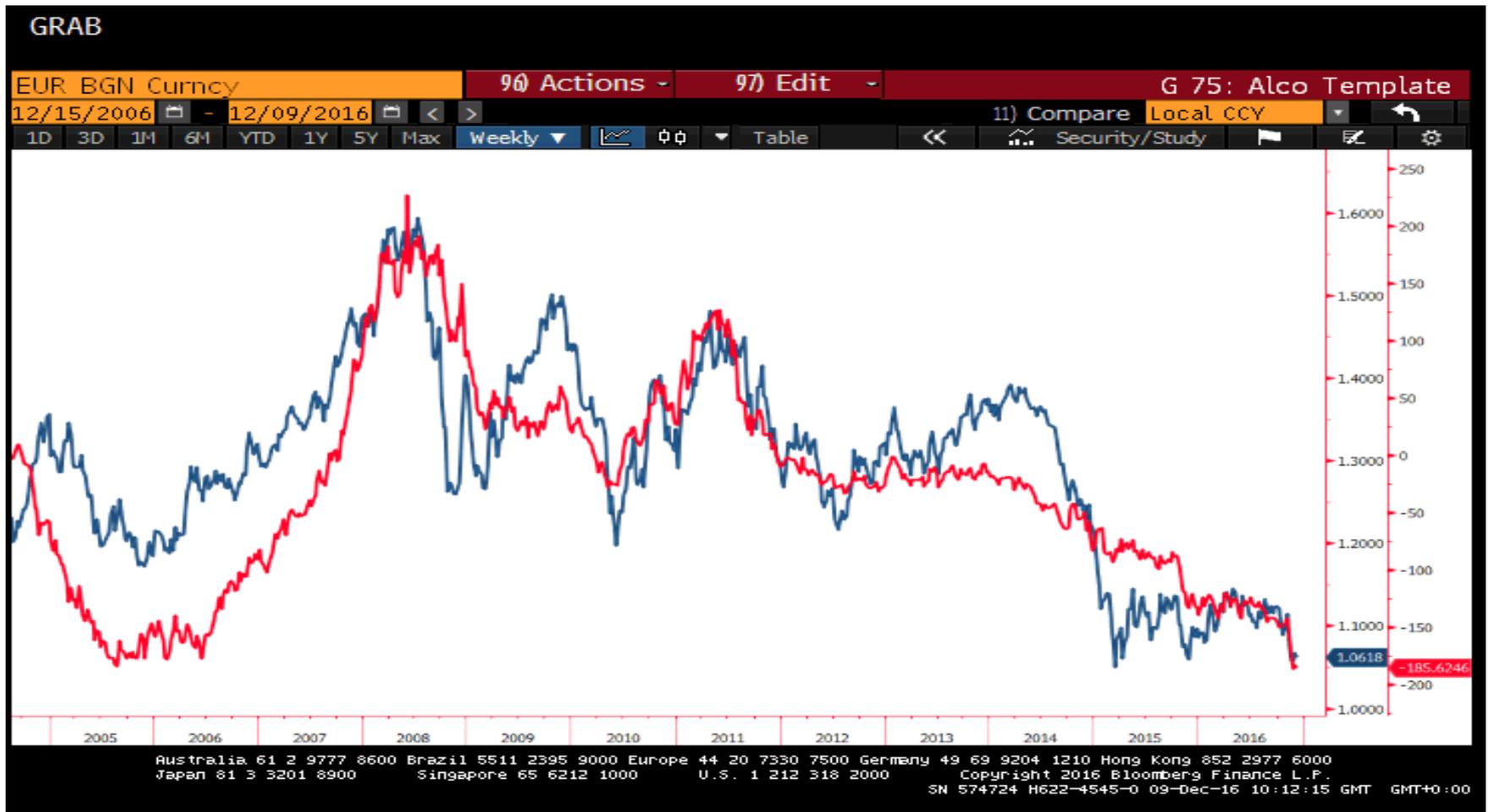
- Import / Export transactions
- Investment

Eur/ GBP Exchange rate since 2005



Classification: Red

EUR/USD V Interest rate differential



Classification: Red

Example of FX risk – Export transaction

June 2016 - Irish company tenders for UK contract.

Calculates that it needs to receive €100,000 for service so it tenders £78,000 based prevailing exchange rate (.7800)

Wins contract & delivers service

November 2016 – UK company pays £78,000

Irish company converts at prevailing market rate (.8600) and receives €90,698

Company receives €9,302 less than anticipated

Example of FX risk – Investment

April 2008 - Irish investor contracts to buy apartment in US

Purchase price of \$300,000 is funded entirely from Euro cash
Euro cost is €193,548 (market rate 1.5500)

November 2016 – Investor sells US apartment for \$300,000

Receives \$300,000 and converts at prevailing market rate (1.0600) and receives €283,019

Even though property was bought and sold at same USD price, Investor made profit of €89,471

Foreign Exchange Risk Management

- Dual Invoicing
- Foreign Exchange Hedging
- Currency Accounts & Currency Loans

Dual Invoicing

- Many SME's import raw materials/stock from the UK and are invoiced in EUR.
- Potential Savings can be gained by requesting **Dual Invoicing**
- Request a **EUR** price and a **GBP** price.
- Once prices received in EUR and GBP, BOI can perform calculations and see which is best manner to settle.

Dual Invoicing - example

- ▶ Company imports widgets from UK
Widgets invoiced at €100 per unit
- ▶ Company asks for GBP invoice for comparative purpose
Widgets cost £75 per unit
- ▶ At current exchange rate of .8400, company could buy £75 for €89.29
- ▶ Saving of €10.71 per unit
- ▶ Subject to exchange fluctuations

Hedging – FX Forward Contract

- Exporter A sells into the UK & invoices in GBP
- Exporter A enters into an FX Forward Contract with their bank
Agrees to sell £100,000 on 21st September @ 0.7500 in exchange for €133,333
- Exporter A gives 3 months credit, so receives £100,000 on 21st Sept. Exporter A delivers £100,000 to bank at agreed rate of .7500 and receives €133,333
- Exporter A is protected from the adverse market movement to .8500 (saved potential loss **€15,686**)

Hedging – FX Forward Contract

- Binding contract
- Purpose is to bring certainty – not to ‘beat the market’
- Requires
 - credit line from your bank
 - LEI registration with Irish Stock Exchange

Hedging – FX Currency Option

- 'Optional contract'
Gives the buyer right, but not the obligation, to deal at a particular exchange(s) rate at a future date(s)
- Purpose is to protect downside while leaving potential for gain
- Involves payment of an up-front premium

Currency Accounts & Currency Loans

Currency Accounts

- Allows investors to hold funds in foreign currency
 - avoid double conversion
 - monitor market for favourable time to convert
- FX orders & Rate watch

Currency Loans

- Allows investors to match asset with liability
 - avoid unnecessary conversion risk
- Can provide a good hedge against balance sheet or other long term FX risk

Bank of Ireland FXPay

- New on-line FX platform called FXPay – ***Designed by customers for customers.***
- Allows you to book FX rates and make free non-urgent FX payments
- Accessible on all mobile devices
- No subscription or sign up fees



Simple and Easy to Use



BOOK A DEAL

I want to buy 

Amount to buy

I want to sell 

Amount to sell

Payment date 

Rate

Timeout

DEAL

CANCEL

Rates Updating in Real Time



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Global Markets

FXPay – payment screen

MAKE A PAYMENT

Deal Selected Deal ID: 000163 Outstanding: 10,000.00 Payment Date: 28 Apr 2015

Payments Details

Payment Currency	USD	Amount	<input type="text" value="10,000.00"/>
Original Currency	EUR	Amount	9,225.94
Rate	1.0839	Payment Date	<input type="text" value="28 Apr 2015"/>
Fee Policy	<input type="text" value="Shared"/> ▾		
Paid From	<input type="text" value="Current57389897"/> ▾	Account Number	IE14BOFI90256597942036
Amount Debited	EUR 9,225.94	Fee	EUR 0.00
Paid To	<input type="text"/> ▾	Account Number	
Amount Sent	USD 10,000.00		
Reason for Payment	<input type="text"/>		

We also offer

- ▶ FX Dealing room offer Rate Watch & FX Order service
- ▶ Trade Finance Team
 - Import & Export Letters of Credit
- ▶ Help for you and your clients to stay on top of the markets – economic research, FX rates, live dealer comment online at <https://corporate.bankofireland.com/markets> or via Bank of Ireland's Markets app for iPhone users

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