

## Chinese Yuan Non-Deliverable Forward Transactions

By entering into Chinese Yuan Non-Deliverable Forward Transactions (“**CNY NDF**”) with Bank of China (Hong Kong) Limited (the “**Bank**”), you can buy or sell Chinese Yuan (“**CNY**”) at a rate pre-set with the Bank to hedge against foreign exchange risks and to grasp market opportunities.

### How does a CNY NDF work?

For each CNY NDF, the Bank will determine on the valuation date the settlement currency amount in US dollars (“**USD**”) by reference to the notional amount and by comparing the agreed forward rate and the settlement rate (being the central parity rate for CNY against USD as announced by the People’s Bank of China on the valuation date), which will be settled in USD on the settlement date. There will be no delivery of CNY .

With CNY NDF, you can:

**Lock the desired exchange rate:** If you are holding CNY deposits, you can use CNY NDF to lock the CNY exchange rate and stabilize your return.

**Hedge against exchange rate risk:** If your cross-border business requires CNY settlement, or you foresee any other need of CNY in the future, you can enter into a CNY NDF according to your investment needs to hedge exchange rate risks due to exchange rate fluctuations.

### Special features of “CNY NDF”:

Reference currency	CNY
Settlement Currency	USD
Contract period	1 month, 2 months, 3 months, 6 months or 12 months
Minimum notional amount per transaction	USD10,000
Designated Account	You are required to retain an amount equal to 100% of the notional amount of your CNY NDF in the Designated Account with the Bank throughout the contract period to cover settlement of your CNY NDF. You may choose to use your HKD, CNY or USD saving or current account, or Multi-Currency Account or a fixed deposit, etc. as the Designated Account.

Number of transactions	No limit
Settlement rate	The central parity rate of CNY against USD as published by the People's Bank of China on the website <a href="http://www.pbc.gov.cn">http://www.pbc.gov.cn</a> on the valuation date
Settlement currency #	USD (No delivery of CNY)
Settlement currency amount	An amount in USD calculated as follows:  Notional amount $\times$ [1- (forward rate $\div$ settlement rate)]  If the settlement currency amount $>$ 0: The seller of USD shall pay the settlement currency amount to the buyer of USD.  If settlement currency amount $<$ 0: The buyer of USD shall pay the settlement currency amount to the seller of USD.
Service charge	None
Trading hours	Monday to Friday: 9am to 5pm excluding Saturday, Sunday and Hong Kong public holidays.
Transaction channel	All branches of Bank of China (Hong Kong) Limited

# Your Multi Currency Account shall be used for settlement purpose. If you do not hold a Multi-Currency Account, the Bank will use your HKD savings, current or CNY deposit account as the settlement account, and will settle after the relevant currency conversion(s) at the Bank's prevailing exchange rate(s).

### Example 1

#### **If you sell USD and buy CNY**

If you plan to invest in CNY with your fixed deposit of USD20,000 which will mature in 3 months, and want to lock current CNY forward rate for the investment, you may, by using the USD fixed deposit account as the Designated Account, enter into a 3-month CNY NDF with the Bank to sell USD20,000 at the current **CNY forward rate of 8.0300** to hedge against any risk of appreciation of CNY during the 3-month period (see below).

**On the valuation date, the cash settlement can be one of the following scenarios:**

<b>Scenario</b>	<b>Settlement rate</b>	<b>Settlement currency amount (USD)</b>	<b>Remarks</b>
Scenario 1 - CNY depreciation	8.100	+172.84 (Amount payable to the Bank by you on the settlement date)	Settlement currency amount > 0: As you are selling US dollars under your CNY NDF, you will suffer a loss from your CNY NDF. However, you can buy CNY at a lower spot rate which can compensate for your loss.
Scenario 2 - CNY unchanged	8.0300	0	There is no loss or gain under your CNY NDF. You may buy CNY at the spot rate.
Scenario 3 - CNY appreciation	7.8500	- 458.60 (Amount payable to you by the Bank on the settlement date)	Settlement currency amount < 0: As you are selling USD under your CNY NDF, you will make a profit from your CNY NDF which can compensate for your loss for having to buy CNY at a higher spot rate.

## Example 2

### **If you buy USD and sell CNY**

You have entered into a CNY denominated contract for the sale of goods with a business partner in China, where it is agreed that you shall receive a payment of CNY500,000 after six months. Since the purchase cost of your goods will be settled in US dollars, you would like to lock the CNY exchange rate to secure that the sales proceeds is not affected by exchange rates. You may hedge against any risk of depreciation of CNY during the 6-month period by entering into a 6-month CNY NDF with the Bank to purchase USD62,774.64 at **CNY forward rate of 7.9650** (see below).

**On the valuation date, the cash settlement can be one of the following scenarios:**

<b>Scenario</b>	<b>Settlement rate</b>	<b>Settlement currency amount (USD)</b>	<b>Remarks</b>
Scenario 1 - CNY depreciation	8.100	+1,046.24 (Amount payable to you by the Bank on the settlement date)	Settlement currency amount > 0: As you are buying USD under your CNY NDF, you will make a profit from your CNY NDF, which can compensate for your loss for having to sell CNY at a lower spot rate.
Scenario 2 - CNY unchanged	7.965	0	There is no loss or gain under your CNY NDF. You may sell CNY at spot rate.
Scenario 3 - CNY appreciation	7.8500	- 919.63 (Amount payable by you to the Bank on the settlement date)	Settlement currency amount < 0: As you are buying USD under your CNY NDF, you will suffer a loss from your CNY NDF. However, you may sell CNY at a higher spot rate.

The above information and hypothetical examples are for reference only and are not a complete analysis of all the possible gain or loss scenarios in an actual investment. You must not make any investment decision based upon the above information.

Remark: All forward rates, settlement rates and exchange rates used in the above examples are expressed as the number of units of the CNY required to purchase one unit of USD.

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### **Risk Disclosure**

The following risk disclosures do not purport to disclose all the risks involved. If in doubt, you should seek independent financial and professional advice before you make any investment decision.

- 1 CNY NDF is a non-deliverable forward in respect of CNY which will be settled in USD (or such other currency or currencies as may be specified in the confirmation relating to the CNY NDF transaction which you enter into).
- 2 Prior to investing in CNY NDF, you should read the general terms and conditions set out in the Chinese Yuan Non-Deliverable Forward Terms and the product specific information contained in the confirmation that will be provided to you when you enter into a CNY NDF, together with our Conditions for Services. The Chinese Yuan Non-Deliverable Forward Terms and our Conditions for Services are available upon request at any branch of the Bank.
- 3 CNY NDF is not principal protected. You bear a foreign exchange risk should the exchange rate between CNY and USD (or other specified currencies) change between the time the CNY NDF transaction is entered into and the time it is settled.
- 4 CNY NDFs are illiquid instruments which are not transferable or tradeable. You should therefore be prepared to hold your CNY NDF until the settlement date.
- 5 You assume the full credit risk of the Bank.
- 6 You must make your own independent decision as to whether and on what terms to enter into a CNY NDF transaction and should take professional advice as appropriate.
- 7 You acknowledge that the Bank or an affiliate may be requested to provide a quotation or quotation(s) from time to time for the purpose of determining the settlement rate used for the purposes of a CNY NDF transaction and such quotation(s) may affect, materially or otherwise, the settlement of that transaction.

In case of any discrepancy between the English and Chinese version of this document, the English version shall prevail.

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