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MEDIA RELEASE

FINANCIAL RISKS GURU SAYS OPTIONS OFFER GREATER OPPORTUNITY FOR PROFIT MINUS THE DOWNSIDE

Kuala Lumpur, 6 November 2009 – Treasury and derivatives risks guru and internationally-renowned author Dr Heinz Riehl says options, as opposed to forward contracts, offer greater opportunity for profit while protecting the customer against possible adverse FX rate changes.

Speaking to the media today at an OCBC Bank-hosted event entitled "Hedging FX Rate Risks," the US-based Professor of Finance at New York University called on exporters and importers to pay greater attention to protecting the value of their foreign currency receivables and payables. He said forward contracts, while doing well to protect funds, stop short of harnessing the opportunity to generate latent profits.

"To understand how this works, one needs first to review what exactly a forward contract is. Suppose that today a local exporter expects to receive $1 million in 3 months. If the 3-month forward rate for the dollar is RM3.50 per dollar, the exporter can sell those dollars for delivery on 10 February 2010. This forward sale contract will convert the receivable of $1 million into a receivable of RM3.5 million. In other words, even if the FX rate for the dollar on 10 February is 3.40 or 3.60, the forward FX contract locks in the rate at 3.50 and the customer receives RM3.5 million, not more and not less. Sure, the customer is protected against the lower rate of 3.40, but what about the opportunity to gain from a rate of 3.60?

"It is a commonly-held belief that hedging with a forward contract does not come with a cost. But that is a myth. The hidden cost of hedging FX risk with forward contracts is the lost opportunity to make money. The sale of dollars at 3.50 protects the exporter against a fall of the dollar to 3.40, but it also prevents him from benefiting if the dollar rises to 3.60 or higher. It is important to understand that there is an opportunity cost, and also that the *size* of this lost opportunity is unlimited and cannot be known in advance.

"I am pleased to say that you can indeed have your cake and eat it too – with options. When an importer or exporter has a need to hedge against an adverse change in the FX rate and still wishes to benefit when the FX rate moves in a positive direction, options provide the way to go. For example, the exporter who expects to receive $1 million in three months can buy a 3-month option with a put strike price of RM 3.50. This gives the exporter the right – but not the obligation –

to sell dollars at 3.50 if the dollar falls. However, if the dollar rises above 3.50, the exporter is free to sell dollars at the prevailing higher market rate," he said.

Dr Riehl, co-author of the acclaimed book *Foreign Exchange & Money Markets* and author of *Managing Risk in the Foreign Exchange, Money and Derivatives Markets* (both by McGraw-Hill in New York), is in Kuala Lumpur for a two-day customer and staff training programme organized by OCBC Bank (Malaysia) Berhad's Treasury Division.

According to OCBC Bank's Head of Global Treasury Mr Gan Kok Kim, through the programme, OCBC Bank hopes to equip both customers and relevant staff with the latest information on risks related to FX and how best to deal with those risks.

"We are very pleased to have Dr Riehl here to personally conduct these training sessions. This will help our customers make decisions based on the best possible advice available today. Considering Dr Riehl is not just a former banker himself but also one of the world's leading experts in managing risk in treasury and derivatives, we have at our disposal a great blend of both experience and expertise," he said.

Dr Riehl is also founder and president of Riehl World Training & Consulting, Inc., a risk-management consulting firm that advises international banks, central banks, and multinational corporations worldwide.

In his address to the media, Dr Riehl added that many sophisticated exporters buy zero-cost options, which involves two steps.

"First they protect against a fall of the dollar through the purchase of a slightly out of the money option with a put strike of say 3.48. They also may decide that they do not really need 'unlimited' opportunity on the upside and elect to sell a dollar call option slightly out of the money with a call strike of say 3.52.

"Zero-cost options are ideal for companies that have mandatory hedging policies, yet management is bullish for the dollar. Instead of selling the dollars forward at 3.50, the company can buy a zero-cost option with some protection on the downside at 3.48 – a risk they are willing to take, and limited opportunity up to 3.52 on the upside – a benefit they would love to have.

"Whether customers hedge with forward contracts or options, it is important to deal with creditworthy counterparties. If the counterparty to a trade fails, the customer must replace the contract at the prevailing market rate, which may be

less attractive than the original contract rate," he said, pointing out that OCBC Bank was recently rated one of the world's top 40 most creditworthy banks.

Dr Riehl also stressed the importance of customers having in place an independent confirmation process for all trades to protect against errors and fraud. In addition, he said customers should use a "product suitability verification" system, assuring that new products are thoroughly understood and all risks properly identified.

"In the final analysis, I would like to encourage you to be open to progress, new ideas, and change. Time without change produces only age! If we do not resist change in our work environment, we may stay professionally eternally young!"

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OCBC Bank's insurance subsidiary, Great Eastern Holdings, is the largest insurance group in Singapore and Malaysia by assets, and its asset management subsidiary, Lion Global Investors, is one of the largest asset management companies in Southeast Asia.

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Additional information may be found at www.ocbc.com.