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**Dual currency investment**

MIFID complexity
dynamic

The dual currency investment is an alternative to regular term deposits. It could be an ideal choice, when as a result of the company's financial operation you effect conversions more or less regularly in one or more currency pairs. The dual currency investment offers a higher yield on your short-term investments in a given currency, and in return you accept the possibility that the principal may be repaid to you in another currency.

product description

A dual currency investment involves an investment placed in a certain currency (base currency) with the proviso that the Bank may repay the principal in another currency (secondary currency), if at expiry the cross rate of the two currencies is at, above or below – depending on the direction of conversion – a pre-defined exchange rate level (conditional exchange rate). It is this conditional conversion obligation that secures for your fixed investment an interest rate that is higher than the market rate. If the conversion condition is met, the invested capital is returned to the client in the “secondary currency”. Interest payments, however, will always be made in the base currency, regardless of whether the principal has been converted or not. The investment cannot be cancelled during the tenor (security investment).

example: investment in euro (EUR)

An investor places EUR 100 000 at the Bank for 1 month and would like his investment to earn a higher interest rate than the market rate. In return for this, he is willing to take the risk that, if on the expiry date the strengthening of the euro against the forint reaches or exceeds a certain level (i.e., the EUR/HUF exchange rate goes above the conditional conversion rate), his invested capital will be repaid in forint at the maturity of the deposit. EUR/HUF spot exchange rate on the day when the investment is concluded is 406. The customer may choose from the following combinations of conditional conversion rates and enhanced interest rates for a 1-month tenor:

some possible combinations of conditional conversion rates and enhanced interest rates for EUR deposit (one option should be chosen from the table upon placing the investment)

conditional conversion rate (EUR/HUF)	enhanced annual interest rate (%) of the dual currency investment in EUR	payout in 1 month in case of a conversion
409	5.72%	40 900 000 HUF + 470.14 EUR (interest)
410	4.75%	41 000 000 HUF + 390.41 EUR (interest)
411	4.20%	41 100 000 HUF + 345.21 EUR (interest)
412	2.75%	41 200 000 HUF + 226.03 EUR (interest)

parameters of the dual currency investment – EUR deposit (upon choosing the first row)

notional	EUR 100 000
currency pair	EUR/HUF
tenor	1 month
exchange rate monitoring date	2 business days before end of tenor
date of delivery	at maturity



spot exchange rate	EUR/HUF 406
conditional exchange rate	EUR/HUF 409
guaranteed enhanced annual interest rate	5.72%
currency of the credited enhanced interest refund	EUR
condition of conversion of principal	spot market rate at or above the conditional conversion rate at 12 p.m. Budapest time on the exchange rate monitoring date
exchange rate of capital conversion	conditional conversion rate
value date for capital conversion and the crediting of the guaranteed enhanced interest	end of tenor (expiry date)
possible scenarios on expiry depending on the spot market rates at 12:00 p.m. on the expiry date	
A) exchange rate below 409 EUR/HUF	the investment stays denominated in EUR, and the 5.72% interest is credited by the bank to the client's account (in EUR) on the expiry date of the investment
B) exchange rate at or above 409 EUR/HUF	the investment will be converted into HUF at 409 EUR/HUF. The Bank will credit the 5.72%-interest to the client's account in EUR on the investment maturity date.
transaction cost	none

example of investment in forint (HUF): an investor places HUF 50 000 000 at the Bank for 1 months and would like his investment to earn a higher interest rate than the market rate. In return for this, he is willing to take the risk that, if on the expiry date the strengthening of the forint against the euro reaches or exceeds a certain level (i.e., the EUR/HUF exchange rate goes below the conditional conversion rate), his invested capital will be repaid in euro at the maturity of the deposit. EUR/HUF spot exchange rate on the day when the investment is concluded is 406. The customer may choose from the following combinations of conditional conversion rates and enhanced interest rates for a 1-month tenor:

some possible combinations of conditional conversion rates and enhanced interest rates for HUF deposit (one option should be chosen from the table upon placing the investment)

conditional conversion rate (EUR/HUF)	enhanced annual interest rate (%) of the dual currency investment in HUF	payout in 1 month in case of a conversion
402	6.15%	124 378.11 EUR + 252 740 HUF (interest)
403	6.70%	124 069.48 EUR + 275 342 HUF (interest)
404	6.95%	123 762.38 EUR + 285 616 HUF (interest)
405	7.85%	123 456.79 EUR + 322 603 HUF (interest)

Parameters of the dual currency investment – HUF deposit (upon choosing the first row)

notional	HUF 50 000 000
currency pair	EUR/HUF
tenor	1 month
exchange rate monitoring date	2 business days before end of tenor
date of delivery	at maturity



spot exchange rate	EUR/HUF 406
conditional exchange rate	EUR/HUF 402
guaranteed enhanced annual interest rate	6.15%
currency of the credited enhanced interest refund	HUF
condition of conversion of principal	spot market rate at or below the conditional conversion rate at 12 p.m. Budapest time on the exchange rate monitoring date
exchange rate of capital conversion	conditional conversion rate
value date for capital conversion and the crediting of the guaranteed enhanced interest	end of tenor (expiry date)
possible scenarios on expiry depending on the spot market rates at 12:00 p.m. on the expiry date	
A) exchange rate above 402 EUR/HUF	the investment stays denominated in HUF, and the 6.15% interest is credited by the bank to the client's account (in HUF) on the expiry date of the investment
B) exchange rate at or below 402 EUR/HUF	the investment will be converted into EUR at 402 EUR/HUF. The Bank will credit the 6.15%-interest to the client's account in HUF on the investment maturity date.
transaction cost	none

The calculations above are based on actual market parameters. Please note that the conditions of the product can change any time due to the change of the market parameters.

Other fees: (account maintenance fee, transfer fee): Fees can be found in the prevailing announcement and general terms and conditions.

On exchange rates you can find information on the official Reuters page (<http://uk.reuters.com/business/currencies>).

Taxation: The Banks does not deduct any taxes from clients who do not fall under the personal income tax, it is the client's responsibility to comply with tax regulations.

advantages

- it is possible to achieve yield above the regular term deposit interest, while the enhanced interest is guaranteed
- it is possible to profit from your predictions about the evolution of the cross exchange rate between a given pair of currencies (that is, to achieve extra yield) if your predictions prove to be right
- if the amount invested is eventually converted, this will always be done at a more advantageous exchange rate than the spot rate at the time of placement
- the enhanced interest rate or the conditional conversion rate can be set at your will, and the rest of the parameters will be calculated accordingly. The change of one parameter will cause the rest of the parameters to change, too.

risks

- if conversion takes place at maturity on the conditional exchange rate, this will always mean that the investment is converted to the term currency at a less advantageous rate than the current market rate applicable on expiry
- if the investment is not converted, the exchange rate of a spot conversion can be less advantageous than it would have been if done on the date of placement
- the investment cannot be broken before expiry (security deposit)



- the invested capital is not guaranteed (So if conversion takes place, a spot re-conversion could result a lower amount in the base currency than it was originally.)
- further risks, arising not exclusively from the characteristics of the product described here but from other factors, are explained in chapter I/b. of the “K&H Treasury Handbook of Market Risk Management” on risk factors.

product structure

This product is the combination of a security deposit and a plain vanilla option. The section on plain vanilla options of Chapter I/c. entitled “5 Basic Products” of “K&H Treasury Handbook of Market Risk Management”, also applies to this product.

The K&H Treasury Handbook of Market Risk Management and explanations for the products can be found on the K&H Bank webpage (www.kh.hu) on the corporate – K&H treasury services page.

The graph below shows the historical evolution of the EUR/HUF rate:



Results from the past are not a reliable indicator of future performance.





Dear Client,

We kindly request you to read the following information carefully prior to concluding any transaction!

The product outlined in the product description may differ from your/your company's MiFID profile, meaning that the product may be of higher risk profile than the risk tolerance level stipulated by you/your company in the MiFID documentation. In this case the Bank shall conclude the transaction solely at your/your company's initiative and shall manage the transactions falling outside the MiFID profile in accordance with its prevailing internal regulation. Before making your investment decisions please consider that the Bank does not recommend more than 30% concentration of the same investment product in your/your company's investment portfolio, thus deals exceeding this 30% concentration limit could be concluded solely at your pronounced request. In addition the Bank recommends matching the duration (expiry), liquidation opportunities before maturity of the desired investment product to your/your company's liquidity position.

Prior to concluding the deal, please, make sure that you fully understand the product, the operation thereof and potential development of the transaction's future market value. As a result of the future change in the transaction's market value you may incur a temporary or permanent obligation to provide additional collateral, which may impact your Company's liquidity and solvency.

If you believe that the information provided herein is not comprehensive, or you have questions or doubts in connection with the product, please notify the Bank's competent employee prior to concluding the deal, so that you receive the information you deem necessary.

If you believe that the information you received is not comprehensive, please do not conclude any deal for that specific product, even if otherwise the product fits into your/your company's MiFID profile.

If you do conclude a deal for the product outlined in the product description, it shall be construed that you deemed the information received from the Bank comprehensive, irrespective of the fact whether the product is in line with your/your company's (the Client) MiFID profile available for us at the time of concluding the deal.

Please, note that the parameters and prices stated in the product description are of indicative nature and serve only referential purposes. The parameters of the actually concluded deals will correspond to the terms agreed during the telephone conversation recorded upon deal conclusion and those may depart from the indicative parameters and prices stated in this product description.

