

IV/a

**investments -
continuously
available investment
products**





structured investment products - with capital protection



1. tower deposit

MIFID complexity

Careful

The tower deposit is a possible alternative to a regular term deposit. This form of investment is an opportunity for you to achieve far higher interest than the market rates, profiting from your exchange rate expectations, while the minimum interest rate (and fixed capital repayment at maturity) is guaranteed (as well as the repayment on expiry of the capital placed). Both the capital and interest will be repaid in HUF, and changes in the exchange rate will affect the amount of the interest only.

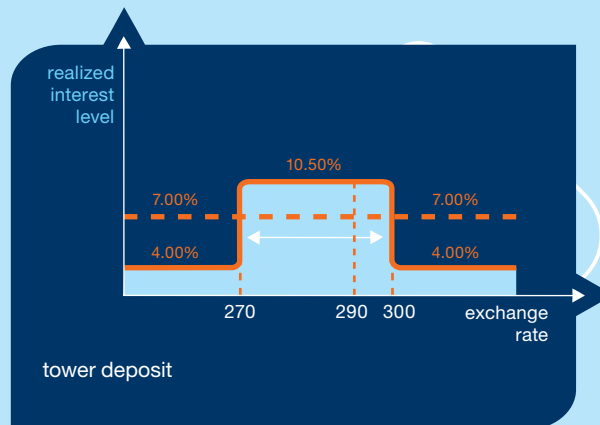
product description

A client places a deposit at a bank. The interest paid for this deposit depends on the fluctuation of the currency pair (one of them being the currency in which the deposit is placed) during the maturity. The interest rates premiums are paid if the product's conditions are met. If the evolution of the exchange rate is in-line with the conditions set when the deal is concluded, then an interest rate above the regular term deposit rate is achievable, in other case the minimum interest rate will be guaranteed, and this is lower than the regular term deposit rate. The client will be returned 100% of the capital placed, in the same currency as in which the deposit was made.

interest rate premium's conditions	possible exchange rate monitoring
the interbank exchange rate of a given currency pair reaches or exceeds at least once the exchange rate level fixed in advance over the tenor	from the trade day until the second business day before the expiry day OR over the tenor in any partial period
the interbank exchange rate of a given currency pair does not reach or exceed the exchange rate level fixed in advance over the tenor	
the interbank exchange rate of a given currency pair remains in the exchange rate range fixed in advance over the tenor	
the interbank exchange rate of a given currency pair exceeds or touches at least once either the top or the bottom of the exchange rate range fixed in advance over the tenor	
the interbank exchange rate of a given currency pair reaches or exceeds at least once an exchange rate level fixed in advance over the tenor and in the same time it does not reach or exceed a further exchange level fixed in advance	
the interbank exchange rate of a given currency pair is above / below an exchange rate level fixed in advance on the monitoring day	at a given time on the second business day before the expiry day
the interbank exchange rate of a given currency pair is within an exchange rate range fixed in advance on the monitoring day without touching the top or bottom of the range	
the interbank exchange rate of a given currency pair is out of an exchange rate range fixed in advance on the monitoring day without touching the top or bottom of the range	

Based on the above, your investment can bring in high interest not only if the exchange rate is less volatile but also when it evolves in the direction you predicted. This product has a variant in which not only one exchange rate condition is defined. In that case you can have different interest rate premiums tied to different conditions. The deposit will not be broken before the end of the investment period (security deposit).

example for a HUF investment (in case of a range): an investor has HUF 100 million, which he wishes to deposit for the next 3 months. The regular market interest rate for 3-month term deposits is 7% per annum, and the EUR/HUF spot rate is 290. The investor expects no significant volatility in the exchange rate in the coming 3 months, and would like to turn this expectation into profit. He is ready to accept lower yield if his expectations turn out to be wrong eventually. Therefore, this investor places his savings in a tower deposit, with the following conditions (with range limits set according to the client's will, and the interest rates calculated accordingly):



conditions of the tower deposit for a 3-month tenor (one option must be chosen from the following table when the deposit is placed)

exchange rate range (EUR/HUF)	maximum interest rate	minimum interest rate
range: 275 – 305	13.00%	0.10%
range: 275 – 305	11.00%	2.00%
range: 270 – 305	10.50%	0.10%
range: 270 – 305	9.50%	2.00%
range: 270 – 300	10.50%	4.00%

possible outcomes on expiry according to the example of the last line

	interest income if exchange rate stays within fixed range	interest income if exchange rate leaves range or touches either boundary
tower deposit	10.50%	4.00%
regular deposit	7.00%	7.00%

parameters of the tower deposit – example in case of the last option above

notional	HUF 100 000 000
tenor	3 months
expiry date	end of tenor
exchange rate monitoring period	up to 2 business days before end of tenor
normal deposit rate (annualised)	7.00%
spot exchange rate	290 EUR/HUF
ATMF volatility	10.00%
EUR/HUF exchange rate range	270-300 EUR/HUF
achievable maximum interest (annualised)	10.50%
condition to crediting achievable maximum interest	the EUR/HUF interbank market exchange rate does not leave the fixed EUR/HUF exchange rate range, and does not touch either boundary, during the tenor
guaranteed minimum interest (annualised)	4.00%
transaction charges	none

example for a HUF investment (in the case of reaching exchange rate levels): an investor has HUF 100 million, which he wishes to deposit for the next 3 months. The regular market interest rate for 3-month term deposits is 7% per annum, and the EUR/HUF spot rate is 290. The investor expects no significant volatility in the exchange rate in the coming 3 months, and would like to turn this expectation into profit. He is ready to accept lower yield if his expectations turn out to be wrong eventually. Therefore, this investor places his savings in a tower deposit, with the following conditions, which provides higher interest rate than the minimum, if the exchange rate level closer to the spot is reached, and it provides the maximum interest rate, if the farther exchange rate is reached (with range limits set according to the client's will, and the interest rates calculated accordingly):

conditions of the tower deposit for a 3-month tenor (one option must be chosen from the following table when the deposit is placed)

wider exchange rate level (EUR/HUF)	maximum interest rates	tighter exchange rate level (EUR/HUF)	intermediate interest rate	minimum interest rates
282	13.50%	285	4.00%	0.10%
284	11.50%	285	4.00%	0.10%
284	10.50%	288	4.00%	0.10%
284	9.50%	288	4.00%	2.00%
282	12.00%	285	4.00%	2.00%

possible outcomes on expiry according to the example of the last line

	if the exchange rate reaches the farther level fixed in advance	if the exchange rate reaches the closer level fixed in advance	if the exchange rate does not reach either levels fixed in advance
tower deposit	12.00%	4.00%	2.00%
regular deposit	7.00%	7.00%	7.00%

parameters of the tower deposit – example in case of the last option above

notional	HUF 100 000 000
tenor	3 months
expiry date	end of tenor
exchange rate monitoring period	up to 2 business days before end of tenor
3-month BUBOR at time of pricing (annualised)	7.00%
spot exchange rate	290 EUR/HUF
ATMF volatility	10.00%
farther EUR/HUF exchange rate	282 EUR/HUF
achievable maximum interest (annualised)	12.00%
condition to crediting achievable maximum interest	the EUR/HUF interbank market exchange rate reaches the farther EUR/HUF exchange level
closer EUR/HUF exchange rate	285 EUR/HUF
achievable intermediate interest (annualised)	4.00%
condition to crediting the intermediate interest	the EUR/HUF interbank market exchange rate reaches the closer EUR/HUF exchange level
guaranteed minimum interest (annualised)	2.00%
transaction charges	none

advantages

- it is possible to achieve yield above the regular term deposit interest, while there is a guarantee that the capital plus a minimum interest will be repaid on expiry. It is possible to profit from your predictions concerning the evolution of the exchange rate of a specific currency pair (and thus to achieve extra yield), if your predictions prove right
- the maximum interest rate, the minimum interest rate and the width of the range 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 during the investment period the exchange rate leaves the range(s) defined in advance, the guaranteed minimum interest is lower than the term deposit interest that was achievable on the market when the deposit was made
- the deposit cannot be broken before expiry (security deposit)
- 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 digital option. The explanation concerning digital options, provided in chapter I/c. entitled “5 Basic Products” of “K&H Treasury Handbook of Market Risk Management” also applies to this product.