structured investments products - without capital protection

1. 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 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 of investment in euro (EUR): an investor places EUR 100 000 at the Bank for 3 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 euro against the forint 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 290. The customer may choose from the following combinations of conditional conversion rates and enhanced interest rates for a 3-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 3 month in case of a conversion
293	10.00%	HUF 29 300 000 + EUR 2 500 (interest)
295	8.00%	HUF 29 500 000 + EUR 2 000 (interest)
298	7.00%	HUF 29 800 000 + EUR 1 750 (interest)
300	6.00%	HUF 30 000 000 + EUR 1 500 (interest)

parameters of the dual currency investment – EUR deposit (upon choosing the first row)	
notional	EUR 100 000
currency pair	EUR/HUF
tenor	3 month
exchange rate monitoring date	2 business days before end of tenor
date of delivery	at maturity
3-month EURIBOR at time of pricing (annualised)	1.00%
spot exchange rate	EUR/HUF 290
ATMF volatility for 1 month	10.0%
conditional exchange rate	EUR/HUF 293
guaranteed enhanced annual interest rate	10.00%
currency of the credited enhanced interest refund	EUR
condition of conversion of principal	spot market rate 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 293 EUR/HUF	the investment stays denominated in EUR, and the 10.00% interest is credited by the bank to the client's account (in EUR) on the expiry date of the investment
B) exchange rate above 293 EUR/HUF	the investment will be converted into HUF at 293 EUR/HUF. The Bank will credit the 10.00%-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 25 000 000 at the Bank for 3 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 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 290. The customer may choose from the following combinations of conditional conversion rates and enhanced interest rates for a 3-month tenor:

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 3 month in case of a conversion**
289	11.00%	EUR 86 505.19+ HUF 687 500 forint (interest)
288	10.50%	EUR 86 805.56+ HUF 656 250 (interest)
287	10.00%	EUR 87 108.01 + HUF 625 000 (interest)
286	9.50%	EUR 87 412.59 + HUF 593 750 (interest)

parameters of the dual currency investment – HUF deposit (upon choosing the first row)	
notional	HUF 25 000 000
currency pair	EUR/HUF
tenor	3 month
exchange rate monitoring date	2 business days before end of tenor
Ddate of delivery	at maturity
3-month BUBOR at time of pricing (annualised)	7.00%
spot exchange rate	EUR/HUF 290
ATMF volatility for 1 month	10.0%
conditional exchange rate	EUR/HUF 289
guaranteed enhanced annual interest rate	11.00%
currency of the credited enhanced interest refund	HUF
condition of conversion of principal	spot market rate 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 289 EUR/HUF	the investment stays denominated in HUF, and the 11.00% interest is credited by the bank to the client's account (in HUF) on the expiry date of the investment
B) exchange rate below 289 EUR/HUF	the investment will be converted into EUR at 289 EUR/HUF. The Bank will credit the 11.00%-interest to the client's account in HUF on the investment maturity date.
transaction cost	none

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.