

Dual Currency Deposits (DCDs) with knock-outs

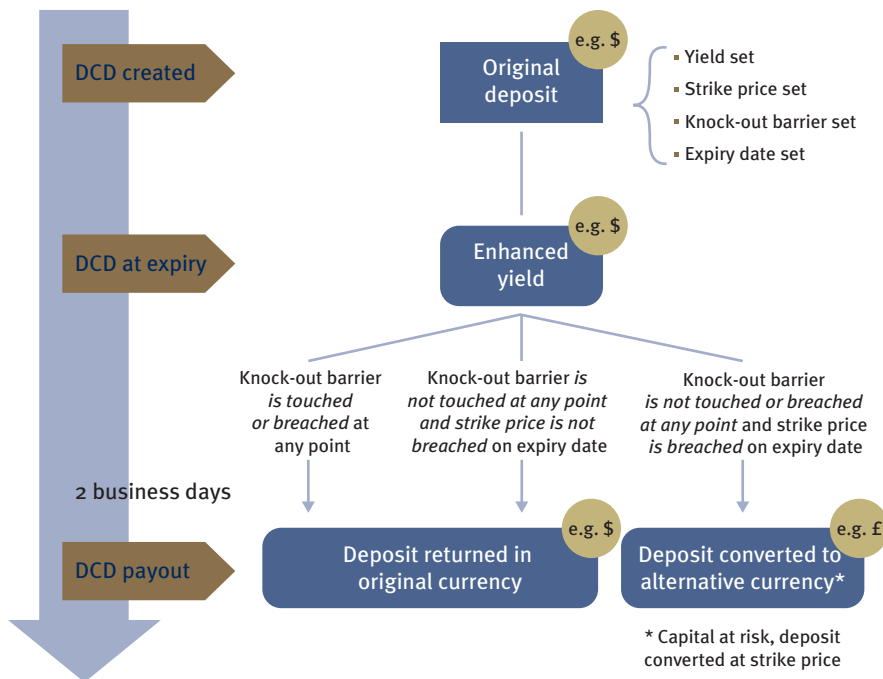
Earning returns through foreign exchange strategy

What exactly is a DCD with a knock-out?

DCDs with barrier events are tailored solutions that combine a money market investment with a foreign exchange strategy. Unlike with a standard DCD, once the knock-out

level is touched/breached at any time during the lifespan of the product, the risk of conversion into the alternative currency is removed. Knock-out DCDs are typically placed for one to three months, as with a standard DCD.

DCD knock-out lifecycle



Key Information:

- Minimum investment is approximately USD 250,000 or currency equivalent
- Terms range from as short as one week to as long as one year
- Offered in all major currencies
- Deposits held within RBC

Key benefits:

- Potentially higher yield available than with traditional fixed term deposits
- If the knock-out barrier is touched/breached, there is no conversion risk
- Increased portfolio diversification

Key risks:

- Capital may be at risk
- Principal amount could be converted into an alternative currency at a pre-determined strike inferior to the prevailing spot rate of the chosen currency pair
- There may be tax reporting requirements related to this product and investors should seek tax advice

Implementation

Should the pre-determined knock-out level never be touched/breached, at expiry there are two possible payouts: the investor will either receive the original deposit currency or the alternative currency. In either case the enhanced yield will be paid in the original deposit currency, regardless of where the exchange rate of the chosen currency pair is at expiry. If the alternative currency appreciates

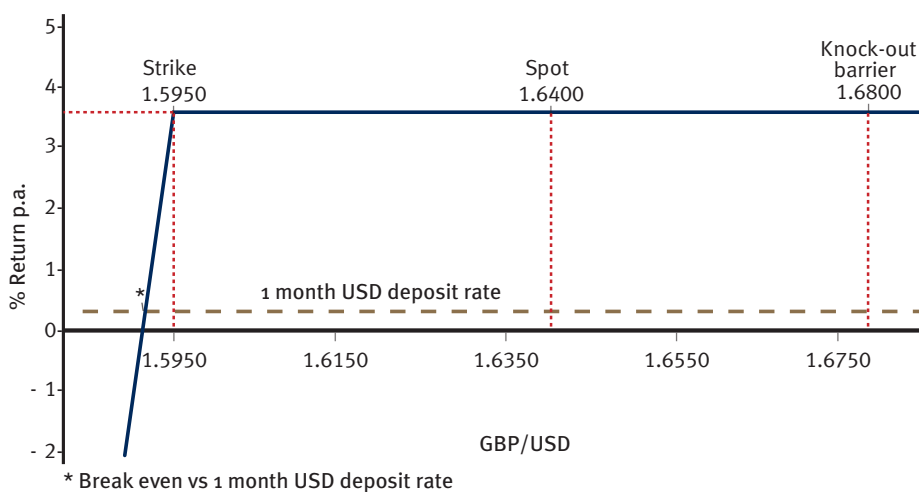
against the original deposit currency, and touches or breaches the knock-out barrier at any time before expiry, the investor will receive the original deposit currency plus the enhanced yield. However, if the knock-out barrier is not breached during the lifespan of the contract, the DCD with a knock-out will behave in exactly the same manner as a standard DCD. As a result, the foreign exchange spot rate at expiry will determine the currency in which the

investor is to be repaid.

Therefore, the further away the knock-out barrier is from the current spot rate, the higher the risk of being converted into the alternative currency and for this reason, the investor is rewarded with a higher return. Conversely, the closer the knock-out barrier is set to the current spot rate, the higher the chance of the knock-out barrier being breached and consequently, the lower the yield offered.

Knock-out DCD - payoff diagram

An illustrative example



DCD example

Currency pair: GBP/USD
Spot rate: 1.6400
Deposit: USD 250,000
Term: 1 month
Yield: 3.50% per annum
Strike: 1.5950
Knock-out barrier: 1.6800

Potential payout scenarios at expiry:

Two days before maturity we will notify the investor of the interest due in the original deposit currency and whether the principal will be paid in the original or the alternative currency at the pre-agreed exchange rate (strike), based on one of the three possible scenarios at expiry:

- 1) If GBP/USD touched or breached the 1.68 knock-out barrier at any point, the investor is paid back the full amount of capital and enhanced yield in USD.
- 2) If GBP/USD did not touch or breach the 1.68 knock-out barrier and the spot rate is above the 1.5950 strike at expiry, the investor is repaid the full amount of capital and enhanced yield in USD.
- 3) If GBP/USD did not touch or breach the 1.68 knock-out barrier and the spot rate is below the 1.5950 strike at expiry, the original deposit is converted into the alternative currency (GBP) at the strike price but the yield is received in the original deposit currency (USD).

Further information

Please contact your usual Relationship Manager or Investment Advisor if you would like to find out more about Dual Currency Deposits. Alternatively, feel free to use the following contact details:

Paul Bowman
Head of FX Product Strategies
Tel: +44 (0) 20 7002 2080
Email: paul.bowman@rbc.com

Thomas Green
FX Strategist
Tel: +44 (0) 20 7029 0058
Email: thomas.green@rbc.com

www.rbcwminternational.com



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