(Leveraged) Knock into Forward

Tailor-made solution to hedge your foreign currency exposure

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About Knock into Forward

A Knock into Forward is an over-the-counter (OTC) structured forward that is primarily used as a hedging solution. The Knock into Forward offers the possibility to **benefit to a limited extent from an appreciation of the foreign currency you are exposed to, depending on the knock-in level.** You are hedged at a predefined exchange rate which is slightly worse (if unleveraged) compared to the Outright Forward rate. You can enhance the hedge rate with the use of leverage; however, your foreign currency exposure is then only partially hedged (Leveraged Knock into Forward). You can define the degree of risk/leverage in advance.

The Knock into Forward allows for a customized hedging solution, tailored to your risk and hedging profile. Knock into Forwards are OTC derivative instruments and the notional amount does not need to be tied up throughout the full tenor of the trade. Nonetheless, usual margin requirements still apply. Usually, Knock into Forwards are structured as zero premium hedging solutions.

Your Needs

- You are looking for a tailor-made hedging solution
- You want to benefit to a limited extent from an appreciation of the foreign currency you are exposed to
- You do not expect the Barrier to be reached or breached at any time during the tenor of the trade
- You accept a slightly worse hedge rate (if unleveraged) compared to the Outright Forward rate
- You are looking for a zero premium hedging solution

Your Advantages at a Glance

- You hedge your foreign currency exposure at a **predefined hedge rate**
- You **profit to a limited extent** from an appreciation of the foreign currency you are exposed to
- **Usually no premium** has to be paid upfront (zero cost strategy)
- You can choose from **more than 80 currency and precious metal pairs** to meet your needs

Possible Risks

- You **limit your potential profit** if the foreign currency you are exposed to appreciates more than expected
- The **hedge rate is less favorable (if unleveraged)** compared to the Outright Forward rate
- The **hedge rate applies only to a part of the exposure** due to the use of leverage (Leveraged Knock into Forward)
- The structure might have a **negative market value during the lifetime** and may involve costs if you want to close the position prior to expiry date
- "Events of Default" as described in the relevant OTC contracts (Master Agreement for OTC transactions)

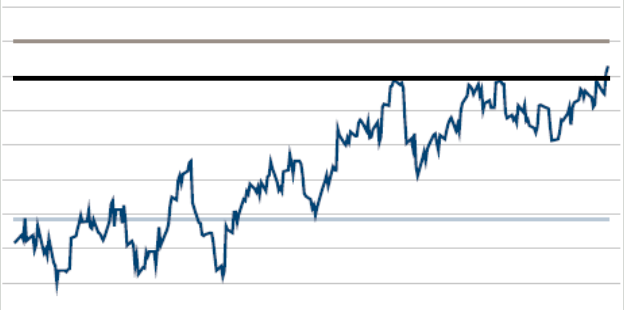
Knock into Forward: A Tailor-made OTC Solution

A Knock-into Forward is an individually tailored hedging solution, structured to meet your needs. You can define:

- Currency or precious metal pairs
- Tenor
- Notional amount
- Strike
- Barrier (continuous observation)
- Leverage factor (ratio)
- Upfront premium, usually zero cost

Knock into Forward (Example of a Buyer)

Guaranteed hedge at the Strike (**worse than the Outright Forward rate if unleveraged**) in order to benefit from a favorable market move down to the Barrier.



Outright Forward — Strike — Barrier

How it works

At expiry, one of the following scenarios may occur:

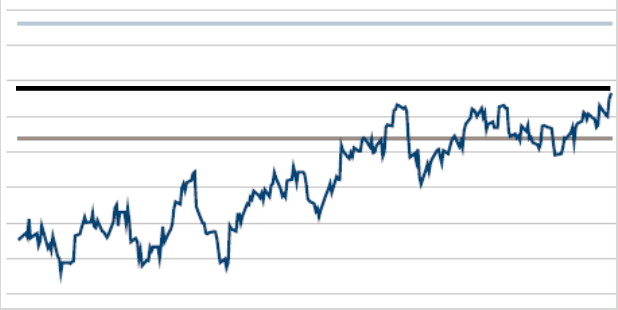
1) Underlying trades above the Strike
You buy the notional amount at the Strike.

2) Underlying trades at or below the Strike and the Barrier has not been reached or breached
No transaction takes place on the settlement date. You could buy the notional amount at the prevailing spot rate (outside this structure).

3) Underlying trades at or below the Strike and the Barrier has been reached or breached
You are obliged to buy the notional amount (multiplied by the leverage factor, if any) at the Strike.

Knock into Forward (Example of a Seller)

Guaranteed hedge at the Strike (**worse than the Outright Forward rate if unleveraged**) in order to benefit from a favourable market move up to the Barrier.



Outright Forward — Strike — Barrier

How it works

At expiry, one of the following scenarios may occur:

1) Underlying trades below the Strike
You sell the notional amount at the Strike.

2) Underlying trades at or above the Strike and the Barrier has not been reached or breached
No transaction takes place on the settlement date. You could sell the notional amount at the prevailing spot rate (outside this structure).

3) Underlying trades at or above the Strike and the Barrier has been reached or breached
You are obliged to sell the notional amount (multiplied by the leverage factor, if any) at the Strike.

Contact Us

- Your advisor will be pleased to answer any questions you may have during a personal consultation
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- For more information about investments visit our website at: **www.credit-suisse.com/mysolutions**

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