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**Product brochure
Premium Investment**

Product description

The premium investment is a financial instrument which pays higher fixed yield denominated in the invested currency at the end of the term, meanwhile the principle amount is repaid either in the original currency of the investment or in the other currency of the market reference at the maturity, depending on the exchange rate level of the predefined reference rate.

Customer gets back the invested principal in the original currency, if the exchange rate does not reach a certain predefined level, known as conditional conversion rate, at the expiry time. If on the expiry the original currency of the investment is (e.g. in the case of a euro investment the EUR/HUF exchange rate is equal to or higher than the conditional conversion rate), then the principal is converted to the other currency at the conditional conversion rate.

The premium investment is not capital guaranteed. The value of the principal expressed in the original currency, may be considerably lower at the time of the maturity than at start date, depending on how the reference exchange rate changes.

Unlike capital guaranteed products, here the yield is fixed (and it is always paid in the original currency of the investment). Higher yield is available if the conditional conversion rate of the investment is close to the market reference exchange rate effective at the time of the deal booked (less favourable rate for the customer to convert), while in the case of a more distant conversion rate the yield is lower.

The expiry time depends on the given currency pair (e.g. in the case of the EUR/HUF it is 12.00 Budapest time) and specified on the confirmation.

Beyond the normal premium investment there are two more product variations, the *knock-in* and the *knock-out* types. In case of knock-in one, the product behaves as normal investments without any FX risk before knock-in event, and becomes a premium investment which could convert to another currency at the conditional conversion rate if the reference rate reaches the knock-in level during the term. In case of knock-out one, the product behaves as a premium investment, but the FX risk could be eliminated if the reference rate reaches the knock-out level.

When do we recommend it?

3. Medium-risk product

- If you wish to earn higher yield than the standard deposit rates and you are flexible as regards the currency of the investment.
- For exporter and importer companies, if you have disposable funds that you wish to convert to another currency in the course of your future business operations.
- If you have a target exchange rate for the future conversion.

Advantages of premium investment:

- High yield even over a short term.
- It is possible to combine a high level of yield with a favourable conversion rate.
- In case of recurring investment, FX profit can be realized by using the exchange rate fluctuations
- The exchange rate matters only at expiry (this is the moment when it is decided in which currency the client gets back the invested amount). Consequently it does not matter how the exchange rate fluctuates till maturity.
- The minimal initial amount of premium investment is 3 million HUF, 8 000 EUR, 8 000 USD or 15 000 CHF in case of EURHUF, EURUSD, CHFHUF and USDHUF deals.
- Customized investments: in case of significant amount, the investor may customize the parameters of the investment: maturity, currency, currency-pair, and yield or conditional conversion rate. The risk also changes with the modification of the parameters.
- The currency of the investment and the reference currency pair is optional, and can be chosen from all liquid pairs such as HUF, EUR, USD or CHF.
- The maturity is optional. Usually it is between 1 week and 1 year. In case of customized investment it may be longer 1 year.

Disadvantages of premium investment:

- Early termination of the investment is not permitted. If the Customer nonetheless needs the invested funds, the Bank, may – based on a case-by-case assessment – provide a loan to the Customer in accordance with the General Business Conditions, secured against a fixed-term investment (which serves as collateral for the loan).
- The Customer runs an exchange rate risk, because if the market price reaches or exceeds the predefined rate at the expiry time, then the principal is converted at the conditional conversion rate to the other currency, and thus an FX loss may be incurred if the customer does not actually need a currency conversion.
- Conversion of the investments depends on the exchange rate quotes of the previous day of maturity, thus the fact of conversion is not known at the beginning. This product is not suitable for standard conversion.
- The amount placed in premium investment is not covered by the deposit insurance provided by the National Deposit Insurance Fund nor by the protection provided by the Investor Protection Fund.

Scenarios

We would like to illustrate the two possible alternatives of the investment

Example 1

Let's assume that you invest 10 000 000 HUF into premium investment for 27 days. The current EURHUF rate is 394,00 and you do not expect any major movements in the exchange rate for the next month, but you may convert HUF into EUR at a lower level. Besides you want to earn higher yield than the interest paid on standard HUF deposits. Then Raiffeisen Bank's Treasury recommends the following HUF premium investment to you:

Invested amount:	10 000 000 HUF
Current rate (spot):	394,00
Market reference:	EURHUF
Market reference rate:	8,99%
Yield:	10,50% (annual basis)
Conditional conversion rate:	393,50
Term:	27 days
Amount of fixed yield:	77 671,23 HUF

Depending on the spot EURHUF rate of the day before maturity at 12.00 a.m., the following can take place:

- If the exchange rate is 393,50 or higher, the invested amount will be repaid in the original currency. At maturity the 10 000 000 HUF principal and 77 671,23 HUF yield will be repaid. During 1 month term 10 000 000 HUF was invested at 10,50% yield.
- If the exchange rate is lower than 393,50 (e.g. 392,00) the invested amount will be repaid in EUR, converted at the conditional conversion rate. At maturity you will receive $10\,000\,000 / 393,50 = 25\,412,96$ EUR principal and 77 671,23 HUF yield. The 10,50% yield will also be paid in HUF, while the conversion of HUF principal is less favourable at the conditional conversion rate than at current market rate, but still more favourable than at the initially available rate of 394,00.

Example 2

3. Medium-risk product

Let's assume that you invest 100 000 EUR into premium investment for 30 days. The current EURHUF rate is 285.00 you do not expect any major movements in the exchange rate for the next month, but you may convert HUF into EUR at a higher level.

Besides you want to earn higher yield than the interest paid on standard EUR deposits. Then Raiffeisen Bank's Treasury recommends the following EUR premium investment to you:

Invested amount:	100 000 EUR
Current rate (spot):	393,60
Market reference:	EURHUF
Market reference rate:	3,9339%
Yield:	7,40% (annual basis)
Conditional conversion rate:	395,50
Term:	27 days
Amount of fixed yield:	547,40 EUR

Depending on the spot EURHUF rate of the day before maturity at 12.00 a.m., the following can take place:

- If the exchange rate is lower than 395,50, the invested amount will be repaid in the original currency. At maturity you will receive the 100 000 EUR principal and 547,40 EUR yield. During 1 month term 100 000 EUR was invested at 7,40% yield.
- If the exchange rate is 395,50 or higher (e.g. 397,00) the invested amount will be repaid in HUF, converted at the conditional conversion rate. At maturity you will receive $100\,000 \times 395,50 = 39\,500\,000$ HUF principal and 547,40 EUR yield. The 7,40% yield will also be paid in EUR, while the conversion of EUR principal is less favourable at conditional conversion rate than at current market rate, but still more favourable than at the initially available rate of 393,60

Product risk

Explanation of product risk:

3. Medium-risk product is that, which does not ensure the return of the invested money but the price of the product does not shows great/hectic movements under normal market conditions, and/or which has VaR based maximum potential loss under 35%.

Factors of product risk:

The most characteristic risks will be determined below.

3. Medium-risk product

Market risk:

Due to exchange rate movements a financial instrument's future cash flow may fluctuate. Future cash flows denominated in HUF may also change depending on the rate-movements.

Liquidity risk:

In this case liquidity risk refers to the fact, that early termination of the investment is not permitted, although the Client may need the principal or a part of it before the maturity.

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