6. High risk product

Updated: 01/08/2019

Product brochure

Turbo certificate

Product description

Certificates are structured derivative securities that are traded on or outside the stock exchange, and the price and price fluctuations of which depend on the changes in the price of another financial instrument (the underlying product). The issuer (the issuers of certificates are generally banks) ensures permanent quoting on the stock exchange. Information on the specific characteristics of certificates should be sought prior to making an investment.
Turbo certificates are securities that correspond to a leveraged investment in the price changes of an underlying product, which means that the investor is able to take a position of higher value than his own assets. A turbo certificate (as its name suggests) provides higher exposure than the certificate's underlying product, meaning that it also comes with a higher risk than the same investment into the underlying product.
Long (call/bull) turbo certificates profit from a rise in the underlying product price, while short (put/bear) turbo certificates profit from a fall in the underlying product price.
The investor's share stemming from positive changes in the underlying product price is generally unlimited, while adverse price changes are only assumed by the investor up to a predefined threshold, which, once breached, results in the expiry of the turbo certificate, meaning that the investor does not risk more than the invested capital. The exercise price is a predefined price of the underlying product, lower than the price of the underlying product at the time of issuance in the case of long certificates, and higher than the price of the underlying product at the time of issuance in the case of short certificates. Often, this coincides with threshold (strike price/barrier). If the underlying product price reaches the predefined barrier at any time during the term, the certificate expires, is knocked out, and becomes worthless. After the turbo certificate is knocked out, the issuer quotes the purchase price on the knocked out certificate, and that the investor may collect the residue old value by selling the knocked out certificate.

When is it recommended?

- If you are aiming for a high yield and are willing to undertake the risk associated with the underlying product.

Product risk

1. VERY LOW	2. LOW	3. MODERATE	4. MEDIUM	5. INCREASED	6. HIGH	7. EXTREMELY

6. High-risk product: This category includes the financial instruments (e.g. Turbo certificates, options etc.) that are leveraged and carry high risk due to the price fluctuations of the underlying financial product(s). They may lose their total value already in the medium term, or only be tradable at a substantial loss. As losses are limited to the initial invested capital, the potential loss cannot exceed 100% of the invested amount. (To assess possible losses, the Bank determines the risk classification of a product using VaR calculation based on historical data, at a 99% confidence level, for a one-year investment horizon.)

Key risk factors

Exchange rate risk	The individual financial instruments may be denominated in different currencies, and as a result, the value (payment) of these securities expressed in a currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies.
Issuer risk	The issuer risk is the risk assumed by the issuer of the securities. The value of the securities and the satisfaction of the claims related to them depend on the issuer's business operations, liquidity position and net worth. The risk arising from poor financial management is reflected primarily in the price of the issued security, and in the case of insolvency or the issuer's refusal to pay, the receivables arising from the securities may go unpaid.
Exchange rate risk of the underlying product	The exchange rate risk of the underlying product is the risk that the certificate loses some of its value as a consequence of adverse changes in the price of the underlying product. The underlying product is often a complex transaction itself exposed to multiple risk factors (typically, the underlying product is a commodity market futures transaction). The certificate's barrier may be modified due to the cost of financing, and the extent of gearing may change due to fluctuations in the underlying product price, both of which may impact the level of exchange rate risk.
Liquidity risk	Liquidity risk arises when a customer cannot buy/sell a product because there is no counterparty in the market who would sell/buy it to/from them. This type of risk mainly occurs during times of crisis or in the case of rare markets or products where demand and supply are difficult to match. Generally, the issuer ensures continuous quoting for the certificates issued by it in order to decrease liquidity risk. There is a trade-off between liquidity and the quantity of a product to be sold/bought: when smaller quantities are sold/bought, the investor may

	perceive higher liquidity, while liquidity may fall parallel with quantity increases.
Spread risk	As the issuer has an interest in investors holding certificates to maturity, issuers may quote a lower bid price than offer price (with the bid and offer price interpreted from the distributor's perspective). In practice, this translates to a wide spread between the offer and bid price, which may incur a loss for the investor in case of a sale before maturity.

Scenarios*

Example 1	Let's assume that the exchange rate of oil is USD 45.05, and you are expecting further rise in the price, so you by 100 Oil Turbo Long certificates at USD 8.10 per unit. The chosen certificate is sold at an exercise price of USD 43.10 and a barrier of USD 40.00. If you sell the product 22 days later and the price of the underlying product 22 days later reaches USD 53.40, your profit achieved in 22 days is USD 220 ([USD 53.40 USD – USD 43.10] x 100 units – USD 8.10 USD x 100 units).
Example 2	Let's assume that the exchange rate of oil is USD 45.05, and you are expecting further rise in the price, so you by 100 Oil Turbo Long certificates at USD 8.10 per unit. The chosen certificate is sold at an exercise price of USD 43.10 and a barrier of USD 40.00. If you sell the product 22 days later and the price of the underlying product 22 days later reaches USD 40.00, the certificate has reached its barrier and expires with no value, and the invested capital is lost.

PLEASE NOTE: The examples presented in this document do not show every possible outcome. For easier understanding the examples are simple and do not include any fees, commissions or taxes. They are insufficient to form the basis for an investment decision.

Practical information

- Information for customers: https://www.raiffeisen.hu/maganszemely/megtakaritas-befektetes/befektetesi-tajekoztato
- Product-related descriptions and interpretations: https://www.raiffeisen.hu/treasury-utikalauz
- Information on investment products: https://www.raiffeisen.hu/maganszemely/megtakaritas-befektetes/befektetesi-tajekoztato
- Product-related fees and charges: https://www.raiffeisen.hu/hasznos/kondiciok
- Taxation of investments: http://www.nav.gov.hu/
- Institutional protection: http://www.oba.hu/ and http://www.bva.hu/
- Changes in the prices of financial instruments issued by Raiffeisen Bank Zrt.: https://www.raiffeisen.hu/hasznos/arfolyamok
- Changes in the prices of key products: http://bet.hu/ (Hungarian stock exchange), http://akk.hu/ (Hungarian government securities), http://www.mnb.hu/ (exchange rates)
- In the case of turbo certificates, no EHM (standardised rate of return on securities) is calculated.

Other information

- Depending on the nature of the given product, investments are exposed to various risks, including the possible loss of the capital invested. No reliable conclusions can be drawn from historical data or information regarding future returns, changes or performance.
- The risk of a financial instrument made up of more than one component may exceed the sum of the risks of the individual components.
- Conversion between different currencies may affect the result achievable.
- Any tax consequence related to an investment product may only be assessed on the basis of the Customer's individual conditions, and may change in the future as a function of changes in legislation.
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