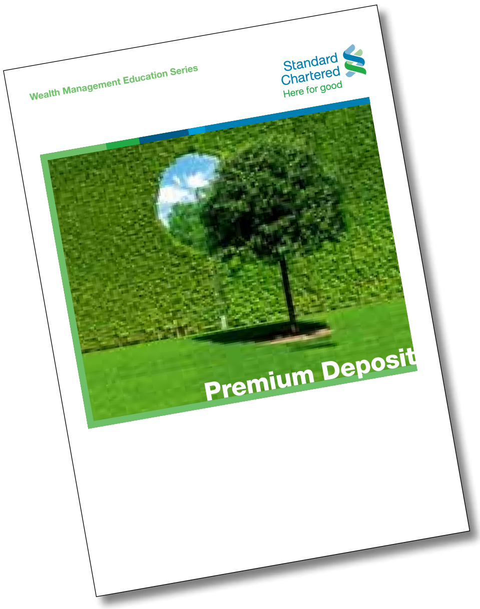
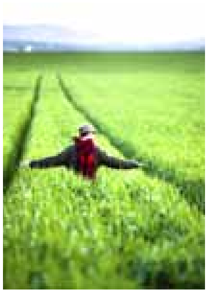
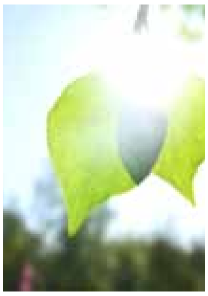
Wealth Management Education Series

Standard Chartered
Here for good

# Premium Deposit




Managing your wealth well is like tending a beautiful formal garden – you need to start with good soil and a good set of tools. Just as good soil has the proper fertility to nourish a plant, having the right foundation in financial literacy should empower you to potentially cultivate a successful investment portfolio. ***Premium Deposit*** is part of our **financial education series** to help educate you on the fundamentals of investing as you tend your very own financial garden.

# What is a Premium Deposit?

Premium Deposit (PD) is a structured – or customised – investment product that is linked to a pair of currencies and is often referred to as a 'dual currency investment'. It is a short-term, fixed-period investment which may offer the potential for a higher rate of return than traditional time deposits.

## To invest in a PD

1. Determine your *Deposit currency*
2. Determine your investment amount or *principal*
3. Select an *alternate currency* from 9 selected currencies
4. Choose *investment tenor* (ranging from one week to a year), and
5. Set an exchange rate, also known as the *Conversion Rate*, at which your initial investment could be converted to the alternate currency
6. The *interest rate* will be determined by the Bank based on the above criteria

## What is a Premium Deposit (PD)?

When your PD matures, you will receive your principal and interest payment. However, these could be paid to you in either the deposit currency, or the alternate currency depending on whether the spot exchange rate of your chosen currency pair is lower than the Conversion Rate.

This investment involves you selling a currency option and receiving an option premium from the Bank. The option premium is in the form of part or all of the interest that you will receive at maturity. With the currency option, the Bank buys the right to give you the principal and interest in alternative currency at maturity, in the event that the alternative currency depreciates against the deposit currency on the fixing date.

# Who is it for?

## PD may be suitable for investors who are

### Indifferent between holding either the deposit or alternate currency

As your principal investment and interest could be paid back to you in either currency, you should be prepared to hold any of the two currencies.

### Comfortable holding on to a weakening currency

Depending on the foreign exchange movements, you may get back your principal and interest in a weakening currency. However, you should note the relatively higher interest paid on a PD may not be sufficient to offset unfavourable foreign exchange rates at the time of maturity.

### Waiting to buy another currency

This type of investment is particularly relevant if you have future needs for the alternative currency. This is because the Premium Deposit may allow you to earn a higher interest rate while waiting to buy the alternate currency at the Conversion Rate (or CR).

### Expecting the exchange rate to stay within a tight range

As long as the exchange rate between your two chosen currencies remains stable over the investment period up to the fixing date or is worse than your CR on the fixing date, you may potentially enjoy a higher return from the product – as it may offer interest rates that are higher than normal deposit rates.

### Seeking to diversify their investment portfolio

If you currently have a variety of asset classes such as equities or bonds in your portfolio, the Premium Deposit might be a way to diversify your portfolio.

# How does it Work?

## How does it Work?

You have USD100,000 to invest and you do not mind holding either US dollars (USD) or Australian dollars (AUD). You do not need these funds for another month, so you choose an investment term of 1 month.

Assuming the current spot exchange rate for AUD/USD is 1.0704.

If you hold a conservative view as to the range within which the spot exchange rate will fluctuate and set a Conversion Rate (CR) of 1.0604 (AUD/USD) (which is very close to the current spot exchange rate).

The interest rate of a one-month tenor PD with conversion rate of 1.0604 (AUD/USD) is 8% p.a., which is higher than the prevailing USD or AUD deposit interest rates.

| | |
|---|---|
| **Deposit Currency** | USD100,000 (USD) |
| **Alternate Currency** | Australian Dollars (AUD) |
| **Interest Rate** | 8% p.a. |
| **Term** | 1 month |
| **Current AUD/USD exchange rate** | 1.0704 |
| **Conversion Rate (CR)** | 1.0604 |

On fixing day, (two business days before maturity), it will be determined whether your investment plus interest will be paid in USD or AUD. This depends on the spot exchange rate relative to the Conversion Rates shown in the following two scenarios:

## Scenario 1

USD weakens against AUD and now trades at 1.08 (AUD/USD).

As the spot exchange rate is worse than the CR (i.e. The deposit currency has depreciated against the alternate currency on the fixing date), your investment will be repaid in USD, the deposit currency.

You will receive:
Your principal plus interest in USD

**100,000 + (1/12 x 8% x 100,000) = USD100,667**

## Scenario 2

USD strengthens against AUD and now trades at 1.05 (AUD/USD).

As the spot exchange rate is better than the CR (i.e. The deposit currency has appreciated against the alternate currency on the fixing date), your investment will now be repaid in AUD, the alternate currency.

You will receive:
Your principal plus interest in AUD converted at Conversion Rate of USD1.0604/AUD.

**(100,000 + 667) ÷ 1.0604 = AUD94,933**

## Scenario 2

### In Scenario 2, you may consider 3 options:

**A** Continue to hold the investment in a regular AUD time deposit (or other AUD-denominated investments) and when the exchange rates move in your favour, you can consider converting the AUD back to USD.

**B** Convert the AUD proceeds immediately upon maturity to USD. In this case, using the example above, the proceeds of AUD94,933 when converted at the spot exchange rate of 1.05 means you will receive USD99,680 - representing a shortfall of USD320 from the original investment of USD100,000.

**C** Place the proceeds into another Premium Deposit with the deposit currency as AUD and USD as the alternate currency. To do so, you should be prepared to receive back USD at the agreed Conversion Rate, should USD weaken over the investment period up to the fixing date and the spot exchange rate on the fixing date is worse than the Conversion Rate.

**These scenarios are part of an example only and are not indicative of the returns that may actually be achieved in relation to a specific PD. The actual profit/shortfall in this example is dependent on the spot USD/AUD at maturity.**

# What are the Benefits?

## Premium Deposit may allow you to...

Enjoy a guaranteed interest rate that is potentially higher than term deposits, on a short-term investment

Buffer against the effects of a weakening holding currency

Diversify your investment portfolio

# What are the Risks?

## What are the Risks?

As with any investment, there are risks to be mindful of. The following are risks which apply to such currency-linked investments:

### Principal Risk

There is no principal-protection or guarantee with such investments. You may lose some or all of your initial principal investment if the investment is repaid in the alternate currency and the exchange rate is unfavourable at maturity.

### Market Risk

Your selected currency pair may not perform to the desired levels. Even if market movements in the exchange rates are highly favourable, your upside is limited only to the specified amount you will receive under the terms of the investment.

### Liquidity Risk

This is not a liquid investment. You must be prepared to hold your investment to the agreed term.

### Early Termination Risk

Early termination is at the sole discretion of the Issuer, that is, subject to the Issuer’s consent. Should you be able to terminate the investment early, you may incur a loss as the product will be terminated at the prevailing market rate.

## Exchange Rate

Exchange rates may rise or fall sharply. This may result in the loss of some or all of your initial investment if the proceeds are paid at maturity in an alternate currency.

## Conversion Risk

You may be repaid in the alternate currency at maturity rather than the original currency of your investment. If you convert the amount back to your original currency at an unfavourable exchange rate, the foreign exchange loss suffered may be greater than the interest earned on your initial investment amount.

## Settlement

You will not have access to the funds at maturity until the funds have been received from the Issuer. This may take two to three business days.

## Tax

You should seek the advice of an independent tax consultant before committing to purchase PD, to ensure that such an investment suits your current tax status.

**The professional services of a financial advisor can be most valuable in determining your individual risk profile and inclinations before you make an investment in a PD or any other investment product. He or she will be able to monitor your investments, help you understand if they are performing to expectations, identify new investment opportunities and make recommendations where relevant.**

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