1. Very low risk product

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Product brochure

PRÉMIUM Hungarian Government Bond

Product description

In the case of variable-rate government bonds only the time and mode of interest setting is determined at the time of issuance, the amount of the coupon payable is only known for the given coupon payment period. The coupon is generally paid yearly at the end of the given interest period, while the capital is repaid at maturity. The bonds are registered at both net and gross price. Gross price is obtained by discounting the bond's known future coupons and the capital with the corresponding available market yields. Net price equals gross price less accrued interest. The bond is generally traded at gross price.

The interest basis of the Prémium Hungarian Government Bond (PMAP) series is typically re-priced every 12 months at a rate that equals the percentage value of the official annual average consumer price index change published by the Hungarian Central Statistical Office for the calendar year preceding the year in which the interest setting occurred, with the proviso that if the value of the consumer price index change is a negative value, the interest basis will be equal to 0%. An interest premium is added to the interest basis of the bond, which is set at the time of issuance for the entire term of the bond. In addition to the branches of the Hungarian State Treasury, all dealers have daily mandatory market-making responsibilities, which ensures continuous liquidity in this market.

When is it recommended?

- If you are looking for a EUR denominated, medium to long-term investment vehicle linked to inflation rates, where repayment of the capital invested is guaranteed by the state.

Product risk

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

1. Very low-risk product: This category includes financial instruments (e.g. Discounted Treasury Bills, Interest-bearing Treasury Bills, Liquidity funds, etc.) that typically provide a predetermined return at maturity in addition to the capital invested. Their risk lies mainly in the potential counterparty default risk and – if they are sold before maturity – the volatility of market interest rates. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 5% of the capital invested. (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

Interest rate risk	In the case of variable-rate bonds, the cause of the interest rate risk is that a change in market yields during an interest period will affect the value of the bonds. Market yields can increase as a result of accelerating inflation, budget overspending, a central bank rate hike or government over-indebtedness, among others. A decrease in market yields can result from a slowdown in inflation, deflation, shrinking debts or monetary policy easing (a rate cut). Variable-rate bonds carry relatively low interest rate risk.
Cash-flow risk	Cash-flow risk occurs if the investor cannot plan for the expected coupon payments (cash flows) during the full term of the bond.
Country risk	The risk of investing in the instruments of a country, which depends on the given country's financial, economic and political stability. A more stable country means a smaller country risk premium, thus smaller risks and, in accordance with that, lower yields on government bonds. This type of risk shows little change in the short term.

Scenarios*

Example 1	Let's assume that today you buy a PMAP bond with a par value of HUF 1,000,000. The bond's nominal interest rate is 1.58%, time until re-pricing: 156 days, and the corresponding gross price (net price + accrued interest) is 99.92%, that is, the bond costs HUF 999,200. If there is a yield increase (i.e. price drop) and 20 days later the same security can be sold at 99.60%, that is at a price of HUF 996,000, you will realise a loss of HUF 3,200.
Example 2	Let's assume that today you buy a PMAP bond with a par value of HUF 1,000,000. The bond's nominal interest rate is 4.38%, time until re-pricing: 327 days, and the corresponding gross price (net price + accrued interest) is 99.12%, that is, the bond costs HUF 991,200. If there is a yield increase (i.e. price drop) and 20 days later the same security can be sold at 98.17%, that is at a price of HUF 981,700, you will realise a loss of HUF 9,500. If we compare bonds by time until re-pricing, we can say that the longer that time is, the bigger the potential gain/loss on the same investment horizon (20 days in the two examples above), under the same

market conditions (with a yield increase of 1.5 percentage points in the two examples above). Compared to a fixed-rate bond with a similar term, a variable-rate bond is much less likely to react to yield movements, which means much lower interest risk.

Example 3

Let's assume that today you buy a PMAP bond with a par value of HUF 1,000,000 and hold it until maturity. The bond's nominal interest rate is 4.38%, its interest period is 1 year, while its gross price (net price + accrued interest) is 99.12%, that is, the bond costs HUF 991,200. If you hold the security to maturity, your risks will be negligible, you will receive the current interest at every coupon payment, and at maturity you will also receive the par value. One of the advantages of the above bond is that its price is much less likely to react to market interest rate changes, as the interest is "only" set for the given period (in our current example: 12 months). On the other hand, one of its disadvantages is that the exact value of future cash flows changes, therefore, it is difficult to accurately calculate the attainable profit until maturity.

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 variable-rate bonds, 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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