

## 4. Medium risk product



Updated: 01/08/2019

# Product brochure

## Range accrual (RAC) bond

### Product description

Raiffeisen Bank is an active player on the domestic bond market and is a regular actor on the retail as well as the institutional investors' market as an issuer. Within the framework of an annually renewed bond scheme it serves customers who want to invest with a variety of products, tailoring them to market demands and means available. As a result of a change in legislation, credit institution bonds issued after 2 July 2015 will no longer be covered by National Deposit Insurance Fund (NDIF) insurance. Raiffeisen bonds issued at an earlier date will continue to be covered by the NDIF until maturity. Raiffeisen Bank Zrt. assumes full responsibility – to the extent of the value of all of its assets – for the redemption of the bonds.

In the case of the RAC bonds issued by Raiffeisen Bank, the nominal interest (coupon) payable on the bonds is set at the time of issuance for the entire term, but the coupon is only payable in respect of the days when a pre-set variable is within a given range (typically EUR/HUF exchange rate). For the purpose of coupon payment, the Bank retroactively calculates the number of days when the fixed variable was within the specified range, and the coupon is paid proportionally for those days within the interest period.

### When is it recommended?

- If you are looking for a medium or long-term investment vehicle with a higher yield than government securities, and are willing to take the risk associated with the underlying product in return.

### Product risk

1. VERY LOW	2. LOW	3. MODERATE	4. MEDIUM	5. INCREASED	6. HIGH	7. EXTREMELY
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**4. Medium-risk product:** This category includes financial instruments (e.g. predominantly bond mixed funds, Raiffeisen interest-bearing bonds, structured corporate bonds etc.) which characteristically do not guarantee a return of the invested capital, but except in the event of extraordinary market events, shifts in security price are moderate compared to other (non-capital-guaranteed) securities. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 35% 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

Issuer risk	Issuer risk is the risk associated with 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. In the event of default or the issuer's intention not to pay, the claims arising from debt securities may not be paid (default risk of bonds).
Interest rate risk	Interest rate risk arises from the fact that a change in market yields influences the value of the securities. 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). The longer the term of a bond is, the more sensitive its price is to changes in yields. If you hold the securities to maturity, there is no interest rate risk to consider.
Price volatility of the underlying product	Volatility means the variability of a price. The volatility of the underlying product has an effect on the secondary market price of structured bonds. If the price is within the band and volatility increases, there is a higher probability that the price will leave the band, which may entail a drop in the secondary market price of the bond.
Spread Risk	Since the issuer is interested in making sure that investors hold the bonds until maturity, it sets a buy rate that is lower than the sell rate (the sell and buy rates are interpreted from the perspective of the issuer). What this means in practice is that the spread between the buy and sell rates is wide, and as a result, the investor may suffer a loss, if the bonds are sold before maturity.

### Scenarios\*

Example 1	Let's assume that you bought a five-year range accrual bond with a par value of HUF 1,000,000 at the time of issuance. The bond has a nominal interest rate of 3.65% per annum, and one day's coupon is accrued on the days when the official EUR/HUF exchange rate set by the MNB is below 330.00 but over 295.00. If no coupon was accrued on your bond since issuance, the Bank recognises the bond at a gross price of 92.80%.
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### Example 2

Let's assume that you bought a five-year range accrual bond with a par value of HUF 1,000,000 at the time of issuance. The bond has a nominal interest rate of 3.65% per annum, and one day's coupon is accrued on the days when the official EUR/HUF exchange rate set by the MNB is below 330.00 but over 295.00. The EUR/HUF exchange rate was within the range for 45 days over the past six months, therefore, a HUF 4,500 coupon ( $45/365 \times 3.65\% \times 1,000,000$  HUF) was already accrued. If you would like to sell your bond, the Bank will buy it from you at a gross price that includes the accrued coupon.

**\*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://bef.hu/> (Hungarian stock exchange), <http://akk.hu/> (Hungarian government securities), <http://www.mnb.hu/> (exchange rates)
- In the case of range accrual 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.
- This document is intended for information purposes, and should not be construed as an offer to buy or sell any investment product or service or as investment or tax advice by Raiffeisen Bank Zrt. Consequently, before making an investment decision, please consider the appropriateness of the investment in light of your own goals, needs, financial position and the risks involved.