3. Moderate risk product

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Product brochure

Capital-protected derivative funds

Product description

A set of assets in joint ownership created by issuing investment fund shares and operated by an investment fund manager, managed by the investment fund manager under a general mandate from investors, in their interest. The security representing the investor's share in an investment fund is called an investment fund share. An investment fund share is an instrument enabling investors to invest their savings in a simple, safe and cost-effective manner in different markets, while sharing risks. Investors receive a share of the yield proportionate to their investment.

Capital-protected funds are a special type of derivatives fund. The fund manager usually provides capital and yield protection supported by the investment policy. Capital-protected funds supported by their investment policy invests large portion of the accumulated capital into safe government securities or other interest-bearing instruments, guaranteeing that the initial capital is preserved at its nominal value at the end of maturity. The remaining portion of the initial capital is generally invested into derivative leveraged products (such as options), and the profit realised on these determines the yield over and above the guaranteed capital. The underlying products of options are generally stock market indices, however other products (e.g. raw material or real estate market indices) have now become widespread. Guaranteed/capital-protected funds are typically close-ended funds, but there are some funds that are open-ended and feature a definite maturity. The investment fund shares of a close-ended fund can only be traded on the secondary market after being issued, and the shares can only be redeemed to the issuer at the end of maturity (the issuer only guarantees repayment of the capital and the yield at this date). Open-ended funds enable continuous redemption, however redeeming the shares before maturity results in the loss of the capital and the yield guarantee.

When is it recommended?

- If you are able to make a longer term investment (capital-protected funds generally feature maturities of 3-5years).
- If you want to access exotic markets using safe instruments that you are otherwise unable to.

Product risk

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

3. Moderate-risk product: This category includes financial instruments (e.g. unstructured corporate bonds, capital-protected certificates, etc.) that typically repay the capital invested at maturity, but the possible rate of return is initially unknown. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 15% 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

Exchange rate risk	The financial instruments may be denominated in different currencies, so the value (payment) of these securities expressed in a foreign currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies.
Exchange rate risk of derivative instruments	The market price of options, future and various other derivative investment instruments may fluctuate far more than changes in the underlying product (stock market index, foreign currency, etc.). Therefore the price of the investment fund shares may exhibit significant fluctuations.
Counterparty risk	Non standardised derivative transactions concluded outside the framework of stock market transactions that are included in the portfolio carry the risk of any change in the solvency of the issuer of the option or other derivative instrument, and they are unable to meet to their contractual payment obligations towards the fund.
Interest rate risk	Interest rate risk arises from the fact that a change in market yields influences the market value of interest-sensitive securities. Expected 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, shrinking debts or monetary policy easing (a rate cut). The longer the term of a fixed-interest instrument is, the more sensitive its price is to changes in yields. As the value upon maturity of the interest-bearing instruments purchased at the outset ensure capital protection for the capital-protected fund, this risk is insignificant if the investment fund shares are held until maturity.
Liquidity risk	Selling the elements of the portfolio — particularly longer-maturity or no maturity securities — or investing the fund's financial assets may become difficult from time to time, or only be feasible at a low price. This is because the liquidity of securities markets becomes insufficient from time to time due to a

relatively small number of participants and ample supply in securities. In addition, the price of securities may be strongly shaped by highly volatile market supply and demand, which may impact the price of investment fund shares through the fund's net asset value. This type of risk is moderate in the case of derivatives funds.

Scenarios*

Example 1

Let's assume that on 3 February 2016 you decide to invest HUF 1,000,000 in a capital-protected derivatives fund with maturity on 31 January 2017. You purchase 100 investment fund shares at HUF 10,000 each. The fund paid out yield of HUF 600 per investment fund share on 11 March 2016, which you reinvested in the fund's investment fund shares at a price of HUF 9,162.91 (the purchase of approximately 6.55 investment fund shares). On 19 March 2016, you decide to redeem all of your investment fund shares at a price of HUF 10,201.34. You thus realise a profit of HUF 86,934 (10,201.34 x 106,548 units - HUF 1,000,000) on your investment.

Example 2

Let's assume that on 3 February 2016 you decide to invest HUF 1,000,000 in a capital-protected derivatives fund with maturity on 31 January 2017. You purchase 100 investment fund shares at HUF 10,000 each. The fund paid out yield of HUF 600 per investment fund share on 11 March 2016, which you reinvested in the fund's investment fund shares at a price of HUF 9,162.91 (the purchase of approximately 6.55 investment fund shares). On 19 March 2016, you decide to redeem all of your investment fund shares at a price of HUF 8,978.87. You thus realise a loss of HUF 43,318 (8,978.87 x 106,548 units - HUF 1,000,000) on your investment. As you redeemed your investment fund shares prior to their maturity, capital protection does not apply to them.

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 of investment funds, 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.