5. Increased risk product

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Product brochure

Index 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) ensure permanent and continuous quoting. Information should be sought on the specific characteristics of certificates prior to making an investment.

Index certificates are securities that are fully tied to a share or a bond index, or to the price changes of raw materials or raw material indices, allowing the investors to acquire exposure in the underlying product through a single simple security. The market offers fixed maturity (usually of a few years) and no maturity index certificates. There is a difference between total yield indices and price indices. In the case of total yield indices (such as the DAX), dividends are reinvested, so the holder of a certificate receives dividend payments. By contrast, certificates based on price indexes do not entitle their holders to any dividend yields. If the underlying product of an index certificate is a futures contract expiring before the index certificate's maturity, the hedge mist be rolled over. Roll-over exacerbates the tracking error, i.e. increases the risk of imperfect tracking of the underlying product price.

When is it recommended?

- If you are aiming for a yield that is higher than the risk-free rate 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

5. Increased-risk product: This category includes financial instruments (such as shares or derivative funds) that characteristically carry substantial risk, featuring a price that may fluctuate significantly even in the short run, but investors are generally shielded from losing the entire value of their capital investment unless some extraordinary market event occurs. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 65% 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.
Issuer risk	Issuer risk is the risk of 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. Risk arising from poor financial management is reflected primarily in the price of the issued shares, and receivables arising based on the securities may go unpaid due to insolvency or the issuer's refusal to pay.
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 itself a complex transaction shaped by multiple risk factors. The price of the index certificate may, besides shifts in the price of the underlying product, also be shaped by the volatility of the underlying product price, the tracking error, maturity and interest levels.
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, decreasing liquidity risk. There is a trade-off between liquidity and the quantity of a product to be sold/bought: when selling/buying smaller quantities, the investor may perceive higher liquidity, while liquidity may fall as the quantity increases.
Spread risk	As the issuer has an interest in investors holding certificates until their 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 expiry.

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Scenarios*

Example 1	Let's assume that on 22 January 2016 you decide to purchase 50 index-linked certificates at a price of USD 112.98 per unit. If on 24 February 2017 you decide to sell your certificates at USD 130.21 per unit, you will realise a profit of USD 861.50.
Example 2	Let's assume that on 3 February 2016 you decide to purchase 100 index-linked certificates at a price of USD 127.13 per unit. If on 12 March 2017 you decide to sell your certificates at USD 121.12 per unit, you will incur a loss of USD 601.00.

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 index 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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