4. Medium risk product

Updated: 01/08/2019

Product brochure

Structured corporate bonds

Product description

In the case of structured corporate bonds the rate of interest on the bond is pegged to the evolution of some variable. This variable (underlying product) may typically be an exchange rate, an equity index, oil, gold, the inflation rate, but there are also bonds pegged to the amount of snowfall (ski lift operators) or wind force.

The issuer of the bond – with assistance from one or more managers/arrangers – prepares for the issue, plans the conditions of the loan to be taken out, determines the par value, quantity and interest rate of the bonds and the terms of interest and principal (re)payments. The range of issuers is quite wide, and bonds of companies with all sorts of credit ratings are available in the market. In addition to the large number of issuers, there is also an extremely broad selection of other bond characteristics (sector, term, currency, interest, credit rating, etc.). In the bond market the liquidity of different issues may vary considerably. The liquidity of some securities almost equals that of government bonds, while others may see no supply or demand for months, and even if there is some liquidity, it can only be achieved at the expense of a significant price loss.

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

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	In the case of structured bonds, the cause of 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). Structured bonds carry a relatively low interest rate risk.
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 in a crisis, or in the case of rare markets or products where demand and supply are difficult to match.
Price risk	Price risk means that shifts in the variable (underlying product) influence the coupon rate payable. In the case of callable bonds, coupon payment depends on the price of the underlying product on the interest rate monitoring date; in the case of indexed bonds, the bond accrues interest on the days when the price of the underlying product stays within a predetermined band.
Exchange rate risk	Securities may be denominated in different currencies, so the value of a security expressed in a foreign currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies. If an investor buys securities denominated in a foreign currency (not forints), a change in the exchange rate will also affect the forint value of the coupon payments and principal repayments of the securities.
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.

Scenarios*

Example 1	Let's assume that you bought a corporate bond with a par value of HUF 1,000,000 at the time of issuance. The bond has a nominal interest rate of 8.50%, and one day's coupon is accrued on the days when the official EUR/HUF exchange rate set by the MNB is between (and including) 300.00 and 308.50. The bond has a 1-year term and pays interest at maturity. The EUR/HUF rate hovered between 300.00 and 308.50 on each of the 182 days that have passed, so the accrued interest is 4.24% (8.50% x 182/365). If the EUR/HUF rate hovers outside the band until maturity, you will realise HUF 42,400 of interest.
Example 2	Let's assume that six months ago you bought a corporate bond with a par value of HUF 1,000,000. The bond has a nominal interest rate of 8.50%. Interest is paid once a year provided that 3 days before the interest payment date the official USD/HUF exchange rate set by the MNB is below 275.00. As the USD/HUF rate was 273.58 on the monitoring date, you will realise HUF 85,000 of interest on the interest payment date.
Example 3	You are planning to buy an indexed corporate bond with a par value of EUR 1,000 today. The bond has a nominal interest rate of 5.50%, and one day's coupon is accrued on the days when the official EUR/HUF exchange rate set by the MNB is between (and including) 300.00 and 308.50. The bond has a 3-year term and pays interest once a year. The time to maturity is exactly 18 months, and the EUR/HUF rate hovered between 300.00 and 308.50 on each of the 182 days that have passed in the second interest period, so the accrued interest is 2.74% (5.50% x 182/365). By purchasing the bond, you also pay the accrued interest.

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/ és 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 structured 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.