3. Moderate risk product

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Product brochure

Variable-rate corporate bond

Product description

Variable-rate corporate bonds are typically issued by companies, municipalities, banks and mortgage banks. The issuer assumes full responsibility – to the extent of the value of all of its assets – for the redemption of the bonds. 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 case of variable-rate 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 rate of interest is usually linked to changes in one of the bank or inter-bank interest rates (e.g. base rate, BUBOR, LIBOR).

When is it recommended?

- If you are looking for a medium to long-term investment vehicle with a higher yield than government securities and are willing to take additional credit and liquidity risk in return.

Product risk

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

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.
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).
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.
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.
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.

Scenarios*

Example 1	Let's assume that today you buy a variable-rate 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 variable-rate 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 variable-rate 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 0.5 years, 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: 6 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.
- 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.