6. High risk product

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Product brochure

Warrant

Product description

Warrants are securitised options traded on the stock exchange, in other words, they are derivative securities that give the holder the right to purchase or sell a financial instrument (basic or underlying product) at a predefined price. Information on the specific characteristics of warrants should be sought prior to making an investment. Investing in warrants requires far less capital than investing directly in the underlying product representing the same amount of exposure. Thus one of the main product characteristics of warrants is leveraging. Two main types of warrants can be distinguished: call warrants (representing a purchase right) and put warrants (representing a selling right). In addition, there are European, American and Bermuda style warrants. A warrant's strike price is the predefined price of the underlying product to which the holder of the warrant acquires a right to buy or sell by purchasing the warrant. The conversion ratio shows the quantity of the underlying product that can be bought or sold with the warrant. (For instance, a 1:10 conversion ratio means that buying 10 warrants gives the investor the right to buy or sell one unit of the underlying product.) Leverage shows the number of warrants that the investor could purchase at the current price of the underlying product. Effective leverage (omega) shows the percentage change in the price of the warrant resulting from a 1-percent change in the price of the underlying product. Omega is not constant, and is always interpreted at a specific moment. In the event of a favourable underlying product price, the holder of the warrant can exercise his right to sell or buy. If a warrant is exercised, fulfilment of the transaction falls due.

When is it recommended?

- If you have a high risk appetite and are willing to undertake the risk associated with leveraging in exchange for the opportunities afforded by leveraging.

Product risk

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

6. High-risk product: This category includes the financial instruments (e.g. Turbo certificates, options etc.) that are leveraged and carry high risk due to the price fluctuations of the underlying financial product(s). They may lose their total value already in the medium term, or only be tradable at a substantial loss. As losses are limited to the initial invested capital, the potential loss cannot exceed 100% of the invested amount. (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 individual financial instruments may be denominated in different currencies, and as a result, the value (payment) of these securities expressed in a currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies.
Issuer risk	The issuer risk is the risk assumed by 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. The risk arising from poor financial management is reflected primarily in the price of the issued security, and in the case of insolvency or the issuer's refusal to pay, the receivables arising from the securities may go unpaid.
Exchange rate risk of the underlying product	The exchange rate risk of the underlying product is the risk that the warrant loses some of its value as a consequence of adverse changes in the price of the underlying product. The underlying product is often also a complex transaction exposed to multiple risk factors (typically, the underlying product is a commodity market futures transaction). Besides the price fluctuations of the underlying product, the value of a warrant is also determined by the volatility of the underlying product's price, the warrant's term to maturity, changes in the lending fee, leveraging and the dividend yield.
Price volatility of the underlying product	Volatility means the variability of a price. The volatility of the underlying product has affects the price of warrant. If the price of the underlying product approaches the warrant's limit/strike price, a rise in volatility may entail a sudden loss in the warrant's value.
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 warrants issued by it in order to decrease liquidity risk. There is a trade-off between liquidity and the quantity of a product to be sold/bought: when smaller quantities are sold/bought, the investor may

perceive higher liquidity, while liquidity may fall parallel with quantity increases.

Spread risk	As the issuer has an interest in investors holding warrants until their maturity, issuers may quote a lower bid price than offer price (with the bid and offer price interpreted from the issuer'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.

Scenarios*

Example 1	You think that the DAX index will rise in the upcoming month and invest EUR 1,000 in DAX call warrants with ten-fold leveraging. You purchase the product at the price of EUR 0.80 quoted by the issuer, and a strike price of EUR 5,600, acquiring a total of 1,250 call warrants (EUR 1,000/EUR 0.80). The index's current value is EUR 5,450. Let's assume that the index falls two weeks later to EUR 5,300. If you sell your warrants at the current bid price of EUR 0.70 quoted by the issuer, you will incur a loss of EUR 125 (1,250 units x [EUR 0.70 – EUR 0.80]).
Example 2	You think that the DAX index will fall in the upcoming month and invest EUR 1,000 in DAX put warrants with ten-fold leveraging. You purchase the product at the price of EUR 0.50 quoted by the issuer, and a strike price of EUR 5,100, acquiring a total of 2,000 call warrants (EUR 1,000/EUR 0.50). The index's current value is EUR 4,900. If you hold the warrants until their maturity and the DAX index's price is higher than the strike price on the maturity date, the warrant expires without being exercised, at no value. In this case, you will incur a loss of EUR 1,000.
Example 3	You think that the DAX index will rise in the upcoming month and invest EUR 2,000 in DAX call warrants with ten-fold leveraging. You have purchased the product at the price of EUR 1.00 quoted by the issuer, and a strike price of EUR 5,100, acquiring a total of 2,000 call warrants (EUR 2,000/EUR 1.00). The index's current value is EUR 5,050. If you hold the warrants until their maturity and the DAX index's price is EUR 5,230 (higher than the strike price) on the maturity date, the warrant is exercised and fulfilled in the context of settlement. In this case, you realise a profit of EUR 600 (2,000 units x 0.01 x [EUR 5,230 – EUR 5,100 EUR] – EUR 2,000).

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 warrants, 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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