

# 1. Very low risk product



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## Product brochure

### Variable-rate government bond

#### Product description

Variable-rate government bonds are issued by sovereign states or their dedicated institutions in a way that only the time and mode of interest setting is determined at the time of the issuance of the bonds, while the amount of the coupon payable is only known for the given coupon payment period. The coupon is always paid at the end of the given interest period, while the capital is repaid at maturity. The bonds are registered at both net and gross price. Gross price of the bond is obtained by first regarding the bond as if it were to mature at the end of the next re-pricing period and then discounting the only known future interest and the capital invested with market yield to maturity. Net price equals gross price less accrued interest.

The interest rates of the variable-rate domestic government bonds currently on the market are typically re-priced every 3 to 6 months and the rate of the change is typically linked to the average auction yield of three-month discount treasury bills. The variable-rate securities issued by the Hungarian State are listed on the Budapest Stock Exchange after they are issued.

#### When is it recommended?

- If you are looking for a medium to long-term investment vehicle with moderate yields where repayment of the capital invested is guaranteed by the issuing state.

#### Product risk

1. VERY LOW	2. LOW	3. MODERATE	4. MEDIUM	5. INCREASED	6. HIGH	7. EXTREMELY
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**1. Very low-risk product:** This category includes financial instruments (e.g. Discounted Treasury Bills, Interest-bearing Treasury Bills, Liquidity funds, etc.) that typically provide a predetermined return at maturity in addition to the capital invested. Their risk lies mainly in the potential counterparty default risk and – if they are sold before maturity – the volatility of market interest rates. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 5% 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 government 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.
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.
Country risk	The risk of investing in the instruments of a country, which depends on the given country's financial, economic and political stability. A more stable country means a smaller country risk premium, thus smaller risks and, in accordance with that, lower yields on government bonds. This type of risk shows little change in the short term.
Exchange rate risk	Securities may be denominated in different currencies, so the value of a government bond 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 government bonds 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 government bond with a par value of HUF 1,000,000. The bond's nominal interest rate is 2.02%, time until re-pricing: almost 1.5 months, and the corresponding gross price (net price + accrued interest) is 100.30%, that is, the bond costs HUF 1,003,000. If there is a yield increase (i.e. price drop) and 20 days later the same security can be sold at 100.29%, that is at a price of HUF 1,002,900, you will realise a loss of HUF 100.
Example 2	Let's assume that today you buy a variable-rate government bond with a par value of HUF 1,000,000. The bond's nominal interest rate is 2.02%, time until re-pricing: 3 months, and the corresponding gross price (net price + accrued interest) is 101.55%, that is, the bond costs HUF 1,015,500. If there is a yield increase (i.e.

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price drop) and 20 days later the same security can be sold at 101.35%, that is at a price of HUF 1,013,500, you will realise a loss of HUF 2,000. 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 government bond with a par value of HUF 1,000,000 and hold it until maturity. The bond's nominal interest rate is 2.02%, its interest period is 0.25 year, while its gross price (net price + accrued interest) is 101.55%, that is, the bond costs HUF 1,015,500. 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: 3 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.