1. Low risk product

Product brochure

Euro Hungarian Government Bond

Product description

In the case of variable-rate government 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 coupon is generally paid yearly 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 is obtained by discounting the bond's known future coupons and the capital with the corresponding available market yields. Net price equals gross price less accrued interest. The bond is generally traded at gross price.
The interest basis of the Euro Hungarian Government Bond (EMAP) series is typically re-priced every 3 months, and its rate corresponds to the 3 month EURIOBOR percentage rate published by the European Money Market Institute (EMMI) at 12:00 pm on the third business day preceding the interest period reset date, based on the value from the fifth business day preceding the interest period reset date.
In addition to the branches of the Hungarian State Treasury, all dealers have daily mandatory market-making responsibilities, which ensures continuous liquidity in this market.

When is it recommended?

- If you are looking for a EUR denominated, medium-term investment vehicle linked to EURIBOR rates, where repayment of the capital invested is guaranteed by the state.

Product risk

1. LOW	2. MODERATE	3. MEDIUM	4. ADVANCED	5. HIGH	6. EXTREMELY

1. Low-risk product: This category includes financial instruments (e.g. Discounted Treasury Bills, Fixed Rate Hungarian Bonds, 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 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 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 you buy a 3-year EMAP bond at the time of issuance with a par value of EUR 10,000 (HUF 4,110,000, if the EUR/HUF exchange rate is 411,00) and hold it until maturity. The security's nominal interest rate is 2.704%, while its gross price (net price + accrued interest) is 100.00%, that is, the bond costs EUR 10,000 (HUF 4,110,000 if the EUR/HUF exchange rate is 411,00). If you hold the security to maturity, you will receive – at every coupon payment – the current interest corresponding to EURIBOR calculated for the given interest period, and at maturity you will also receive the par value.

Example 2	Let's assume that today you buy a 3-year EMAP bond at the time of issuance with a par value of EUR 10,000 (HUF 4,110,000, if the EUR/HUF exchange rate is 411,00) and hold it until maturity. The security's nominal interest rate is 2.704%, while its gross price (net buy rate + accrued interest) is 100.00%, that is, the bond costs EUR 10,000 (HUF 4,110,000 if the EUR/HUF exchange rate is 411,00). 3 months later the same security can be sold at a gross price of 98,3906% (net price + accrued interest), i.e., for EUR 9,839,06. If the EUR/HUF exchange rate drops to 400,00, you will have realised a loss of HUF 110.000, if you sell your securities. The loss comprises the difference between the buy and sell rates and the exchange rate movements.
Example 3	Let's assume that today you buy a 3-year EMAP bond at the time of issuance with a par value of EUR 10,000 (HUF 4,110,000, if the EUR/HUF exchange rate is 411,00) and hold it until maturity. The security's nominal interest rate is 2.704%. The gross price of the bond (net price + accrued interest) is 100.00%, that is, it costs EUR 10,000 (HUF 4,110,000 if the EUR/HUF exchange rate is 411.00). 3 months later the same security can be sold at a gross price of 98.3906% (net sell rate + accrued interest), i.e., for EUR 9,839,06. If the EUR/HUF exchange rate climbs to 420.00, you will have gained HUF 90,000, if you sell your securities.

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.
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