

5. Increased risk product



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Product brochure

Discount certificate

Product description

Certificates are structured derivative securities that are traded on or outside the stock exchange, and the price and price fluctuations of which depend on the changes in the price of another financial instrument (the underlying product). The issuer (the issuers of certificates are generally banks) ensure permanent and continuous quoting. Information should be sought on the specific characteristics of certificates prior to making an investment.

The discount certificate is a security that enables investing into a predetermined underlying product at a lower price than the underlying product's current market price. The underlying product may be a share, a share index, a bond index, a raw material or raw material index. Discount certificates are fully tied to the changes in the underlying product price, and a maximum price level (referred to as a cap) is defined at the time of the certificate's issuance, up to which the investor may benefit from positive shifts in the underlying product price. If the price shifts in the opposite direction, the certificate acts as an index certificate (with the value of the investment fully tied to the price of the following product, and the investor being eligible for the prevailing price of the underlying product).

When is it recommended?

- If you are aiming for a yield that is higher than the risk-free rate and are willing to undertake the risk associated with the underlying product.

Product risk

1. VERY LOW	2. LOW	3. MODERATE	4. MEDIUM	5. INCREASED	6. HIGH	7. EXTREMELY
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6. Increased-risk product: This category includes financial instruments (such as shares or derivative funds) that characteristically carry substantial risk, featuring a price that may fluctuate significantly even in the short run, but investors are generally shielded from losing the entire value of their capital investment unless some extraordinary market event occurs. Based on historical data, the possible loss calculated for a one-year period is highly unlikely to exceed 65% 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

Exchange rate risk	The financial instruments may be denominated in different currencies, so the value (payment) of these securities expressed in a foreign currency may, when converted into the settlement currency, change depending on the exchange rate fluctuations between the given currencies.
Issuer risk	Issuer risk is the risk of 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. Risk arising from poor financial management is reflected primarily in the price of the issued shares, and receivables arising based on the securities may go unpaid due to insolvency or the issuer's refusal to pay.
Exchange rate risk of the underlying product	The exchange rate risk of the underlying product is the risk that the certificate loses some of its value as a consequence of adverse changes in the price of the underlying product. The underlying product is often itself a complex transaction shaped by multiple risk factors. The price of the discount certificate may, besides shifts in the price of the underlying product, also be shaped by the volatility of the underlying product price, the cap, maturity and interest levels.
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. Such risk is quite rare in case of blue-chip shares. There is a trade-off between liquidity and the quantity of a product to be sold/bought: when selling/buying smaller quantities, the investor may perceive higher liquidity, while liquidity may fall as the quantity increases.
Spread risk	As the issuer has an interest in investors holding certificates until their maturity, issuers may quote a lower bid price than offer price (with the bid and offer price interpreted from the distributor'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.

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Scenarios*

Example 1

Let's assume that you want to reallocate a portion of your portfolio from low interest bearing EUR deposits to structured instruments. As you expect a slight increase in the price of OMV AG in the upcoming three months, you decide to purchase 100 OMV AG discount certificates. The price determined based on the OMV AG prompt price using the conversion ratio (1:10, that is 0.10) would be EUR 3.50 (EUR 35.00 x 0.10), but you purchased the certificate at a discounted price compared to the share price, at the EUR 3.43 quoted by the issuer.

The cap defined at the time of issuance is EUR 37.80, so you are entitled to a payout of EUR 3.78 (EUR 34.80 EUR x 0.10) per certificate upon maturity.

If the price of OMV AG upon maturity is EUR 30.00, the payout will be EUR 3.00 per certificate, taking into account the conversion ratio. You will incur a loss of EUR 43.00 (100 units x [EUR 3.00 – EUR 3.43]).

Example 2

Let's assume that you want to reallocate a portion of your portfolio from low interest bearing EUR deposits to structured instruments. As you expect a slight increase in the price of OMV AG in the upcoming three months, you decide to purchase 100 OMV AG discount certificates. The price determined based on the OMV AG prompt price using the conversion ratio (1:10, that is 0.10) would be EUR 3.60 (EUR 36.00 x 0.10), but you purchased the certificate at a discounted price compared to the share price, at the EUR 3.51 quoted by the issuer.

The cap defined at the time of issuance is EUR 39.60, so you are entitled to a payout of EUR 3.96 (EUR 39.60 EUR x 0.10) per certificate upon maturity.

If the price of OMV AG upon maturity is EUR 39.80, the payout will be EUR 3.96 per certificate, taking into account the conversion ratio. You will realise a profit of EUR 45.00 (100 units x [EUR 3.96 – EUR 3.51]).

***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 discount certificates, 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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