

3. Moderate risk product



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Product brochure

Fixed-rate short-term corporate bonds

Product description

Fixed-rate short-term corporate bonds are interest-bearing securities with terms of 1, 2 or 3 years, 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 bond market the liquidity of different issues may vary considerably. The liquidity of some securities almost equals that of government bonds, while others may see no supply or demand for months, and even if there is some liquidity, it can only be achieved at the expense of a significant price loss.

When is it recommended?

- If you are looking for a short or medium-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	Interest rate risk arises from the fact that a change in market yields influences the value of fixed-rate securities. 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). If you hold the securities to maturity, there is no interest rate risk to consider.
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.
Price risk	In the event of an adverse, upward shift in yields, a sale before maturity may result in a price loss.
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 corporate bond with a par value of HUF 1,000,000 and a term of almost 1 year. The bond's term to maturity is 0.65 years, its nominal interest rate is 5.50%, its standardised rate of return (EHM) is 1.06%, and the corresponding gross price (net price + accrued interest) is 104.77%, that is, the bond costs HUF 1,047,700. If there is a yield increase and 20 days later the bond can be sold at 104.52%, which corresponds to a 1.56% EHM – that is, at a price of HUF 1,045,200 only – you will realise a loss of
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HUF 2,500.

Example 2

Let's assume that today you buy a corporate bond with a par value of HUF 1,000,000 and an original term of 3 years. The bond's term to maturity is 1.52 years, its nominal interest rate is 5.50%, its standardised rate of return (EHM) is 1.04%, and the corresponding gross price (net price + accrued interest) is 109.33%, that is, the bond costs HUF 1,093,300. If there is a yield increase and 20 days later the bond can be sold at 108.63%, which corresponds to a 1.54% EHM – that is, at a price of HUF 1,086,300 – you will realise a loss of HUF 7,000.

If we compare bonds by term, we can say that the longer the bond's term, 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 0.5 percentage points in the two examples above).

Example 3

Let's assume that today you buy a corporate bond with a par value of HUF 1,000,000 and an original term of 3 years, and hold it to maturity. The bond's term to maturity is 1.52 years, its nominal interest rate is 5.50%, its standardised rate of return (EHM) is 1.04%, and the corresponding gross price (net price + accrued interest) is 109.33%, that is, the bond costs HUF 1,093,300. If you hold the security to maturity, your realised EHM will be 1.04% and you will receive 5.50% annual interest per year and the par value at 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://bef.hu/> (Hungarian stock exchange), <http://akk.hu/> (Hungarian government securities), <http://www.mnb.hu/> (exchange rates)
- Standardised rate of return on securities (referred to by its Hungarian acronym as "EHM"): <http://www.mnb.hu/fogyasztovedelem/kerdesem-van/szotar/koltsegmutatok-1>

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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