

## Other government securities

Our Company offers its Customers the possibility to freely purchase government securities issued by any country other than Hungary without any restrictions. The country issuing these government securities is responsible for the obligations embodied in these government securities.

Government securities are debt securities, the issuer of which is the state. By issuing securities, the state undertakes to pay the amount of money (face value) and the predetermined interest (coupon) specified in the security at the time and in the manner specified. The primary purpose of issuing government securities is to finance the state budget.

When investing in foreign government securities, it is important to find out to what extent the government securities issued by a given country are considered a risky or less risky investment, as the risk of default can vary widely from issuer to issuer. Key indicators such as the CDS spread (country risk index), market yields and the ratings of certain credit rating agencies can help in this respect and can be used as a guide to assess the potential default risk.

### 1. To whom are foreign government securities recommended?

- ✓ those who expect the forint to weaken and want to keep their savings in a currency other than the local currency;
- ✓ those who are looking for interest rate options higher than domestic rates, but who also need a state guarantee;
- ✓ those looking for transparent investment solutions;
- ✓ for those who want capital protection, as the repayment of the invested capital is guaranteed at maturity regardless of changes in the yield environment.

### 2. Definitions

<b>Government securities</b>	A debt security issued by the state, the purchase of which is in effect a loan from the investor to the state at a predetermined interest rate and for a predetermined term.
<b>Nominal value</b>	Also known as the base denomination, which is the amount expressed in money terms in respect of a debt security that represents the claim for the principal from the holder of the security.
<b>Interest (coupon)</b>	The amount expressed as a percentage of the face value of debt securities, payable on the interest payment date(s).
<b>Interest payment date</b>	The calendar day on which the interest payment is due.
<b>Term</b>	The period between the issue and maturity of a government security at the end of which the face value and interest are paid to the investor.
<b>Accrued interest</b>	Interest accrued but not yet due in respect of a given government security since the date of issue or since the last interest payment.
<b>Net Price</b>	The current price of the relevant government security without accrued interest.
<b>Gross Price</b>	The sum of the net exchange rate and accrued interest.

<b>Yield on purchase</b>	The yield to maturity that the buyer realises if all cash-flows from the bond can be reinvested at the same yield and the bond is held to maturity.
<b>Yield on sale</b>	The yield at which Erste Befektetési Zrt. takes back the bond from the customer.
<b>Primary market</b>	The primary markets are where financial instruments are issued and first sold, i.e. where new securities are placed.
<b>Secondary market</b>	The trading venue for government securities already in circulation, which in Hungary can take the form of exchange trading in the BSE's debt securities section or OTC trading.
<b>Primary dealer</b>	Investment firms and credit institutions contracted to place and distribute government securities with the public. Primary dealers are responsible for the delivery of the securities to be issued to investors and for ensuring the liquidity of the secondary market.

### 3. Classification of government securities:

#### 1. By maturity

- short maturity, i.e. government securities with a maturity of one year or less;
- medium maturity, typically with a maturity of between one and five years;
- long maturity, i.e. government securities with a maturity of more than 5 years.

#### 2. Based on interest

- Fixed rate government securities: pay investors a pre-determined amount of interest;
- Floating-rate government securities: the interest rate varies from time to time during the term upon pre-determined terms;
- Discounted securities: in this case, no interest is paid, but the paper may be purchased at a price below face value and the face value is paid at maturity. The difference between the two represents the profit for the investor.
- Progressive rate: an interest rate structure in which the amount of annual interest depends on the time elapsed since the purchase of the security. The objective is to encourage the investor to hold the investment for as long as possible.
- Interest rate bands: in this case, the interest rate varies according to the amount or the time elapsed and the interest rate is only given for each amount or time band, not for the total amount or the whole maturity.

### 4. Risk factors

- Issuer risk, a negative shift in the risk rating of the given country.
- Lack of liquidity in the secondary market: resulting in a loss of capital if the government securities are sold before maturity.
- Capital protection applies only if the government security is held to maturity.
- Floating rate government securities carry interest risk due to the volatility of the applicable reference rate.
- Currency risk (the risk of the forint exchange rate changing, weakening or strengthening), which in some cases may result in a loss of capital even if the government bond is held to maturity.
- If the Issuer is insolvent (e.g. state bankruptcy), the payment of principal and interest is doubtful.

### 5. Factors affecting the price of government securities

- risk rating of the issuer;
- remaining time to maturity;
- development of risk-free yields in for the remaining maturity;

- volatility of market yields;
- development of the market liquidity.

The applicable Fee Schedule of Erste Befektetési Zrt. shall apply to any fees and costs.

*Before making any investment decision, you should consider whether the investment suits your longer-term plans and investment objectives and that you have assessed and understood the potential risks and characteristics of the investment and that you find them acceptable.*

## 6. Tax information

The interest earned on bonds and the income earned on redemption or transfer is **interest income** within the meaning of Article 65 of the Personal Income Tax Act. In Hungary, from 1 January 2016 interest income earned is subject to a 15% tax rate, while interest income earned up to 31 December 2015 continues to be subject to 16% tax. If the sale, income or interest payment is arranged through a statutory paying agent, the tax is assessed, deducted and paid by the paying agent on a transaction-by-transaction basis and does not have to be reported by the individual in his/her tax return.

From 1 January 2017, Section 3/A of Act LXVI of 1998 on Health Care Contributions will be repealed. Under the change, the 6 percent healthcare contribution on interest income will be abolished, so that the 6 percent healthcare contribution will not be deducted from interest income credited after 31.12.2016.

The above rules also apply to **non-resident individual** investors, with the difference that in possession of a certificate of residence issued by the foreign state in which the individual is resident for tax purposes, the paying agent determines the tax deduction liability and the tax rate on the basis of double taxation treaty, or, failing this, in accordance with the provisions of the Personal Income Tax Act. In addition, in the case of a foreign individual whose state of residence does not have a double taxation treaty with Hungary, the organisation that is deemed to be the paying agent under the law must deduct 15% tax on the interest income.

In the case of an investment under a long-term investment contract with an investment service provider pursuant to the provisions of the Personal Income Tax Act in effect at the time of the preparation of this Product Information, the investor may apply the preferential tax rules provided for by the Act under the conditions set out in the Personal Income Tax Act.

Government securities transactions can also be traded in a Long-Term Investment Account. For more information on the Long-Term Investment Account, its advantages and tax features, please visit our website ([http://ersteinvestment.hu/hu/erste\\_tbsz.html](http://ersteinvestment.hu/hu/erste_tbsz.html)).

The tax information is not exhaustive. Before making your decision, please check out the information in detail on the legal conditions for interest income, long-term investment accounts (TBSZ) and other taxation issues (including the case where the transaction is not concluded through an investment service provider) and consult your tax advisor as the tax conditions and the choice of a scheme for the Long-Term Investment Account can only be weighed on the basis of the investor's individual circumstances. Tax laws and their interpretation may change and Erste Befektetési Zrt. cannot be held liable for the consequences thereof.

## 7. Further Conditions

The information contained in this document is not exhaustive and Erste Befektetési Zrt. reserves the right to make changes.

The content of this document does not constitute an investment offer, an invitation or solicitation to make an offer, investment advice or tax advice. It is intended solely to provide investors with certain specific

information about the Investment Loan to assist them in obtaining sufficient information about this form of investment prior to entering into a transaction. Further information on the Investment Loan is also contained in our **Terms and Conditions of Business** and our notices, which are available on the website of Erste Befektetési Zrt. ([www.ersteinvestment.hu](http://www.ersteinvestment.hu)).

Please contact our staff and they are happy to help you if you need further information on this product or service in addition to the above in order to make a prudent investment decision. We also ask you to carefully consider the object of your investment, its risk, its charges, the fees and charges related to the management of your account and the losses that may result from your investment before making your investment decision.