# Discount Certificates

Buyers of a Discount Certificate acquire the certificate at a price that offers a discount compared to the price of the underlying.

For a favourable entry, investors accept a yield cap that represents the maximum possible yield. The discount of the certificate has a dampening effect in the event of price declines of the underlying.

Classification by Zertifikate Forum Austria:
**Investment Products** without Capital Protection

- The **underlying** for a Discount Certificate can be a share, an index or a commodity.
- The **discount** indicates by how much the certificate can be acquired at a lower price than the underlying. This discount is given in percentage or absolute terms and is to be seen in consideration of the subscription ratio.
- The **cap** is the price level of the underlying up to which investors can participate.
- The **subscription ratio** indicates how many units of the underlying a certificate refers to. With a subscription ratio of 0.1, ten units of the certificate relate to one unit of the underlying.

You think the share you are looking for is too expensive? In exchange for a limited yield opportunity, investors buy the Discount Certificate at a lower price compared to the price of the underlying. This results in a yield advantage.

# Discount Certificates
# Investing at a Discount

## The Idea Behind

Investments in selected company shares are a central component of the investment plan for experienced investors. In addition to the classic "buy-and-hold" strategy, which works best when prices are rising, investment opportunities are also needed when there is a sideways market, i.e. moderately fluctuating price movements. Professional market participants often rely on a tried and tested approach: acquire an underlying asset - usually a share or index - at a discount and in return accept a limited yield opportunity.

With Discount Certificates, this investment strategy also became accessible to private investors.

Discount Certificates
are especially suitable for the following market development of the underlying:

| ↓ | ↘ | → | ↗ | ↑ |
|---|---|---|---|---|
| ~~declining~~ | ~~slightly declining~~ | sideways trending | slightly rising | ~~rising~~ |

On the maturity date, a cash amount is paid back for the Discount Certificate, the amount of which depends on the closing price of the underlying on the last valuation date. One of two scenarios occurs, namely:

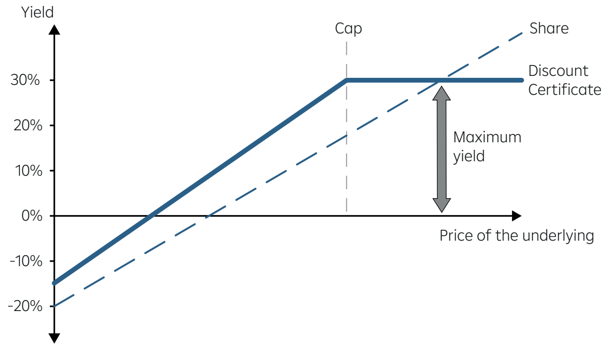
## Basic Functionality

Discount Certificates are a suitable investment product if investors expect slightly rising or sideways moving prices of an underlying. The discount represents a safety buffer: A limited price decline in the underlying can be compensated by the price discount. Losses occur if the underlying price falls below the ask price of the Discount Certificate, adjusted for the subscription ratio if applicable.

At the beginning of the term, the investor acquires a certificate that tracks the underlying asset minus a discount. Therefore the certificate is at that point cheaper than a direct investment in the underlying. In exchange, investors accept a cap that defines the maximum payout amount (maximum amount). As a result, the investor does not participate in a rise in the price of the underlying above the cap.

If the chosen product is a Discount Certificate with a particularly high discount, the yield opportunity or the maximum amount is correspondingly lower.

Payout profile at the end of the term
with Discount Certificates:




- **Scenario 1:** Underlying quotes ON/ABOVE the cap → Redemption is at the maximum amount and investors generate the maximum possible yield.

- **Scenario 2:** Underlying quotes UNDER the cap → The payout amount corresponds to the price of the underlying on the final valuation date, taking into account the subscription ratio. If the closing price of the underlying is below the ask price of the Discount Certificate, investors have a loss.

The initial discount gradually decreases during the term and is completely eliminated by the end of the term. It results from this: If the underlying asset is quoted at the same price level at the end of the term as at the beginning of the term, the return for the investor(s) corresponds exactly to the percentage discount with which the Discount Certificate was acquired at the beginning of the term.

## Important Key Figures and Formulas

- **Maximum Yield in %**
  quantifies the maximum possible total return in percentage terms up to the end of the term

$$\left(\frac{\text{Cap x Multiplier}}{\text{Ask price of Certificate}} - 1\right) \times 100$$

- **Maximum Yield p.a. in %**
  annualised maximum possible yield until the end of the term

$$\left(\frac{\text{Maximum yield p.a. in \%}}{\text{Remaining term in days}}\right) \times 360$$

- **Discount in %**
  Discount in percentage at which the certificate can be acquired at a lower price compared to the underlying asset

$$\left(\frac{\text{Price of underlying x Multiplier} - \text{Ask price of Certificate}}{\text{Price of underlying x Multiplier}}\right) \times 100$$

## Example 1: Discount Certificate

**Berta pays 17 euros for the following certificate:**

| | |
|---|---|
| **Underlying** | XY share |
| **Term of the Discount Certificate** | 2 years = 730 days |
| **Multiplier** | 1.0 |
| **Issue price of the Discount Certificate** | EUR 17 |
| **Price of underlying at issue** | EUR 20 |
| **Cap = maximum amount** | EUR 22 |

$$\text{Discount in \%} = \left(\frac{\text{EUR 20 x 1} - \text{EUR 17}}{\text{EUR 20 x 1}}\right) \times 100 = 15$$

$$\text{Maximum yield in \%} = \left(\frac{\text{EUR 22 x 1}}{\text{EUR 17}} - 1\right) \times 100 = 29{,}41$$

→ Discount = 15%
→ Maximum yield = 29.41% (14.50% p.a.)

The following scenarios are possible at the end of the term: Closing price of the XY share e.g. at ...

- ... EUR 24 → Price AT/ABOVE cap:
Payment at the maturity date is with the cap. **With 22 euros per certificate, Berta was able to generate the maximum achievable yield.**

- ... EUR 18.60 → Price BELOW cap:
Redemption at the maturity date is affected according to the underlying at EUR 18.60 per certificate. Despite a share price loss, the Discount Certificate yields a return of EUR 1.60. **Berta achieved a yield of 9.41%, which corresponds to 4.6% p.a.**

- ... EUR 14 → Price BELOW issue price:
Redemption at the maturity date is affected according to the underlying: **Berta receives 14 euros as redemption.**

| | Closing price | Calculation | Perf. |
|---|---|---|---|
| **XY share** | EUR 14 | (14/20 -1) x 100 | - 30.0% |
| **Discount Certificates** | EUR 14 | (14/17 -1) x 100 | - 17.6% |

While the price loss of the share amounts to -30%, **certificate investors realise a loss of -17.6%**

- **What Should You Pay Attention to with All Certificate Types?**

**Issuer Risk:**
As a bearer bond, a certificate is not subject to Austria's deposit protection. If, in the event of insolvency, the issuer is unable to meet its obligations from the certificate, or is only able to meet them in part, certificate holders may lose a substantial part of the capital invested, or even a total loss. This risk is often also referred to as "issuer risk" or "creditworthiness risk".

**Possibility of Bail-in:**
The Federal Act on the Recovery and Resolution of Banks ("BaSAG") applies. The BaSAG regulates the possibility of the regulatory resolution of banks that have run into difficulties. Holders of certificates may be affected by such a regulatory measure with their claims to payment(s) (the so-called "bail-in"), and this may result in the loss of a substantial part of the invested capital or even a total loss for all types of certificates.

# What You Should Concider Before the Purchase of Discount Certificates:

- **Market risk:** The value of the Discount Certificate depends on the value of the underlying. Unfavourable developments of the underlying can therefore cause fluctuations in the value of the Discount Certificate. This can lead to the loss of part of the invested capital or even to a total loss.

- **Discount as a safety buffer:** If the negative performance of the underlying at the end of the term exceeds the discount, it results in a capital loss.

- **Price performance:** The price of the Discount Certificate depends on several influencing factors during the term and does not exclusively follow the performance of the underlying. Such influencing factors are, for example, volatility (intensity of value fluctuations), the interest rate level or the remaining term, as well as the credit rating of the issuer. If the Discount Certificate is sold before the end of the term, this can lead to the loss of part of the capital invested or even to a total loss.

- **Cap:** A Discount Certificate has a fixed maximum redemption (maximum amount). Investors do not participate in price increases of the underlying above the cap.

- **Currency risk:** If the underlying asset is quoted in a different currency than the Discount Certificate and the product does not provide for currency hedging, developments in the exchange rate during the term of the Discount Certificate will also have an impact on the value of the certificate. This can additionally increase the loss from the Discount Certificate due to the market risk.

- **Payouts of the underlying:** Dividends and comparable claims from the ownership of the underlying are taken into account in the certificate's structure and are not paid out.

Please also note our comprehensive information on our website raiffeisencertificates.com/kundeninformation and raiffeisencertificates.com/basag.

### Factors Influencing the Price of a Discount Certificate

Discount Certificates can also be traded on the secondary market, i.e. bought and sold on each trading day. The price of the certificate during the term is influenced by various factors. The following overview shows the relevant parameters with their changes and the typical resulting effect on the price of the certificate.

| | Price of Underlying | | Remaining Term of the Certificate | | Underlying's Volatility | | Expected Dividend Payments | |
|---|---|---|---|---|---|---|---|---|
| Influencing Factor | rising ↑ | ↓ falling | – | ↓ short | rising ↑ | ↓ falling | rising ↑ | ↓ falling |
| Discount Certificate | rising ↑ | ↓ falling | – | ↑ rising | falling ↓ | ↑ rising | falling ↓ | ↑ rising |

“A yield advantage over the underlying and reduced risk of loss – these are the benefits of the Discount Certificates.”

Patrick Paul
Raiffeisen Certificates Sales

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