

Factor Certificates

Factor Certificates make it possible to participate in the performance of the underlying with leverage. The certificates have a constant leverage factor, no knock-out and no maturity limit.

With **long** Factor Certificates you can achieve disproportionately high profits in rising market phases and with **short** Factor Certificates in falling market phases.

Classification by Zertifikate Forum Austria:
Leverage Products without Knock-Out

- The **underlying** of a Factor Certificate is usually a share, an index or a commodity.
- The **leverage factor** is a constant key figure and indicates the ratio in which the certificate follows the performance of the underlying.
- The **factor level** is adjusted on a daily basis to ensure the constant leverage factor. The factor level determines the amount to be financed (long) or invested (short) by the issuer.
- The **protection level** refers to the price threshold of the underlying at which the calculation of the certificate is stopped and a new trading day is simulated. The protection level serves as the reference price for the recalculation of the factor level.
- The **threshold** defines the maximum daily percentage price movement of the underlying from which the leverage is reset to the leverage factor during the day. This prevents the knock-out and minimizes the probability of immediate total loss of the invested capital.



Investment experience and a strong market opinion are essential for a trading strategy with a factor. These leveraged products offer disproportionately high opportunities with a sustained trend and an equally leveraged risk.

Factor Certificates

Follow the trend with leverage

The Idea Behind

"The trend is your friend" is a well-known stock market motto. This is even more true in the case of Factor Certificates. Traders can utilise clear market trends with constant leverage and profit disproportionately from developments on equity or commodity markets. A distinction can typically be made between two investment strategies:

- short-term portfolio hedging
- the pursuit of consistent trends

With long Factor Certificates, buyers rely on rising prices and with short Factor Certificates on falling prices of an underlying asset. By selecting the desired leverage factor, the experienced trader can manage the risk. Of course, higher leverage also means greater risk - because: due to the leverage factor, disproportionate price losses are also possible.

Basic Functionality

The performance of the Factor Certificate is linked to the performance of the underlying asset. The daily performance of the certificate corresponds to the intraday percentage change in the value of the underlying multiplied by the leverage factor set at the time of issue (without taking interest rate effects into account). The leverage factor remains constant over the entire term.

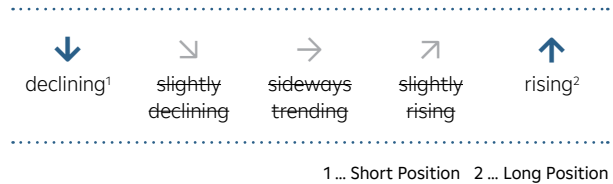


This makes Factor Certificates particularly suitable for market phases with strong trends. In a sideways scenario or a "turning" market, the performance of the factor certificate is inferior to a direct investment.

▪ Daily Adjustment:

The Factor Certificate tracks the daily performance of the underlying - based on the reference price of the previous day (closing price, settlement price) - with leverage according to the constant factor. In

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



order to guarantee the daily constant leverage, the factor level, protection level and reference ratio of the factor certificate must be adjusted every day.

▪ Intra-Day Adjustment:

In the event of an extreme intraday price movement of the underlying contrary to the expected market trend, Factor Certificates are equipped with a further adjustment mechanism. If the price of the underlying reaches the protection level during the day, a new trading day is automatically simulated and the protection level is used as the reference value for recalculating the factor level. This curbs further losses.

Attention: If the protection level has been reached, the Factor Certificate has already lost a significant amount of value. If the underlying asset rises again, the price of the certificate will not recover to the same extent. The intraday adjustment only applies to price movements within one trading day. If the price movement occurs overnight, the certificate may still suffer a total loss!

▪ Holding period of several days:

If traders hold the Factor Certificate over a longer period of time, the relative performance of the certificate may deviate from the leveraged percentage performance of the underlying. If the expected market opinion corresponds to the performance of the underlying, a positive cumulative effect arises. If the underlying asset follows a strong trend contrary to the expected price development, the cumulative effect can slightly reduce the absolute losses.

In periods of sideways volatility without a clear market trend, the cumulative effect can be detrimental and have a negative impact on the performance of the Factor Certificate. Factor Certificates are therefore not suitable for a longer term strategy.

Product Variants

▪ **Long Factor Certificates**

A rising price of the underlying has a positive and disproportionate effect on the performance of the long Factor Certificate. The leverage factor has the sign "plus".

▪ **Short Factor Certificates**

A declining price of the underlying has a positive and disproportionate effect on the performance of the short Factor Certificate. The leverage factor has the sign "minus".

Example 1: Short Factor Certificate

Underlying	XY share
Share price	EUR 15
Leverage factor	-3
Value of the Factor Certificate	EUR 5

Assumption 1A: The XY share falls by 3% to EUR 14.55 within one day. The performance of the Factor Certificate over the same period is therefore +9%.

→ **The Factor Certificate is now worth EUR 5.45.**

Assumption 1B: The XY share rises by 2% to EUR 15.30 within one day. The performance of the certificate over the same period is therefore -6%.

→ **The Factor Certificate is now worth EUR 4.70.**

Example 2: Cumulative effect with a holding period of several days

A market participant assumes that the share price will rise and buys a long Factor Certificate at a price of EUR 100 on the share with a leverage factor of +4.

Trading Day	Share Price	Share Performance	Certificate Price	Certificate Performance leveraged	equals absolute
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Scenario: Consistently rising market → cumulative effect increases absolute profits

1.	EUR 100.00	—	EUR 25.00	—	—
2.	EUR 102.00	+ 2.00%	EUR 27.00	+ 8.00%	+ EUR 2.00
3.	EUR 104.00	+ 1.96%	EUR 29.12	+ 7.84%	+ EUR 2.12
Accumulated	—	+ 4.00%	—	+16.47%	+ EUR 4.12

Scenario: Consistently falling market → cumulative effect decreases absolute losses

1.	EUR 100.00	—	EUR 25.00	—	—
2.	EUR 98.00	- 2.00%	EUR 23.00	- 8.00%	- EUR 2.00
3.	EUR 96.00	- 2.04%	EUR 21.12	- 8.16%	- EUR 1.88
Accumulated	—	- 4.00%	—	- 15.51%	- EUR 3.88

Scenario: No clear market trend → cumulative effect has a negative impact on certificate development

1.	EUR 100.00	—	EUR 25.00	—	—
2.	EUR 98.00	- 2.00%	EUR 23.00	- 8.00%	- EUR 2.00
3.	EUR 100.00	+ 2.04%	EUR 24.88	+ 8.16%	+ EUR 1.88
Accumulated	—	0.00%	—	- 0.49%	- EUR 0.12

▪ **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 Consider Before the Purchase of Factor Certificates

- **Leverage factor/leverage effect:** The Factor Certificate tracks the daily percentage performance of the underlying asset disproportionately according to its leverage factor. This means that even small unfavourable developments in the underlying can lead to the loss of a significant portion of the capital invested. The probability of a total loss occurring is much higher than with a direct investment.
- **Financing costs:** Costs or income from the financing component of the product are taken into account in the course of the daily adjustment of the factor level and can thus reduce the value of the Factor Certificate.
- **Roll effect:** Factor Certificates on commodities are usually based on commodity futures, which generally have a limited term. Before the end of their term ("expiry"), they are "rolled" into the new futures contract. Depending on the market situation, this can result in roll gains or roll losses. The factor level and multiplier of the certificate are adjusted in such a way that the "roll" does not result in any change in the price of the certificate.
- **Cumulative effect:** If the underlying price falls on one day and rises again to the price level of the previous day on the next day, the price of the factor certificate will not correspond to the previous day's level. The reason for this is the so-called "cumulative effect", which is caused by the daily adjustment to maintain the constant leverage factor.
- **Market risk:** The value of the Factor Certificate depends on the value of the underlying asset. Unfavourable developments in the underlying can cause disproportionate fluctuations in the value of the Factor Certificate due to the leverage effect. This can lead to the loss of a significant proportion of the capital invested, up to a total loss.
- **Exchange rate fluctuations:** If the underlying is quoted in a different currency than the Factor Certificate and the product does not provide for currency hedging, developments in the exchange rate will also have an impact on the value of the Factor Certificate. This can further increase the loss from the Factor 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 Factor Certificates' structure and are not paid out – the payout amount is deducted from the factor and protection level, if applicable.

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

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Do you have a clear opinion on the underlying asset and are not afraid of risk? Then you can make use of [Factor Certificates](#).

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Anna Kujawska
Raiffeisen Certificates Sales

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Imprint

according to Austrian media law

Media owner and publisher:

Editing, production and design
Raiffeisen Bank International AG
Raiffeisen Certificates
is a brand of Raiffeisen Bank International AG

Place of publication:

Am Stadtpark 9, 1030 Vienna
Austria

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3rd edition, November 2023
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