

Turbo Certificates

Turbo Certificates enable traders with a high risk appetite to participate at a little capital expenditure in rising (long) or falling (short) underlying's price movements.

Due to their simple functionality, these leverage products are suitable for those who want to realise their market opinion quickly and transparently. However, if the market expectation does not materialise, a total loss of the investment is possible if the price of the underlying asset moves in the opposite direction.



Classification by Zertifikate Forum Austria:

Leverage Products with Knock-Out

- A share, an index or a commodity can serve as the **underlying** for a Turbo Certificate.
- With a "**turbo long**", buyers expect an increase in the value of the underlying asset, while a "**turbo short**" generates income if the underlying asset price falls.
- The **strike price** is the price of the underlying asset that is decisive for calculating the leverage. In the case of Turbo Certificates without a limited term (open-end), a daily adjustment is made to take account of financing costs.
- The **leverage** indicates the percentage by which the price of a Turbo Certificate should theoretically rise or fall if the price of the underlying asset rises or falls by one per cent.
- The **barrier** is also known as the knock-out level. If the underlying price touches, falls below (long) or exceeds (short) this barrier at any time during the term of the certificate, the certificate is redeemed early at a residual value, if applicable. The barrier is automatically adjusted daily to take account of interest rate effects.

A leverage certificate that impresses with its simplicity: Turbo certificates allow risk-averse traders to take advantage of volatile markets in the short term with a low capital investment. The risk? The knock-out.

Turbo Certificates

The Turbo for Your Portfolio

The Idea Behind

Are you willing to take risks and are looking for that little bit extra as an alternative to a direct investment in shares, commodities or indices in order to realise your market expectations disproportionately quickly? This is sometimes possible with Turbo Certificates. The leverage here means that the price of the certificate moves more strongly than that of the underlying asset.

Trading a Turbo Certificate is usually aimed at the duration of a few days to weeks. Depending on the product design, leveraged profits can be realised in both rising and falling market phases. Hedging strategies can also be implemented. In contrast to warrants, the term and volatility have hardly any influence on the value of the "turbo". This makes Turbo Certificates extremely predictable.

Not only the opportunities, but also the risks with Turbo Certificates are leveraged: if your market opinion does not occur, you may lose the entire capital invested.

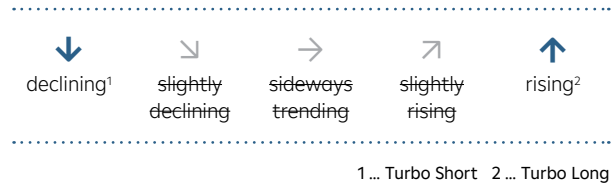
Basic Functionality

Leverage is a key indicator for Turbo Certificates. It indicates how much more the certificate reacts in comparison to the underlying asset. The higher the leverage, the greater the potential – both in terms of profit and loss. Turbo Certificates are also characterised by a barrier. This "knock-out threshold" is the price of the underlying asset at which trading of the certificate ends immediately and the certificate expires – only an (often symbolic) residual value is paid out.

Turbo Certificates can be issued with a fixed term or with "open-end" maturity.



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



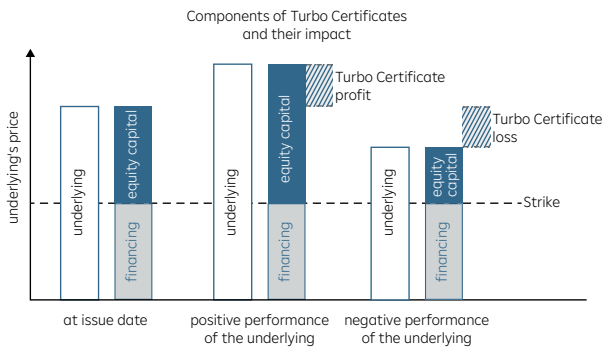
Product Variants

▪ Long Turbo Certificate

With a "Turbo Long", the buyer assumes that the price of the underlying will rise. The turbo is cheaper to buy than the underlying because the issuer of the certificate provides the financing component. This means that buyers do not have to provide the entire capital required to purchase the underlying asset in order to acquire the long Turbo Certificate – a comparatively small capital investment is sufficient.

Any change in the price of the underlying affects the equity component, whereas the financing component remains unchanged:

- A positive performance of the underlying increases the equity component and thus the value of the certificate. This means that although the buyers have only invested part of the required capital in relation to the underlying, they benefit from the entire increase in the value of the underlying.
- If the price of the underlying falls, the equity component of the turbo long is gradually used up. The point at which the capital invested by the buyer is completely used up is referred to as the strike price. At this point, the long Turbo Certificate expires worthless.



Interest is charged for the financing. These financing costs usually consist of a component dependent on a reference interest rate and a premium charged by the respective bank. In the open-ended Turbo Certificate, the financing costs are taken into account by adjusting the strike price and barrier. Consequently, this financing component reduces the equity component. The longer the Turbo Certificate is held, the higher the financing costs.

In the case of long Turbo Certificates, the barrier is located above the strike price. If the underlying reaches the barrier, a knock-out of the Turbo Certificate is triggered. Any residual value is paid out automatically.

The leverage of the Turbo Certificate enables disproportionate participation in the performance of the underlying. The leverage effect ultimately results from the buyer's reduced capital investment. The following applies:

- The lower the equity component, the higher the leverage.
- The closer the underlying's price is to the strike price, the higher the leverage.
- The higher the leverage, the greater both the opportunity and the risk.

▪ **Short Turbo Certificates**

Buyers of a "short turbo" assume that the price of the underlying will fall. The barrier and the strike price are above the current price of the underlying, whereby the barrier is set (just) below the strike price.

- If the price of the underlying rises, the value of the Turbo Certificate decreases and approaches the barrier. If the barrier is reached, the Turbo Certificate is knocked out and any residual value is automatically paid out.
- If, on the other hand, the price of the underlying falls, the buyer benefits leveraged from the price increase of the short Turbo Certificate.

Short Turbo Certificates can also be used to hedge existing securities positions.

Example 1: Leverage of a long Turbo Certificate

A certain share costs 100 euros.
A Turbo Certificate on the share costs 25 euros.

The issuer provides the price difference to the share in the amount of EUR 75 as a financing component.

Share price	EUR 100
Equity component	EUR 25
Financing	EUR 75

$$\text{Leverage} = \text{underlying price} / \text{equity component}$$

Consequently, the certificate has a leverage of 4.

If the share rises by 1% from EUR 100 to EUR 101, the Turbo Certificate rises from EUR 25 to EUR 26, which corresponds to a performance of + 4%.

Example 2: Long Turbo Certificate on a Share

Birgit is convinced of the positive performance of a particular share and would like to participate disproportionately in it without investing her full capital. She buys a long Turbo Certificate with the following features:

Underlying	XY share
Share price	EUR 100
Strike price	EUR 50
Barrier	EUR 51
Price of the Turbo Certificate	EUR 50

Equity investment = financing component + equity component
 $EUR\ 100 = EUR\ 50 + EUR\ 50$

Birgit makes half of the capital available and benefits entirely from the performance of the underlying. This results in a leverage of 2, meaning that the long Turbo Certificate reacts twice to changes in the price of the underlying.

Price falls in the underlying also have a leveraged effect on the value of the Turbo Certificate. If the performance of the underlying share goes against Birgit's market opinion, there is the possibility of a total loss of her invested capital.

Performance of the share	Price Turbo long
+ 10% (EUR 110)	EUR 60 (+ 20%)
+ 25% (EUR 125)	EUR 75 (+ 50%)
- 20% (EUR 80)	EUR 30 (- 40%)

Occurrence of a knock-out event

If the price of the XY share touches or falls below the barrier of EUR 51, the Turbo Certificate is knocked out. The certificate is immediately suspended from trading.

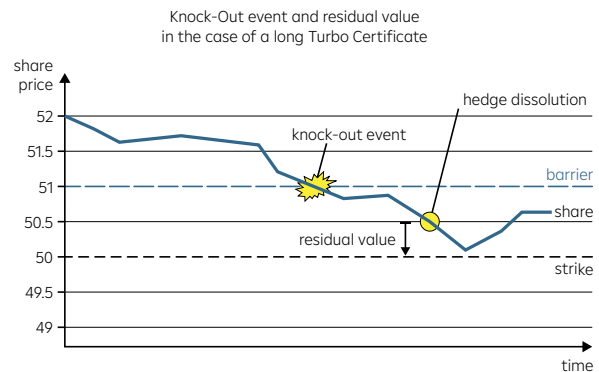
Residual value - how does it arise?

The knock-out event terminates the term of the certificate and the issuer of the Turbo Certificate sells the shares held for hedging in the background.

If the price of the XY share moves from EUR 51.50 to EUR 50.50, for example, the exemplary barrier was breached. The hedge was dissolved at a price of EUR 50.50.

Hedge dissolution price - strike price = residual value
 $EUR\ 50.50 - EUR\ 50 = EUR\ 0.50$

The residual value of the Turbo Certificate is therefore EUR 0.50. This amount will be paid out to Birgit automatically.



In the worst-case scenario, a hedge cannot be resolved above the strike price. In this case, there is no residual value payout and the turbo expires worthless. In practice, this is possible in the event of sudden, sharp price movements, for example. This leads to the total loss of the purchase price. However, Turbo Certificates are never subject to a margin call.

▪ **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 Turbo Certificates

- **Leverage/leverage effect:** The leverage effect of a Turbo Certificate means that fluctuations in the value of the underlying have a disproportionate impact on the value of the Turbo Certificate. Even small unfavourable developments in the underlying can lead to the loss of a significant portion of the capital invested, up to a total loss. The probability of a total loss is therefore greatly increased.
- **Financing costs:** Financing costs arise for the provision of the capital required for the structuring of the leverage in the open-end Turbo Certificate. These are taken into account by a daily adjustment of the strike price and the barrier and therefore lead to a reduction in the value of the Turbo Certificate.
- **Roll effect:** Turbo 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. These are taken into account by adjusting the strike price and the barrier.
- **Market risk:** The value of the Turbo Certificate depends on the value of the underlying asset. Unfavourable developments in the underlying can cause disproportionate fluctuations in the value of the Turbo 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 Turbo 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 Turbo Certificate. This can further increase the loss from the Turbo Certificate due to the market risk.
- **Payouts of the underlying:** Dividends and comparable claims from the ownership of the underlying are not paid out to the certificate holders, as these are taken into account by adjusting the strike price and barrier of the Turbo Certificate.

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

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With sufficient risk appetite, the
Turbo Certificate
can be used to exploit the short-term
opportunities of volatile markets!

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Maida Blentic
Raiffeisen Certificates Sales

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