

A faint, light blue outline map of Austria is visible in the background of the slide.

Turbo-, Index- and Bonus-certificates: Creating value in different market situations

Functional Set-up and how to use certificates

**Markus Kaller, CIIA
Erste Group Bank AG**

- Legally: obligations
- Financially: combination of a classic security (e.g.: bond) and/or contingent claims (e.g.: option)
- Return depends on the development of prices, indices or other key figures
- June 1990: Dresdner Bank issues the first certificate on the DAX (1:1 reproduction)
- September 2003: Erste Bank issues its first certificates (Discount- and Knock-out products on Austrian underlyings)

Certificates as investment alternative

-
- Investment for all asset classes and in every market phase
 - Flexible use and transparent products
 - Guaranteed liquidity



Many certificates – one goal



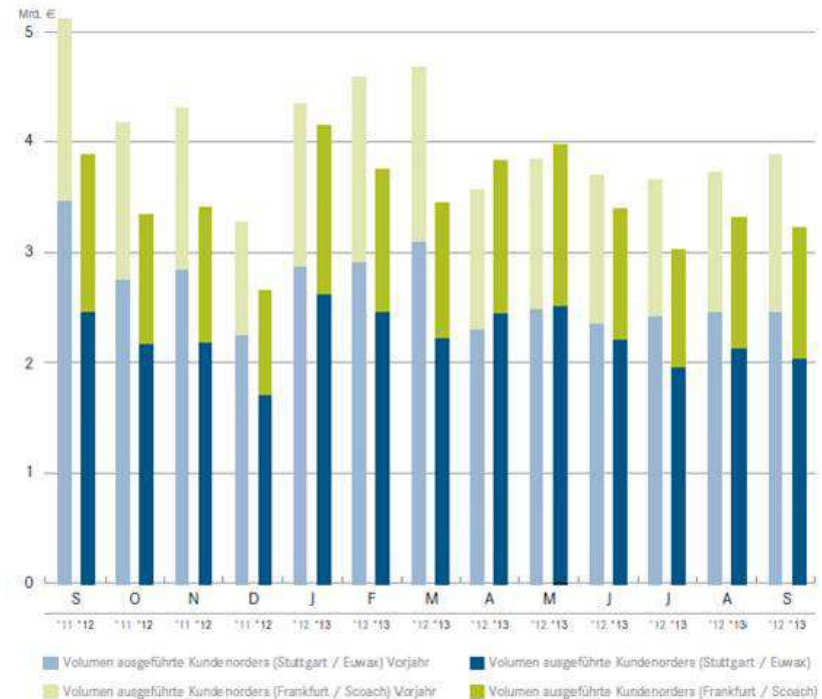
Investment certificates – products for different market situations

- Profits in different markets (neutral, rising, falling)
- Instruments to hedge a portfolio (turbo-certificate) attractive alternative to directly investing in underlying
- Heavily invested by German fund industry (Allianz Global Investors, DWS, Berenberg, HSBC Trinkaus,...)
- Certificate funds for retail and institutional clients
- Fitting instrument for new/narrow (small) markets (low costs, issued in short time,...)

Certificate market in Germany – monthly turn-over

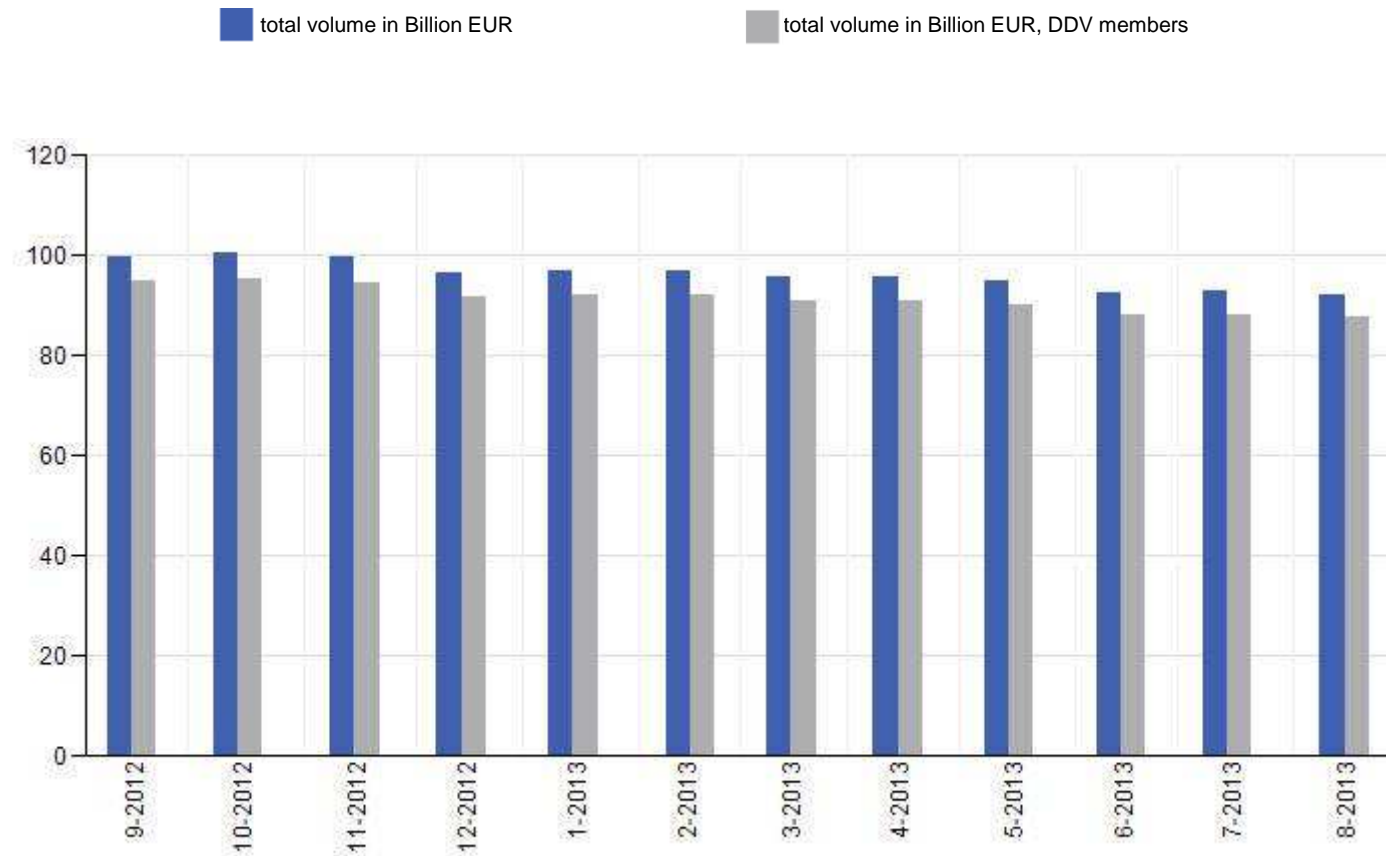
Jahresübersicht Börsenumsätze September 2013

| Monat | Gesamt | | Stuttgart (Euwax) | | Frankfurt (Scoach) | |
|----------------|-----------|-----------------|-------------------|-----------------|--------------------|-----------------|
| | In T€ | Zahl der Orders | In T€ | Zahl der Orders | In T€ | Zahl der Orders |
| September 2012 | 3.910.881 | 366.682 | 2.476.875 | 229.251 | 1.434.006 | 137.431 |
| Oktober 2012 | 3.350.891 | 351.375 | 2.175.277 | 217.803 | 1.175.614 | 133.572 |
| November 2012 | 3.424.940 | 362.091 | 2.192.736 | 223.541 | 1.232.204 | 138.550 |
| Dezember 2012 | 2.670.825 | 273.377 | 1.715.464 | 166.969 | 955.361 | 106.408 |
| Januar 2013 | 4.172.249 | 413.758 | 2.628.399 | 249.887 | 1.543.849 | 163.871 |
| Februar 2013 | 3.780.532 | 412.537 | 2.468.804 | 249.237 | 1.311.727 | 163.300 |
| März 2013 | 3.480.768 | 387.633 | 2.242.824 | 235.696 | 1.237.943 | 151.937 |
| April 2013 | 3.873.581 | 405.457 | 2.472.618 | 246.856 | 1.400.963 | 158.601 |
| Mai 2013 | 3.980.993 | 426.825 | 2.504.656 | 254.557 | 1.476.337 | 172.268 |
| Juni 2013 | 3.457.142 | 403.472 | 2.243.048 | 248.000 | 1.214.094 | 155.472 |
| Juli 2013 | 3.125.167 | 380.069 | 2.011.090 | 230.461 | 1.114.077 | 149.608 |
| August 2013 | 3.417.512 | 389.112 | 2.193.804 | 233.696 | 1.225.708 | 155.416 |
| September 2013 | 3.318.286 | 363.568 | 2.102.638 | 216.459 | 1.215.648 | 147.109 |



Monthly turn-over on average between 3 and 4 bill. Euro
 Month with high volatility (e.g. March 2012) see sharp increase in turn-over

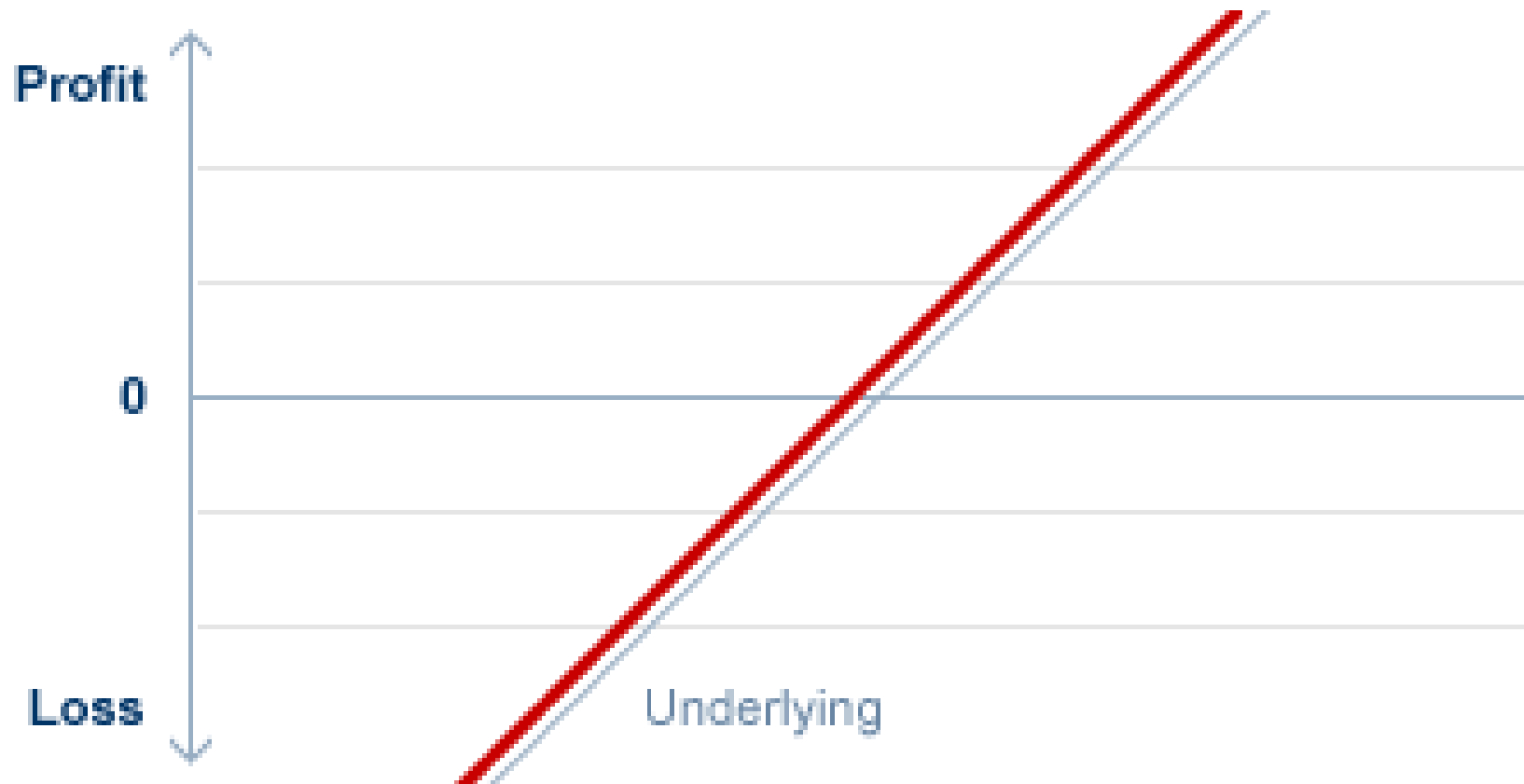
Certificate market in Germany – total volume:



Index-certificate

-
- Profit from price increase of underlying
 - Risk diversification, attractive alternative compared to a direct investment in the underlying
 - Open investment horizon; open-end certificates have no need for reinvestment meaning no worries about new decision making and risk taking
 - Cost-efficient investment possibility

Index-certificates: pay-off



Index-certificates: your choice



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All products - Internet Explorer

https://produkte.erstegroup.com/Retail/en/Products/Structured_Products/Index_certificates/Site/All_products/index.phtml

Quick Search (Text, ISIN, WKN)

1 2 3
 3 step guide

Look for:

- New issues
- In subscription
- Expired products
- Knocked out products
- Product finder
- Product news

Products

- Bonds
- Structured Products
 - Best Garant Products
 - Guarantee Products
 - Bonus Certificates
 - Cash or Share Bonds
 - Discount Certificates
 - Index Certificates
 - Turbo Certificates
 - Twin Win Certificates
 - Others
- Warrants
- Alternative Investments
- Interest & FX Management

Index Certificates

All products | New issues | By underlying | Product description

A cost-saving investment

If you are convinced of future price rises of an index, index certificates are a price-efficient way of investing in the underlying instrument. The certificate reflects the price movements of the underlying index 1:1. Below you can find our current product range.

Select your Criteria

Underlying: Maturity: Spread in %: Currency:

45 found Page 1 of 3 << 1 >>

| Underlying ISIN WKN | Maturity | Spread in % | Currency | Bid | Ask | Date |
|---|------------|-------------|----------|-------|-------|------------------|
| ATX AT0000A034J2 EB5YDK | Open end | 0.40% | EUR | 24.87 | 24.97 | 2010/08/19 11:16 |
| ATX AT0000A00MU8 EB1CHK | 2025/12/19 | 0.40% | EUR | 24.87 | 24.97 | 2010/08/19 11:16 |
| BRENT CRUDE AT0000A0CNC5 EB5E1M | Open end | 0.21% | EUR | 48.27 | 48.37 | 2010/08/19 11:19 |
| BTX AT0000A09628 EB5DQ0 | Open end | 2.60% | EUR | 15.00 | 15.40 | 2010/08/19 10:30 |
| BULGARIEN BASKET AT0000A042V0 EB5574 | Open end | 4.86% | EUR | 2.68 | 2.82 | 2010/08/19 10:00 |
| CECE AT0000A034K0 EB5YDL | Open end | 0.75% | EUR | 19.83 | 19.98 | 2010/08/19 11:12 |
| CECE AT0000A00D99 EB1A3H | 2025/12/19 | 0.75% | EUR | 19.83 | 19.98 | 2010/08/19 11:12 |
| CFCF MID CAP | Open end | 3.53% | EUR | 15.03 | 15.58 | 2010/08/19 |

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Bonus-certificates

Bonus-certificates: Amenities

- Bonus
 - Barrier
 - Maturity (Exercise date)
 - Underlying
 - Cap (with or without)
 - Ratio
-

Bonus-certificates: Expectations

-
- Profit from increase of underlying
 - Protection from moderate falling prices
 - Profit chances on volatile sideways markets



Bonus-certificates – easy to follow

-
- **Barrier** and **bonus level** are fixed at beginning of maturity and are valid till maturity
 - Even if share prices decline, the Bonus-certificate is redeemed at the **bonus level**, as long as the **barrier** has not been touched (continuous observation)
 - In case **barrier** has been touched the Bonus-certificate reflects the price development of the underlying but without dividend right (structure is influenced by dividend). Dividend is comprised in certificate price



TIP: A **Cap** allows higher **bonus level** and/or lower barrier but on the other hand limits the profit chances

Bonus-certificate: payout profile unlimited (without Cap)



barrier untouched:
amount paid out → bonus level (120)
maximum bonus yield!



barrier untouched:
amount paid out → stock price (140)
unlimited yield chance!

Bonus-certificate: payout profile unlimited (without Cap)



barrier touched:

amount paid out → stock price (110)
same performance as direct investment



barrier touched:

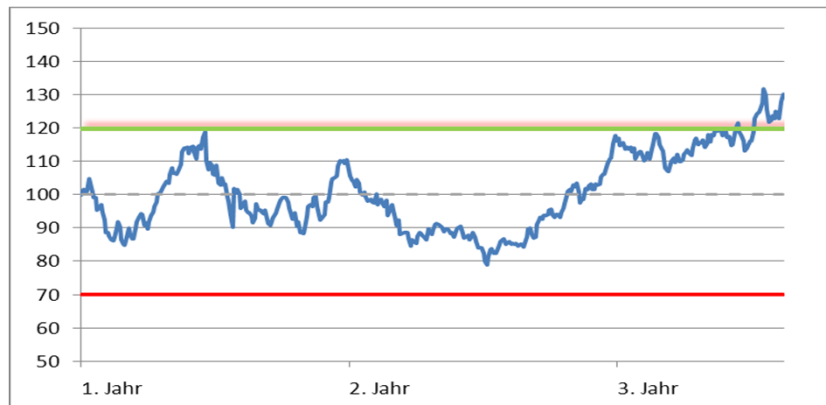
amount paid out → stock price (60)
loss according to stock performance

Bonus-certificate: payout profile limited with Cap



barrier untouched:

amount paid out → bonus level/cap (120)
maximum sideways yield!



barrier untouched:

amount paid out → cap (120)
limited yield chance!

Bonus-certificate: payout profile limited with Cap

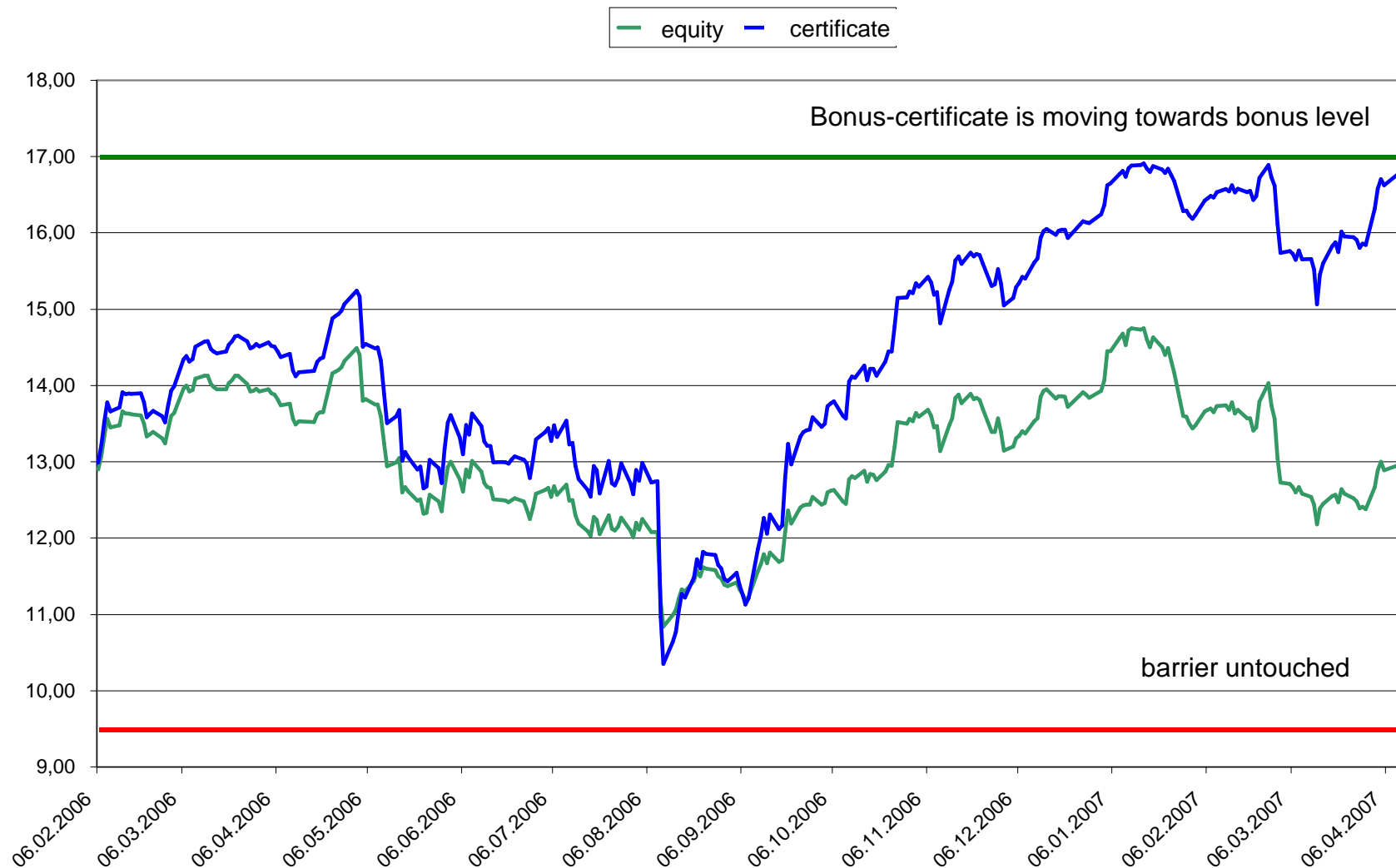


barrier touched:
amount paid out → cap (120)
barrier touched, cap remains



barrier touched:
amount paid out → stock price (60)
loss according to stock performance

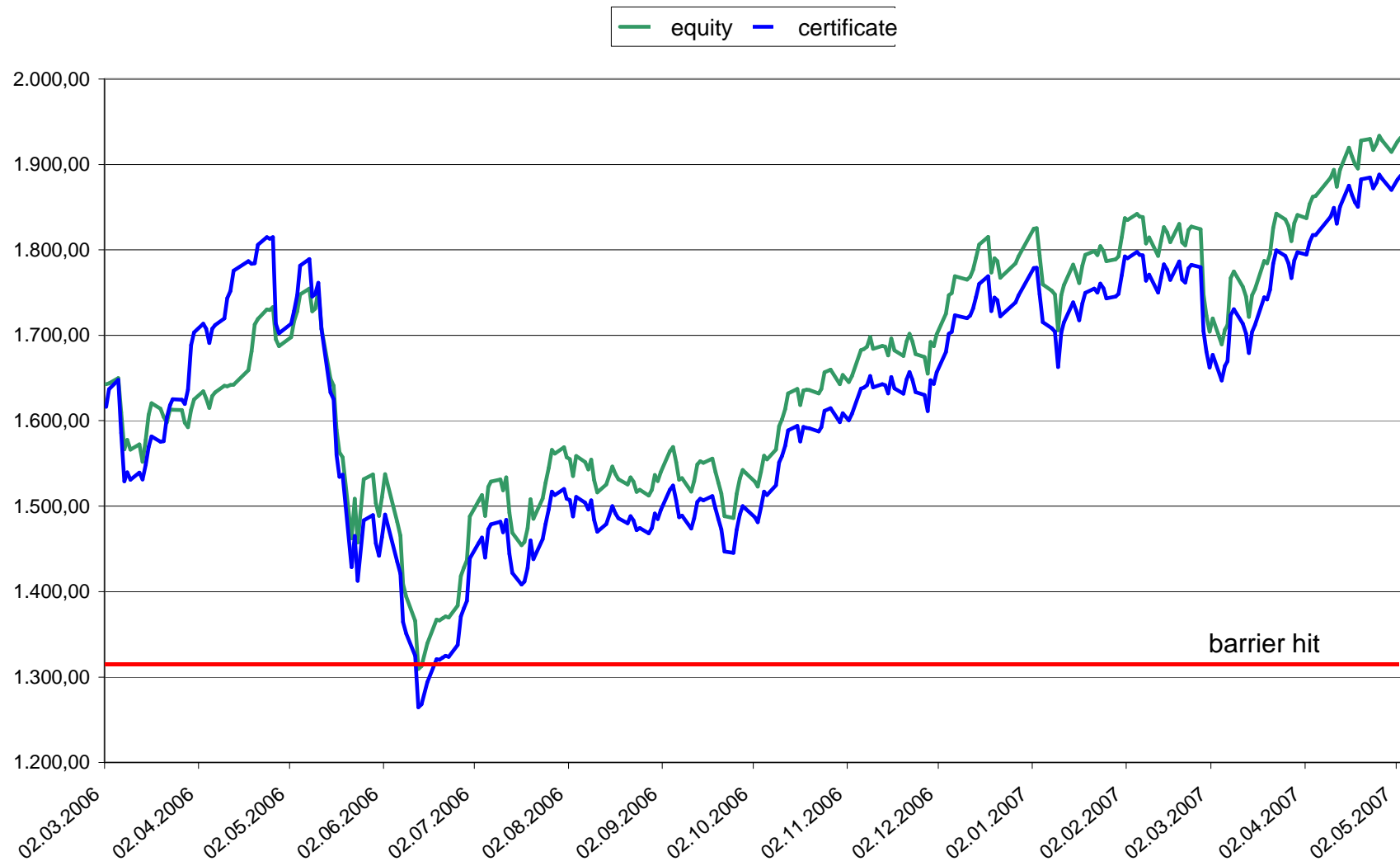
Bonus-certificate: price movement if barrier is untouched







Bonus-certificate: price movement if barrier is hit



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Bonus-certificate: factors influencing price

| | Movement | Price certificate |
|---------------|---|---|
| Stock price |   |   |
| Volatility *) |   |   |
| Interest rate |   |   |

*) Volatility is the expected fluctuation range of the underlying for a certain period of time. It is also Future orientated (market expectations)

Bonus-certificate: chances / risks

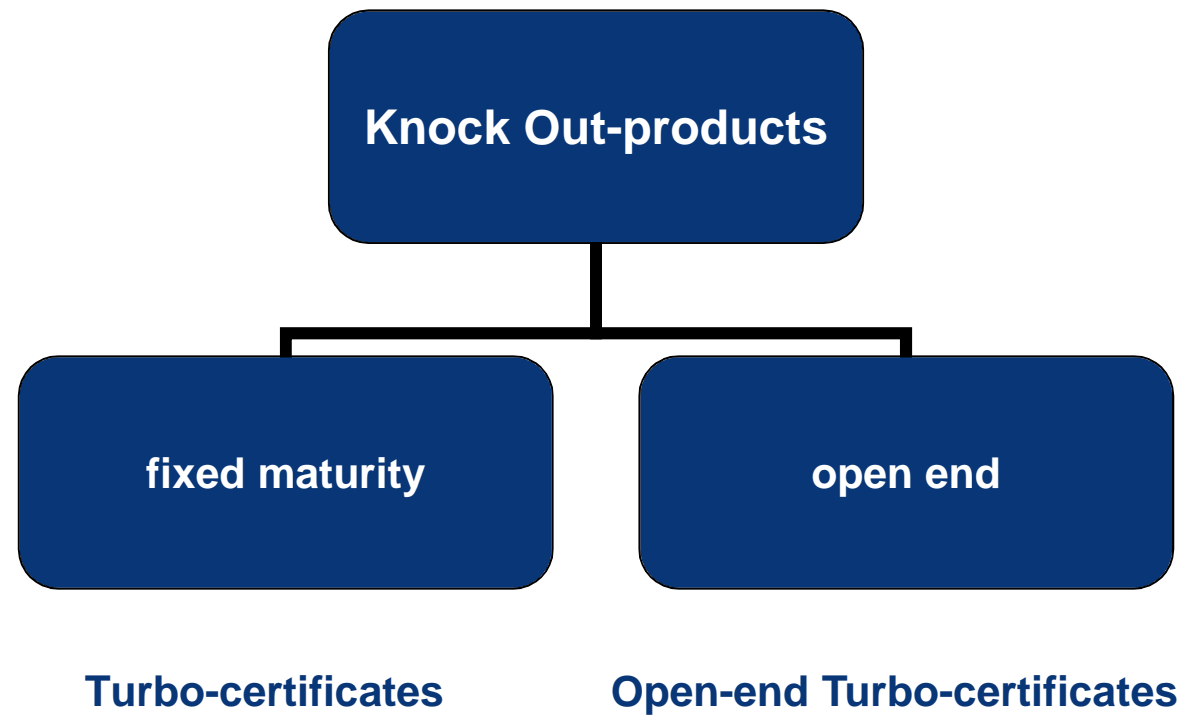
-
- Bonus payment at maturity even if underlying trades below bonus level (sideway yield)
 - Risk puffer
 - In case barrier is touched the payout profile corresponds with development of the underlying at maturity
 - If barrier is touched loss possible
 - Unlimited yield possible without cap. Limitation of liability with cap

Bonus-Certificate: your choice

-
- ✓ Choose underlying
 - ✓ Market expectations
 - ✓ sideways: Bonus-certificate with cap and same bonus level
 - > maximum sideways yield
 - ✓ Slight increase: Bonus-certificate with cap
 - > sideways yield plus performance
 - ✓ Strong increase: Bonus-certificate without Cap
 - > maximum performance
 - ✓ Investment horizon

Turbo-certificates / Knock Out-products

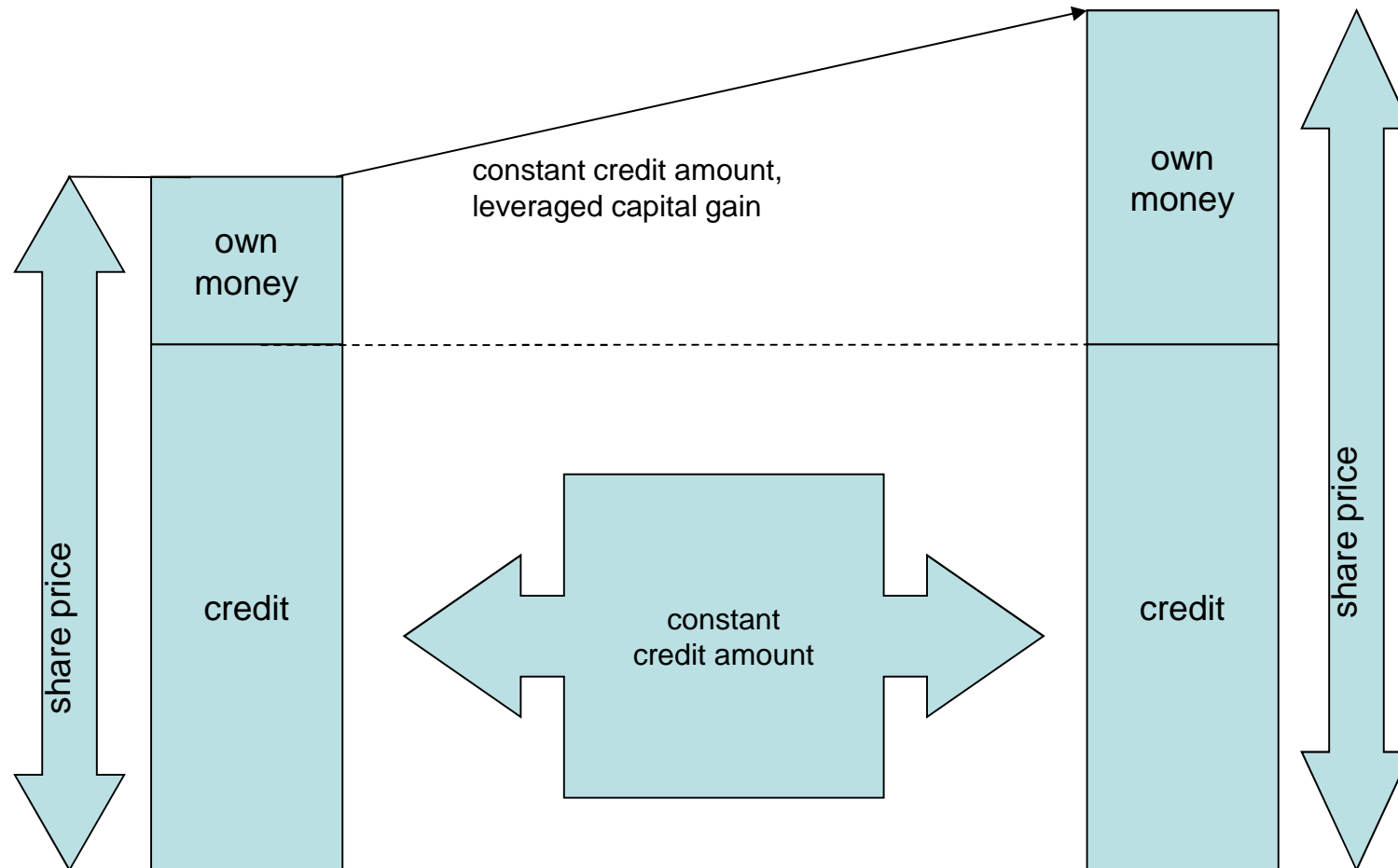
The world of Knock Out-products (Turbo-certificates)



Knock Out - expectations

- Profit from market movements with leverage
- Investing in bull and bear markets
- High returns with low investment-amount
- Hedging of existing portfolio

Turbo-certificate: equities with leverage



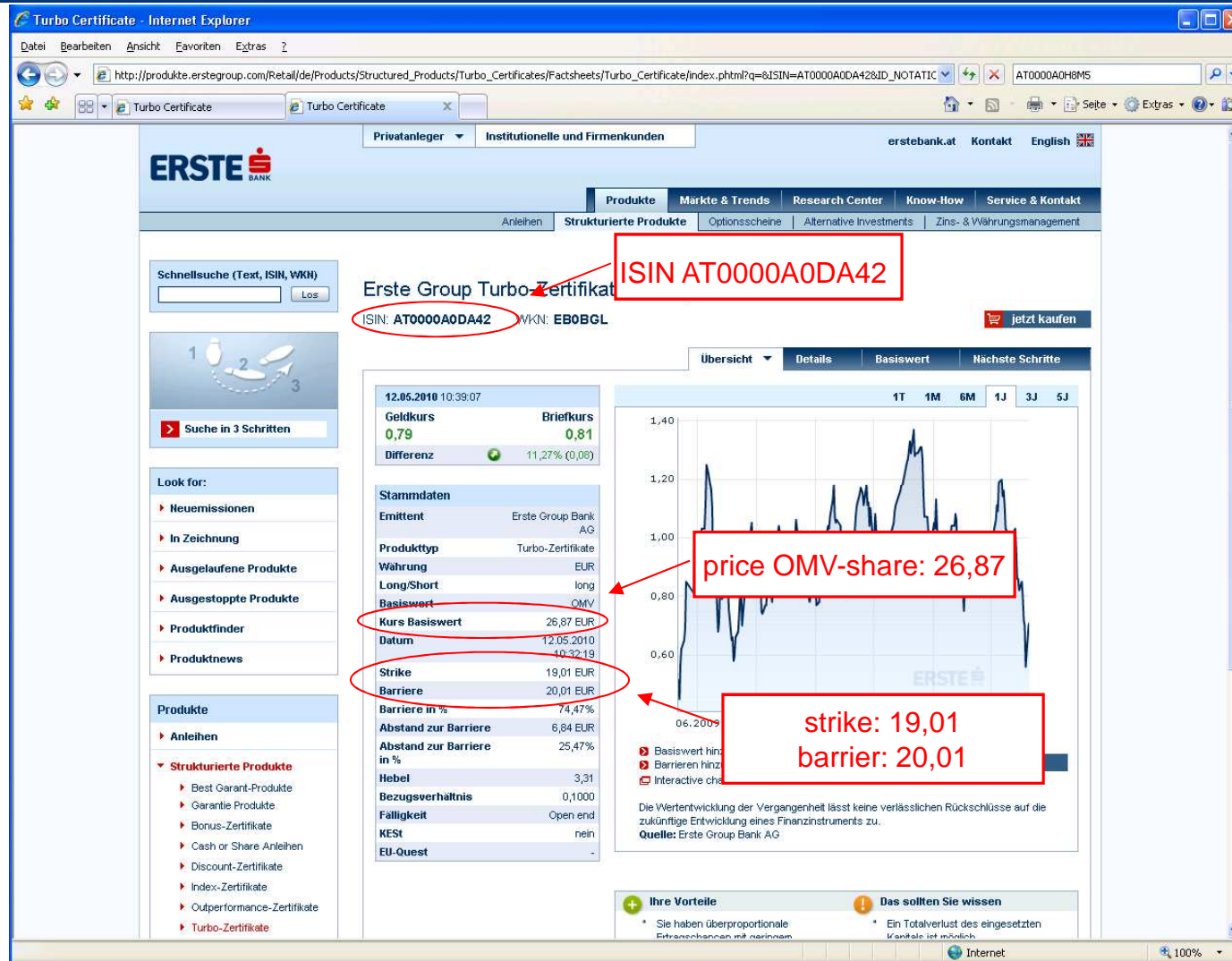
Limited maturity Turbo-certificate: principles

- **Turbo long-certificates** participate in rising
- **Turbo short-certificates** in declining markets
- **Strike** and **barrier** are fixed at the start of product (both are valid until maturity)
- Leverage effect results in the smaller invested amount, the smaller the product price the higher is the leverage
- Dividends and Costs of carry are comprised in product price

Open-end Turbo-certificate: principles

- **Turbo long-certificates** participate in rising
- **Turbo short-certificates** in declining markets
- **Strike** and **barrier** are fixed at the start of product; both are adapted constantly
- Dividends are comprised in product price on the day of dividend payment
- Costs of carry are charged daily in form of adapting the strike price

Open-end Turbo-certificate: principles Turbo long



Open-end Turbo-certificate: principles Turbo long

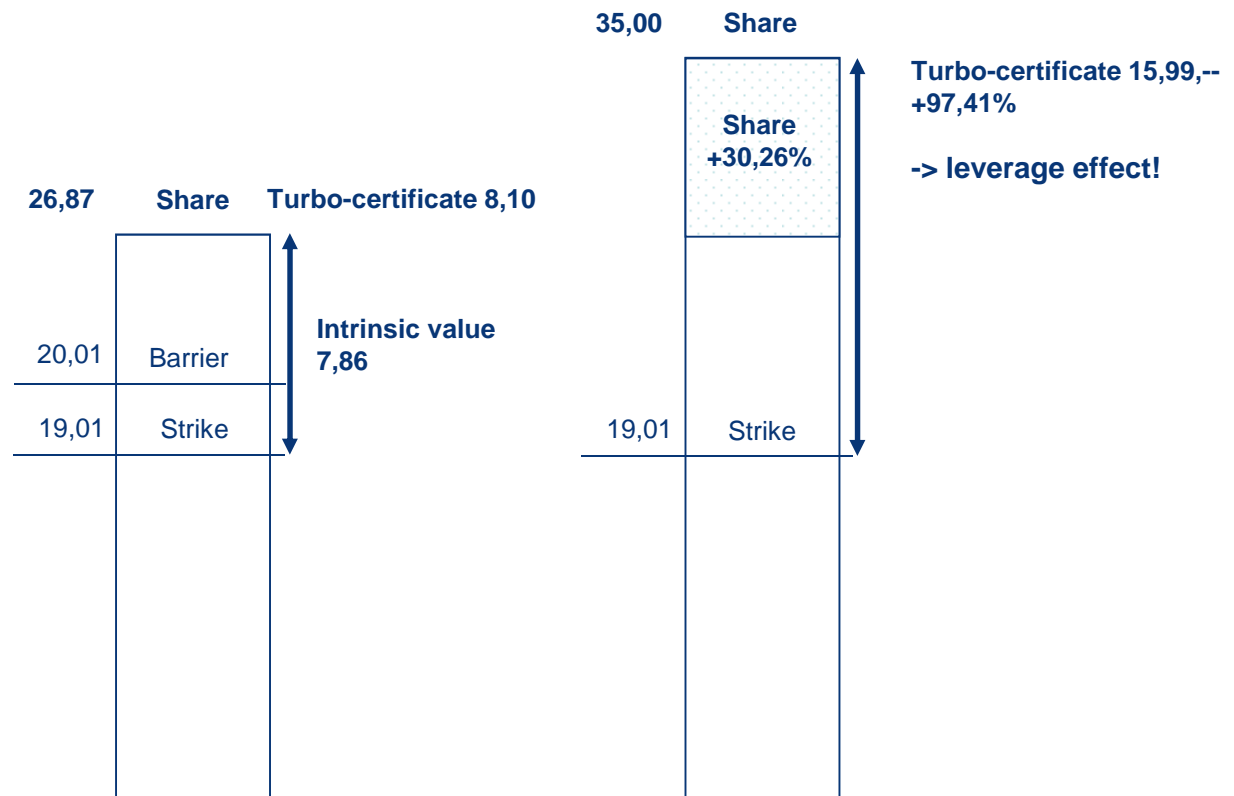
| Key facts: | |
|-------------------|--------------------|
| Maturity: | Open-end |
| Underlying price: | 26,87 |
| Strike: | 19,01,-- |
| Barrier: | 20,01,-- |
| Cost of carry: | 3m Euribor + 1,50% |

e.g.: OMV, price certificate: 0,81, ratio: 10:1

leverage :

$$\frac{\text{price underlying}}{\text{price certificate}} = 3,32$$

basis of calculations: price OMV share on 12.05.2010

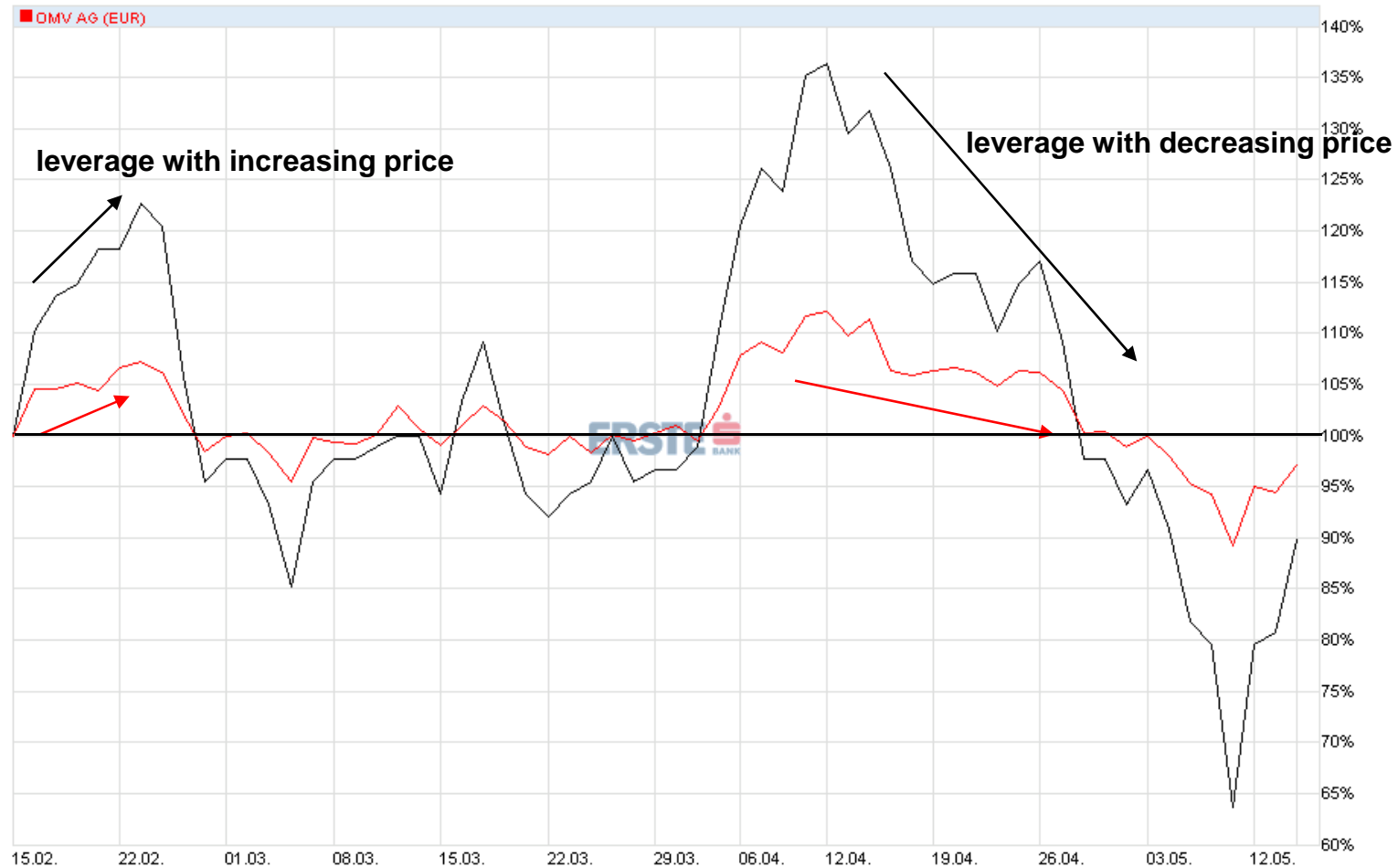


Open-end Turbo long-certificate: price development



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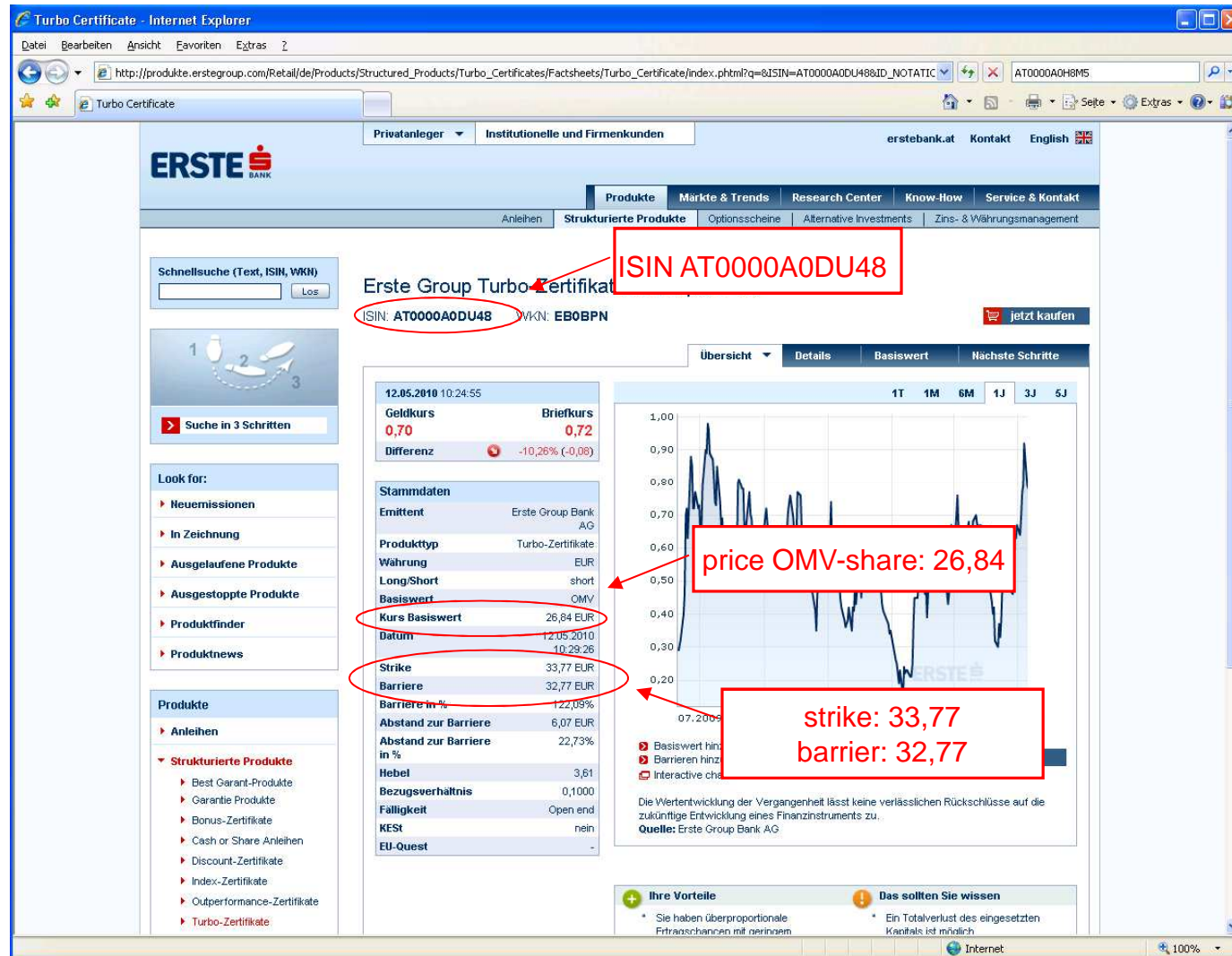
OPEN END TURBO LONG AUF OMV AG EUR 0,79 +11,27%
 0A0DA4 / AT0000A0DA42 / außerbörslich Österreich 12.05. 11:52:19 +0,08
 Hoch: 0,79 Tief: 0,71



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Open-end Turbo-certificate: principles Turbo short



Open-end Turbo-certificate: principles Turbo short

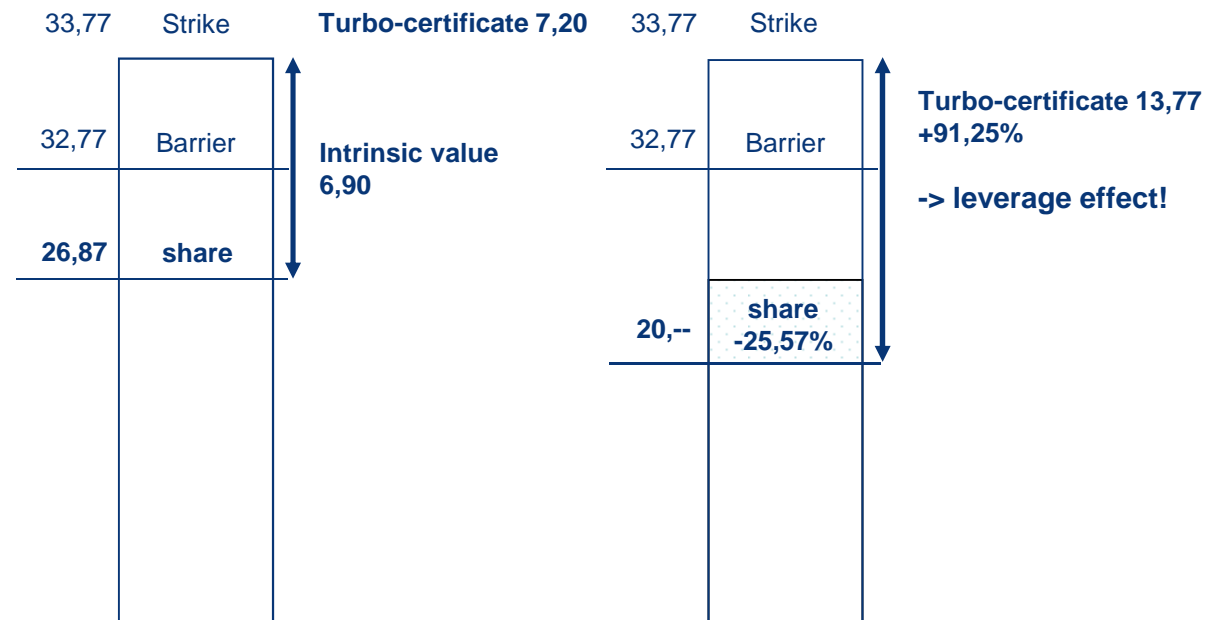


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| Key facts: | |
|----------------------|--------------------|
| Maturity: | Open-end |
| Price of underlying: | 26,87 |
| Strike: | 33,77 |
| Barrier: | 32,77 |
| Costs of carry: | 3m Euribor - 1,50% |

e.g.: OMV, price certificate: 0,72, ratio: 10:1

leverage:
 $\frac{\text{price underlying}}{\text{price certificate}} = 3,73$



basis of calculations: price OMV share on 12.05.2010

Open-end Turbo short-certificate: price development



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OPEN END TURBO SHORT AUF OMV AG EUR 0,71 -8,97%
0A0DU4 / AT0000A0DU48 / außerbörslich Österreich 12.05. 11:36:18 -0,07
 Hoch: 0,78 Tief: 0,69



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(Open-end) Turbo-certificate: opportunities / threats

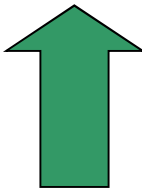

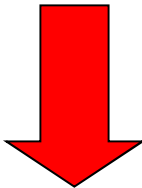


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-
- High upside potential even with small amounts invested
 - Profits in bull and bear markets
 - Time value and volatility have almost no influence on product price
 - Transparent price movements
 - Total of capital invested loss possible

-
- KO's are a proper tool for **short term trading** as it reflects moves in prices of the underlying almost 1:1 since the delta is 1 (-1)
 - Because of the leverage in KO's **prices changes** of the underlying are **immediately reflected** in a disproportionately manner
 - Only small moves in prices of the underlying may lead to a **knock out and a total loss** of money invested, if the barrier is close to the price of the underlying
 - The possibility of a knock out usually leads to lower prices for KO's compared to warrants
 - Leverage stays constant during holding period

Certificates: the proper product for different market trends

| Market Expectation | Certificate |
|--|---|
|  Rise | Turbo-long |
| Sideward  | Reverse Convertible, Discount, Bonus |
|  Plunge | Turbo-short |

Before investing in certificates investors need to have a market opinion

– Challenge on new market

- Moderate or even small capitalization
- Insufficient liquidity in the market
- Limited number of tradeable blue chips
- Small number of stocks represents the total market

– Funds: the ideal instrument?

- Legal restrictions on investments (limit on single position requires a specific minimum number of different stocks)
- High costs require certain minimum investment amount (set-up, running costs)
- Time consuming set-up (prospectus, approval by local authorities,..)

– **Certificates the better and faster market entry**

- No time consuming set-up (basis prospectus for all certificates, therefore quick approval by local authorities,..)
- No legal restrictions on investments (no limit on single position, barely any other restrictions)
- Lean costs (marginal set-up costs, no audit report required)
- Certificates can be issued within some days!!
- Mostly no management fee, since dividends are often not reinvested

– To put in a nutshell, certificates can be:

- “Tailor-made” for every tradable underlying
- Issued within some days
- Publicly listed on the stock exchange or a private issue
- “Tailor-made” for a starting volume of 100t (single stock) – 500t (indices) Euros
- Issued in different currencies
- The ideal instrument in different market situations: in rising markets even with a leverage, in neutral markets with a high yield, or even in falling markets with a protection

- Excellent rating (Moody's A1, S&P A, Fitch A)
- Listed on
 - Vienna (XETRA)
 - Stuttgart (EUWAX)
 - Budapest (BSE)
 - Bucharest Stock Exchange (BVB)
 - Zagreb Stock Exchange (BSE)
 - Istanbul Stock Exchange (ISE)
 - Prague Stock Exchange (PSE)
- Continuous trading during opening hours of exchange
- Internet: www.products.erstegroup.com

Erste Group as Issuer

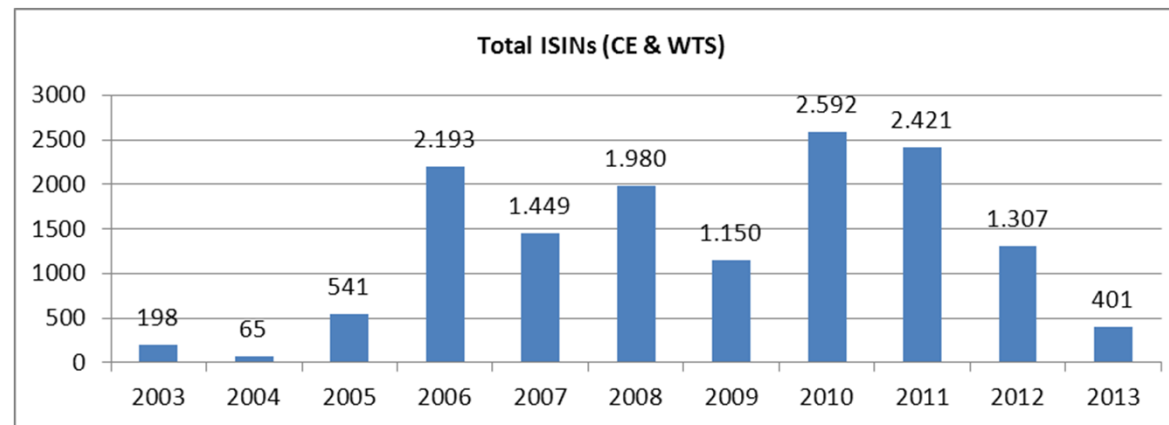


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Erste Group is a pioneer, with more than 20 years of experience, in issuing Structured Products in Austria as well as in whole Europe. In 1991 Erste Group issued the first Reverse Convertibles (Cash or Share) on OMV, Z-Länderbank and EVN. We were number two in EU after Merrill Lynch issuing these kind of products.

In 2003 we put our focus to trading products as well. Since then the product portfolio and country portfolio was continuously developed.

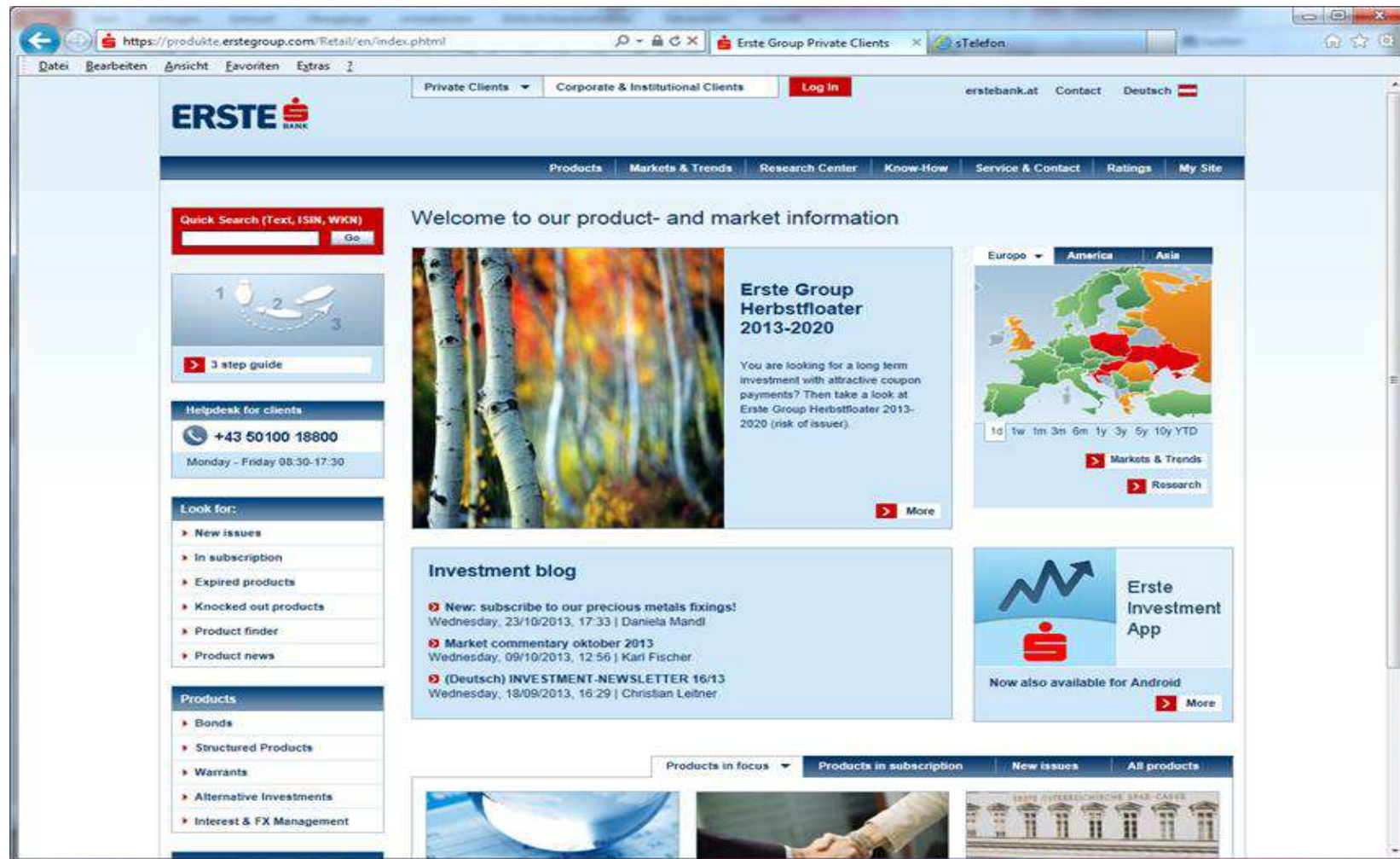
- 2003: Austria
- 2005: Austria & Germany
- 2008: Austria, Germany & Hungary
- 2010: Austria, Germany, Hungary & Romania
- 2012: Austria, Germany, Hungary, Romania, Croatia, Turkey
- 2013: Austria, Germany, Hungary, Romania, Croatia, Turkey, Czech Republic



Website: www.products.erstegroup.com



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