

# Structured products with yield enhancement

This document contains information about the properties of structured products with yield enhancement and informs you about potential benefits and risks of this class of products. These principles can support you in your investment decisions. Please contact your Client Advisor if you would like further information or have any questions.

## General Information

**Structured products** are debt securities with a value comprised of different components. They usually have pre-defined terms. Their underlying assets can be bonds, stocks, indices, currencies, and commodities, as well as derivatives of the named investment categories.

**Structured products with yield enhancement:** This type allows attractive yields to be obtained in flat markets. If the price of the underlying assets changes only slightly, a higher yield will be obtained than with a direct investment in the underlying assets. However, the potential gain is limited. If the value of the underlying product increases significantly, the investor will no longer participate in this, beginning at a certain level. If the price of the underlying assets drops sharply, the investor receives the base value or the cash settlement at the price of the underlying assets at maturity. Multiple underlying assets allow higher discounts and/or coupons, or lower barriers. At the same time, they are higher risk.

## Types of structured products with yield enhancement

**Discount certificates** indicate at purchase a price reduction (discount) on the underlying assets. In return, the potential gain is limited with a pre-defined cap. If the price of the underlying assets is higher than the cap at maturity, the investor will always receive only the maximum return in the amount of the cap. If the price is below the cap at maturity, the investor will receive the underlying assets or the corresponding cash settlement.

**Barrier discount certificates** indicate at purchase a price reduction (discount) on the underlying assets. It is lower than with a discount certificate, because a barrier (conditional capital protection) is built into this product type. If the barrier is never reached during the term or is undershot, this always results in a payout in the amount of the pre-defined maximum return (cap). The potential gain is thus limited to the cap. If the barrier is reached or exceeded, the product converts into a discount certificate.

**Reverse convertibles** have a guaranteed coupon payment independent of the development of the underlying assets. If the underlying assets are listed at or above the exercise

price at maturity (100 % underlying asset upon issuance), 100 % of the nominal amount and the coupon are paid out. The gain is thus limited to the coupon. If the price of the underlying assets is below the base level at maturity, the investor receives the underlying assets or the corresponding cash settlement, minus the coupon.

**Barrier reverse convertibles** have a guaranteed coupon payment independent of the development of the underlying assets. In addition, a barrier is built in (conditional capital protection). If this barrier is never reached during the term or is undershot, this always results in a payout in the amount of the nominal amount and the coupon. The gain is thus limited to the coupon. If the barrier is reached or undershot, however, the payout depends on the price of the underlying assets at maturity. If the price recovers prior to maturity to at or above the exercise price, the investor receives the nominal amount and the coupon paid out. If the price of the underlying assets is below the base level at maturity, the investor receives the underlying assets or the corresponding cash settlement, plus the coupon.

**Capped outperformance certificates** are designed up to a defined cap with a disproportionate profit sharing in the development of the underlying assets. If the price of the underlying assets is above the cap at maturity, the payout is limited to the amount of the cap. The potential loss corresponds to that of the underlying assets.

**Capped bonus certificates** follow, in the event of positive price development, the underlying assets one to one up to a pre-defined cap. If the cap is exceeded at maturity, the payout is limited to the amount of the cap. A conditional capital protection in the amount of the so-called bonus level is built in. If a pre-defined barrier is not reached during the term, the minimum repayment corresponds to the strike (bonus level). If the barrier is reached (knock-in), the product converts into a tracker certificate. The risk of loss is equivalent to the risk of a direct investment in the underlying assets.



**Express certificates** have multiple possible pay-out variations and conditional capital protection. The certificate is monitored on multiple key dates. Each key date is assigned its own coupon. If the price of the underlying assets on a key date is above a pre-defined exercise price level, the nominal amount and the corresponding coupon are paid out. If the exercise price level is not reached on a key date, the certificate continues to run. If the strike level is never reached and the underlying assets are listed at maturity above the capital protection barrier, the payout is in the amount of the capital protection. If the barrier is not reached at maturity, the investor receives the underlying assets or the cash settlement.

#### **Potential benefits**

**Reduced risk of loss:** The risk of loss is reduced by the amount of the discount/coupon.

**Higher returns in flat markets:** An attractive return can be obtained even in the case of stagnating development of the underlying assets.

**Disproportionate participation:** Capped outperformance certificates allow a disproportionate participation in the positive development of the underlying assets up to the pre-defined cap.

#### **Potential risks**

**Risk of loss:** The risk of loss corresponds usually to the risk of the underlying assets, minus the discount/coupon. In the event of unfavourable price development, a major loss may result. Some products with yield enhancement relate to multiple underlying assets and call for the investor to receive at maturity the security with the worst value development. Whether it be physical delivery or in cash. The risk of loss is higher in this case than with individual underlying assets. Because the probability is greater that one value out of many will develop poorly than that a very specific underlying asset will develop poorly.

**Credit risk:** The credit risk may occur in case of insolvency of the issuer and lead to a partial or total loss of the invested capital. If the credit rating of an issuer deteriorates during the term of the product, the secondary market price of the product may decrease. This may also result in a loss in case of a sale before the end of the term.

**Market risk:** The value of the investment may decrease during the term due to market price fluctuations.

**Liquidity risk:** The investor bears the risk that the investment must be held until the end of the term in an illiquid market or sold before maturity at an unfavourable price.

**Foreign currency risk:** If the financial instruments or the underlying assets are listed in a different currency from the local currency of the investor, there is a risk that fluctuations in the exchange rate will decrease the value of the investment from the investor's perspective. It is possible that the price gains of an investment may result in a total loss for the investor due to exchange rate changes. Exchange rates can fluctuate substantially.

#### **Legal information**

This document is for information purposes only and for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or to use banking services, and does not relieve the recipient from making their own assessment. This document is not aimed at any persons whose nationality or domicile prohibits access to such information on the basis of applicable legislation. Basler Kantonalbank does not guarantee the accuracy and completeness of the statements made in this document and disclaims any liability for losses. Before purchasing financial instruments, it is recommended that you also consult any specific product documentation that may be available and the information brochure published by the Swiss Bankers Association. This document may not be reproduced without the express consent of Basler Kantonalbank.