

**Appendix 8.1  
to the Regulations  
for provision of brokerage, investment and  
agency services on the securities market**

**MAIN RISKS ASSOCIATED WITH INVESTMENTS IN FINANCIAL INSTRUMENTS ON  
INTERNATIONAL FINANCIAL MARKETS**

**Your Securities, Opportunities and Risks in Investment Transactions**

**INTRODUCTION**

Dear Client,

The range of possibilities of investing in securities, money market instruments, options and futures has considerably widened in recent years. This makes it increasingly difficult for investors to keep track of them as well as to be familiar with all the opportunities and risks involved. This brochure is intended as a guide for you, explaining the basics and providing you with information independent of current analysts' assessments. The brochure gives you a general overview of financial instruments, the knowledge of which we consider crucial to reaching sound investment decisions. Take advantage of the manifold opportunities offered by investments in financial instruments and at the same time, identify and limit the risks inherent in investments. If you require more detailed information, your personal adviser will be pleased to assist you with comprehensive advice and with designing an investment strategy that best answers your personal needs.

**RISK CLASSIFICATION OF SECURITIES, MONEY MARKET INSTRUMENTS AND DERIVATIVE PRODUCTS**

The classification of risks is based on general as well as special (product-specific) risks. The general risks inherent in investments in securities, money market instruments and derivative products to be taken into account are explained on the following pages:

**GENERAL INVESTMENT RISKS**

**Complex Products**

- i. If you do not understand the key features of the product being offered, or the key risks involved, do not invest. Instead, consider seeking independent professional advice on what investment is suitable for you.
- ii. Be aware that sometimes the name of a product may not reflect the features of the product.
- iii. Be careful if you need to access your money before the product is due to pay out.
- iv. Before you invest, understand what the total costs are. The cost of an investment will impact the return you are likely to achieve. Also, there may be similar, less complex products - with lower costs - available.

Some complex products require a high level of knowledge to evaluate and assess the risks. They also need active management and monitoring over time. Active management and monitoring is often too time consuming, impractical and difficult for retail investors. You should consider these difficulties when thinking about investing in complex products.

Complex products consist of the following:

- is a derivative, or incorporates a derivative (a derivative is a financial instrument where the value is based on the value of another financial instrument, or of some other underlying financial asset or index, such as foreign currencies or interest rates - they are often included in a financial product to produce or enhance a certain investment strategy, as well as to hedge, or offset, certain risks);
- has underlying assets or indices that are not easily valued, or whose prices or values are not publicly available;

- has a fixed investment term with, for example, penalties in case of early withdrawal that are not clearly explained;
- uses multiple variables or complex mathematical formulas to determine your investment return;
- includes guarantees or capital protection that are conditional or partial, or that can disappear on the happening of certain events.

Examples of products that should be considered as complex: as-set-backed securities; types of bonds such as convertible or subordinated; certificates; contracts for difference (CFDs); credit linked notes; structured products; and warrants.

Although complex products can provide benefits to you, there are certain risks and potential disadvantages involved in investing in complex products.

You need to be fully aware of these risks and ensure you sufficiently understand the key features of a product in order to make in-formed investment decisions.

These risks are further explained in Appendices 8.1 and 8.2: Liquidity Risk, Leverage Risk, Market risk, Credit risk.

## **Market risk**

Market risk is the day-to-day risk of losses arising from movements in market prices. Complex products can expose you to several market risks because they are often designed to invest in separate underlying markets (for example, in shares, interest rates, exchange rates, commodities).

## **Cost of complexity**

Complex structures within a product can mean the product has a higher cost because you are paying for the product's underlying features. Also, fees and commissions are usually built into the structure of the products, and are therefore not readily apparent.

## **Currency Risk**

In the case of investments in foreign currency, the return and performance of the investment are strongly influenced by the exchange rate development of the foreign currency relative to your base currency. This means that exchange rate fluctuations may increase or decrease the return and value of such investments.

## **Transfer Risk**

Transactions involving a foreign business partner (e.g. a foreign debtor) carry the additional risk that political or exchange control measures in a given country may complicate or prevent the realisation of the investment. In addition, problems may occur in connection with the settlement of an order. In the case of foreign currency transactions, such measures may obstruct the free convertibility of the currency.

## **Country Risk**

The country risk represents the credit risk of a given country. If the country concerned poses a risk in political or economic terms, all counterparties resident in that country may be affected.

## **Liquidity Risk**

Tradability (liquidity) refers to the possibility of selling a security or closing out a position at the market price at any given time. The opposite of a liquid market is a narrow market. The market in a particular security is said to be narrow if an average sell order (measured by the usual trading volume) causes perceptible price fluctuations and if the order cannot be settled at all or only at a substantially lower price.

## **Credit Risk**

Credit risk refers to the possibility of the counterparty's default, i.e. the inability of one party to a transaction to meet its obligations such as dividend payments, interest payments, repayment of principal when due, or to meet such obligations for full value. It is also known as repayment risk or issuer risk.

## **Interest Rate Risk**

The risk that losses will be incurred as a result of future movements in the market interest level is termed interest rate risk.

## **Exchange Risk**

This term means the risk of adverse movements in the value of individual investments. In the case of transactions implying a future obligation (foreign currency forwards, futures, selling options etc.) it may therefore be necessary to provide collateral security (margin) or to increase its amount, which means tying up liquidity.

## **Risk of Total Loss**

This term refers to the risk that an investment may become completely worthless.

## **Buying Securities on Credit**

The purchase of securities on credit implies an increased risk. The credit raised must be repaid no matter whether the investment has been profitable or not. Furthermore, the credit costs reduce the return.

## **PLACING ORDERS**

Buy or sell orders must at least indicate the designation of the investment, the quantity (number of securities/nominal amount) to be purchased or sold, the price at which the transaction is to be carried out and the period for which the order is to be valid.

### **Price Limit**

If buy or sell orders are placed with the instruction "at best" (no price limit), deals will be executed at the best possible price. With a buy limit, the purchase price and thus the amount of capital employed is limited. No purchases will be made above the price limit. A sales limit fixes the lowest acceptable selling price; no deals will be carried out below this price limit.

### **Time Limit**

Setting a time limit determines the validity period of orders. The validity of unlimited orders depends on the practices of the respective stock market. Your investment adviser will inform you of further additions which can be made when placing an order.

## **Tax Considerations**

Your investment adviser will inform you about the general tax aspects of the individual investment instruments. We advise you to assess the impact of an investment on your personal tax bill together with your tax consultant.

## INVESTMENT RISKS RELATED TO BONDS/DEBENTURES / FIXED-INCOME SECURITIES

### BONDS

(= debentures, fixed-income securities) are securities that obligate the issuer (= debtor) to pay to the holder (= creditor, buyer) interest on the capital invested and to repay the nominal amount according to the bond terms.

#### Return

The bond yield is composed of the interest paid on the capital and any difference between the purchase price and the price achievable upon sale/redemption of the bond.

Consequently, the return can be determined in advance only if the bond is held until redemption. To provide an indication/comparison, an annual yield based on the assumption of bullet repayment is calculated in line with international standards. If the yield of a bond is significantly above the general yield level of bonds with comparable maturities, there good reasons must exist - one of them may be an increased credit risk.

The price achievable upon sale of a bond prior to redemption (market price) is not known in advance. This means that the yield may be higher or lower than initially calculated. In addition, transaction charges must be taken into account when calculating the overall return.

#### Credit Risk

There always is the risk of the counterparty's default, e.g. in the case of the debtor's insolvency. The credit standing of the debtor must therefore be considered in an investment decision.

Credit ratings (assessment of the creditworthiness of a debtor) issued by independent rating agencies provide some guidance in this respect. The highest creditworthiness is "AAA". The lower the rating (e.g. "B" or "C") is, the higher is the repayment risk, but also the higher will be the yield (risk premium).

#### Exchange Risk

If a bond is kept until maturity, the investor will receive the redemption price as stated in the bond terms. Please bear in mind the risk of a call, i.e. the issuer retires the bond before maturity (this is only possible if a relevant provision is specified in the bond terms).

If a bond is sold prior to maturity, the investor will receive the current market price, which is regulated by supply and demand. For instance, the price of fixed-rate securities will fall if the interest rate on bonds with comparable maturities rises. Conversely, bonds will gain in value if the interest rate on bonds with comparable maturities falls.

The market price of a bond may also be affected if the issuer's creditworthiness changes.

#### Liquidity Risk

The tradability of bonds depends on several factors, e.g. issuing volume, residual life, bond market rules and market conditions. Certain bonds may be difficult or impossible to sell and must be held until maturity.

### BOND TRADING

Bonds are traded on a stock exchange or over-the-counter. Company may quote buying and selling rates for bonds upon request.

### SOME SPECIAL BONDS

## **Supplementary capital bonds**

These are junior securities issued by certain banks. Interest will be paid only if the bank has achieved a sufficient net income (before allocation to reserves) for the financial year, and principal will be repaid only after pro-rata deduction of the net losses suffered during the full term of the supplementary capital bonds.

## **Subordinated capital bonds**

In the event of an issuer's liquidation or bankruptcy, payments are made to the holder of these bonds only after all other non-subordinated liabilities of the bond debtor had been satisfied. It is not possible to offset claims to redemption of subordinated bonds against amounts owed to the bond debtor.

## **Cash-or-share bonds issues**

These consist of three components, the risk of which is borne by the holder of these bonds: The investor buys bonds (bond component) whose interest rate takes into account the option premium and is higher than the market interest rate of other bond issues with comparable maturities.

However, the bonds will be redeemed either in cash or in shares, depending on the price performance of the underlying share (share component). Thus, the bondholder is the writer of a put option (option component), who sells the right to put shares to him to a third party and, thereby, accepts the risk of an adverse movement in the share. In return for accepting the risk, he will receive the option premium, which is determined chiefly by the volatility of the share. Unless the bonds are held until maturity, there will be the additional risk of interest rate fluctuations. Changes in the interest rate level will thus affect the price of the bonds and, consequently, their net yield relative to the holding period.

Please note the information on the credit risk, interest rate risk, and exchange risk of the share given in this brochure.

Your personal adviser will be pleased to inform you about further special bond types such as bonds with warrants, convertible bonds, zero-coupon bonds etc.

## **INVESTMENT RISKS RELATED TO SHARES**

### **SHARES**

Shares (stocks, equities) are securities evidencing an ownership interest held in an enterprise (public limited company). The most important rights of shareholders are the participation in the company's profits and the right to vote in the shareholders' meeting.

#### **Return**

The yield on investments in shares is composed of dividend payments as well as price gains or losses and cannot be predicted with certainty. The dividend is the amount of a company's earnings distributed to shareholders. The amount of the dividend is decided by the shareholders' meeting and is expressed either as an absolute amount per share or as a percentage of the nominal value of the share. The return achieved on the dividend in relation to the share price is called dividend yield. Usually, this is considerably lower than the dividend quoted as a percentage of the nominal value.

The greater part of the return on investments in shares is usually achieved from their performance/price trend (see exchange risk).

#### **Exchange Risk**

Most stocks are traded on a public exchange. As a rule, prices are established on the basis of supply and demand daily. Investment in stocks may involve considerable losses.

In general, the price of a stock depends on the business trend of the respective company as well as the general business environment and political conditions. Besides, irrational factors (investor sentiment, public opinion) may also influence the share price trend and thus the return.

Statistics show that, in the past, investments in stocks provided higher overall returns in the medium and long term than investments in most other securities categories.

## Credit Risk

Shareholders hold an ownership interest in a company. This means that their investments may be rendered worthless, especially if the company becomes insolvent.

## Liquidity Risk

Tradability may be limited in the case of shares with a narrow market (especially stocks quoted on the so-called "third market").

## STOCK TRADING

Stocks are traded on a public exchange and sometimes over-the-counter. In the case of stock exchange trading, the relevant stock exchange rules (trading lots, order types, contract settlement etc.) must be observed. Foreign shares quoted in euro are still subject to a currency risk, in addition to the exchange risk if their local stock exchanges are in countries which are not members of European Monetary Union. Please contact your personal adviser for further details.

## INVESTMENT RISKS RELATED TO INVESTMENT FUNDS

### Shares in Investment Funds

(= investment fund certificates) are securities which evidence co-ownership of an investment fund. Investment funds invest the money provided by investors in accordance with the principle of risk diversification. There are three basic types of investment funds: bond funds, stock (equity) funds and balanced funds, which invest in both bonds and stocks. Funds may invest in European and/or third country securities.

Besides, funds are categorised as interest/dividend paying funds, growth funds, and funds of funds. In contrast to interest/dividend-paying funds, a growth fund does not pay out its income but reinvests it in the fund. Funds of funds invest in other European and/or third country funds.

### Open-End Investment Funds

#### Return

These consist of open-end and closed-end funds. The return on investment fund certificates is composed of the annual distributions (in the case of interest/dividend-paying funds, not of growth funds) and the trend of the net asset value (NAV). The return on investment cannot be established in advance. NAV performance depends on the investment policy specified in the fund terms as well as on the market trends of the individual securities held by the fund. Depending on the composition of a fund's portfolio, the relevant risk-warning notices for bonds, stocks or warrants must be taken into account.

## Exchange/rating risk

Investment fund certificates can normally be resold to the fund at the repurchase price at any time. Under exceptional circumstances, the repurchase of certificates can be temporarily suspended until fund assets have been sold and the sales proceeds received. Your investment adviser will be pleased to inform you about any charges and the execution date of your buy and sell orders. The life of an investment fund is set down in the fund's terms and is usually unlimited. Please keep in mind that investment fund certificates, unlike bonds, are not normally redeemed and, consequently, do not carry a fixed redemption price. The risk of investment fund certificates depends, as already mentioned, on the fund's stated investment policy and the market trends. A loss cannot be ruled out. Although investment fund certificates can normally be resold at any time, in practice they are a profitable investment only if kept over a longer period of time (a minimum of three years with the exception of money market funds).

## Tax considerations

The tax treatment of returns on investment funds may vary according to the type of investment fund. Detailed information is provided in the respective fund's periodic reports.

## Investment Companies (closed-end)

Investment companies are governed by separate legal provisions. The rules for supervision are in many cases less strict than the ones for investment funds.

In certain countries, there may also be closed-end funds and funds ruled by corporate law, whose prices are determined by supply and demand rather than by the intrinsic value of the fund, which is roughly comparable to the way stock prices are formed.

Regardless of their legal form, the income distributed by investment companies or, in the case of reinvestment funds, the income equivalent to dividend payments is subject to other tax regulations than income distributed by investment funds.

Please note that interest/dividend payments and income equivalent to interest/dividend payments (e.g. reinvestment funds) of third country investment funds - irrespective of their legal form - are subject to different tax regulations.

## INVESTMENT RISKS RELATED TO WARRANTS

### WARRANTS

are interest- and dividend-free securities, granting the holder the right to buy (call warrants) or sell (put warrants) a certain underlying security (e.g. shares) at a predetermined price (exercise price).

### Return

The buyer of a call warrant has locked in the purchase price of the underlying security. A return can be achieved if the market price of the underlying security exceeds the agreed exercise price to be paid by the investor (the purchase price of the warrant has to be deducted). Then, the warrant holder can buy the underlying security at the strike price and sell it immediately at the ruling market price.

An increase in the price of the underlying security will usually lead to a proportionately higher percentage increase in the warrant price (leverage effect). Consequently, most warrant holders achieve a return by selling warrants.

The same applies, in the opposite direction, to put warrants. These usually rise in value if the price of the underlying security decreases.

The return on warrant transactions cannot be established in advance.

## Exchange Risk

The risk inherent in warrant transactions is the possibility that, between purchase and expiry of the warrant, the underlying security performs differently than expected at the time of purchase. In the worst case, this may involve the complete loss of the invested capital.

The price of a warrant is also influenced by other factors. The most important are:

- volatility of the underlying security (a measure of the fluctuation margin anticipated at the time of purchase and, simultaneously, the most important parameter for determining the fairness of the warrant price)
- residual life of the warrant.

Consequently, the price of a warrant may remain unchanged or fall, even though the price trend of the underlying security has moved in line with the investor's expectation.

We generally advise against the purchase of warrants which are close to expiry. Buying warrants with high volatility makes your investment more expensive and is highly speculative, as is the purchase of warrants with strong leverage.

## Liquidity Risk

Warrants are usually issued only in small numbers, which increases the liquidity risk for investors. For this reason, individual warrants may be subject to particularly sharp price fluctuations.

## WARRANT TRADING

Warrants are traded on stock exchanges as well as over-the-counter (OTC). In many cases, there are differences in bid and ask prices between warrants traded on stock exchanges and warrants traded OTC.

### Warrant Terms

Warrants do not have standardised terms, therefore, it is imperative that full information on the exact terms and conditions of a warrant is gathered, in particular:

#### Method of exercise

Is the warrant exercisable at any time during its life (American-style option) or only at expiry (European-style option)?

#### Subscription ratio

How many warrants are needed to obtain the underlying security?

#### Exercise

Delivery of the underlying security or cash settlement?

#### Expiry

When does the option right expire? Please note that your bank will not exercise your option without your explicit instruction.

## INVESTMENT RISKS RELATED TO MONEY MARKET INSTRUMENTS

MONEY MARKET INSTRUMENTS – BRIEFLY EXPLAINED	
Certificates of deposit	Money market instruments with terms of usually 30 - 360 days, issued by banks.
Deposit funds	Money market instruments with a term of up to five years, issued by banks.
Federal government bonds	Money market instruments with a term of six months to five years (maximum), issued by the Federal Ministry of Finance.
Commercial papers	Money market instruments, short-term debt instruments with maturities ranging from five to 270 days, issued by large companies.
Notes	Short-term capital money market instruments with maturities ranging from one to five years.

These include investments and borrowings evidenced by a certificate such as certificates of deposits, deposit funds, government bonds, global note facilities, commercial papers as well as all notes with a maturity of up to five years for the repayment of principal and fixed interest rates for up to about one year.

### Return and Risk Components

The return and risk components of money market instruments are largely equivalent to those of bonds/debentures/fixed-income securities. Differences exist mainly in the liquidity risk.

### Liquidity Risk

Typically, there are no organised secondary markets for money market instruments. For this reason, there is no guarantee that the instruments can be sold at any time.

The liquidity risk is diminished if the issuer guarantees the repayment of the invested capital at any given time and if the issuer's credit standing is satisfactory.

## INVESTMENT RISKS RELATED TO FORWARD TRANSACTIONS IN SECURITIES (OPTIONS AND FUTURES CONTRACTS)

Options and futures transactions offer the opportunity to make big profits, but, at the same time involve the risk of substantial losses. As your Investment Firm, we consider it our duty to familiarise you with the risks involved before you close such deals.

### Buying Options

This refers to the purchase (= buy to open a long position) of call options or put options, whereby you acquire the right to receive or sell the underlying instruments, or - if this is not possible, as in the case of index options - the right to receive an amount of money equivalent to the positive balance between the strike price and the market price at exercise. In the case of American-style options, this right may be exercised at any time until maturity, in the case of European-style only at maturity. In return for acquiring this right, you pay the option premium. If the price of the underlying instrument moves contrary to your expectations, your right may decline in value and may even become worthless at maturity. Thus, your loss potential consists in the premium paid for the option.

### Selling (writing) Options – Buying/ selling Futures

#### Selling (writing) call options

This implies the sale (= sell to open a short position) of call options, whereby you undertake to deliver the underlying instruments at the strike price at any time until maturity (in the case of American-style call options) or at maturity (in the case of European-style call options). In return for this obligation, you receive the option premium. If the price of the underlying instruments increases, you may have to deliver them at a time when the market price is considerably higher than the strike price. Your loss potential consists in this difference, which cannot be predetermined and, basically, may be unlimited. If you do not possess the underlying instruments (**uncovered short position**) when the option is exercised, you will have to buy them in the market for delivery (short covering), which means that your risk of loss cannot be predetermined. If you possess the underlying instruments, you do not risk having to cover a short position and you can deliver them promptly. However, as the instruments in question must remain blocked during the lifetime of your option, you cannot sell them during this period and, consequently, cannot avoid losses by selling these instruments in the case of falling prices.

## Selling (writing) put options

This implies the sale (= sell to open a short position) of put options, whereby you undertake to buy the underlying instruments at the strike price at any time until maturity (in the case of American-style put options) or at maturity (in the case of European-style put options). In return for this obligation, you receive the option premium. If the price of the underlying instruments falls, you may have to buy them at a time when the market price is considerably lower than the strike price. Your loss potential consists in this difference, **which cannot be predetermined and, basically, may be unlimited**. In this case, an immediate selling of these instruments will involve a loss. However, if you do not wish to sell them right away but prefer to keep them, you must take into account the funds required for their acquisition.

## PURCHASE AND SALE OF FUTURES CONTRACTS

This implies the obligation to buy or sell the underlying securities at a fixed price (delivery price) at a pre-agreed date (delivery date). If prices increase, you may have to deliver - as agreed - the underlying instruments at a time when the delivery price is considerably lower than the market price. Conversely, if prices decrease, you have to buy - as agreed - the underlying instruments on delivery date at delivery price even if their market price is considerably lower. This difference represents your loss potential. If you have undertaken to buy the underlying instruments, the full amount of money necessary to buy them must be available in cash at maturity. If you have undertaken to deliver but do not possess the underlying instruments (**uncovered short position**), you have to buy them in the market at maturity (short covering), which means that **your risk cannot be predetermined**. If you possess the underlying instruments, you do not risk having to cover a short position and you can deliver them promptly.

### Cash Settlement

If the delivery or purchase of the underlying securities is not possible (e.g. in the case of index options or index futures) you will have to pay - if your market expectations have not been met - an amount of money equivalent to the difference between the strike price of the option or the delivery price of the futures contract and the market price at exercise of the option or at delivery date of the futures contract. This difference represents **your loss potential, which cannot be predetermined and, basically, may be unlimited**. Furthermore, you have to ensure sufficient liquidity to settle this transaction.

### Margins

Writing uncovered options (= sell to open an uncovered short position) or buying or selling futures requires the provision of collateral securities, the so-called margins. Margins have to be provided both when positions are opened and throughout the lifetime of the options or futures contract. If you are unable to meet a margin call, a subbroker which provides the margin service will be obliged to close open positions immediately and to use the margin already provided to settle such positions.

### Closing of Positions

You are allowed to close your options and futures positions before their respective expiry, but you must not rely on this possibility being at hand at any time. To a high degree, it depends on market conditions, and if the market is in poor shape, trades may be possible only at unfavourable prices. This, in turn, may result in losses.

## Other Risks

Options embody rights as well as obligations – futures contracts contain obligations only - with short-term maturities and standardised expiry and delivery dates. These aspects, together with the promptness of these kinds of transactions, imply the following additional risks, in particular:

- Options which have not been exercised or closed before maturity expire and thus become worthless.
- If margin calls are not met in time, a subbroker which provides the margin service will close your position and use the margins provided until such date, notwithstanding your obligation to cover outstanding balances.
- If you have written an option and underlying instruments are to be put to you, we will take the necessary steps on your behalf without any previous notice. Instruments put to you under an exercised put option will be sold by us in the case of insufficient cover.
- If you trade futures contracts in foreign currencies, adverse trends in the foreign exchange markets may increase your risk.

We will provide you with any information you may require in connection with your options and futures transactions - at your request, also by telephone.

However, we have to decline any responsibility for any lack of possibility to provide such information and for losses resulting there from. Being actively engaged in the trading of options and futures, you should bear the above-mentioned risks in mind and make due allowance for them at all times.

## EXOTIC OTC OPTIONS

Normally all the OTC options risks apply to Exotic OTC options, but there are some twists.

### Barrier options (knock out options)

Type of path dependent OTC option, where the option to exercise depends on the underlying crossing or reaching a given barrier level. It is possible to buy the barrier and pay less premium than the vanilla option.

#### Example

A European call option may be written on an underlying with spot price of \$100, and a knockout barrier of \$120 - if the spot price ever moves above \$120, the option "knocks out" and the contract is null and void. Note that the option does not reactivate if the spot price falls below \$120 again.

#### Return

The call option holder will make a profit if the price of the underlying instrument rises above the strike price, but it keeps below a given barrier level. The put option holder will make a profit if the spot price moves down the strike price, but it keeps above a given barrier level. The option writer receives a premium, which can be his return if the option is not exercised by the holder or "knocks out".

### Special Risks of Barrier Option Agreements

The option holder runs the risk of deactivating the option if the barrier is crossed.

## **Asian options (average options)**

Strongly path dependent OTC options; are based on the average price of the underlying asset over a certain period of time as opposed to at maturity. The average can be either the Arithmetic Average (i.e. the standard mean) or the Geometric Average (which is the mean when assuming all price moves are in percentages not absolute values).

### Return

The option holder will make a profit if the average price of the underlying asset over a certain period of time becomes above the strike price (call option) or moves down the strike price (put option).

The option writer receives a premium, which can be his return if the option is not exercised by the holder, but this type of option contract tends to cost less than regular American option.

### Special Risks of Asian Option Agreements

An Asian option can protect investors from the volatility risk that comes with the market.

## **Binary options (all-or-nothing options or digital options)**

A binary option is a type of option where the payoff is either some fixed amount of some asset or nothing at all. Thus, the options are binary in nature because there are only two possible outcomes.

### Example

Investor buys a binary cash-or-nothing call option with strike price of \$100 with a binary payoff of \$1000. Then if at the future maturity date, the stock is trading at or above \$100, he receives \$1000. If its stock is trading below \$100, he receives nothing.

### Return

The option holder will make a profit (fixed amount) if the price of the underlying instrument rises above the strike price at the maturity (call option) or moves down the strike price (put option). The option writer receives a premium, which can be his return if the option is not exercised by the holder.

### Special Risks of Binary Option Agreements

Both counterparties can calculate their risks, because both premium and potential payment are beforehand well-known.

## **Lookback options (hindsight options)**

Type of path-dependent option where the payoff is dependent on the maximum or minimum asset price over the life of the option. They generally come in two distinct forms:

**Fixed Strike** - the strike is predetermined at inception and the payoff is the maximum difference between the optimal price and the strike price.

**Floating Strike** - the strike is given as the optimal value of the underlying asset.

### Return

The option holder can 'look back' over time and is able to get the best possible return from an option. In the case of a call, the buyer will choose the lowest price, and in the case of a put, the buyer will choose the highest price (see below for formulae of calculating return).

The option writer receives a premium, which can be his return if the option is not exercised by the holder. The [premium](#) on such options tends to be high since it gives the buyer great flexibility, and the [writer](#) has to take on a lot of risk.

## Special Risks of Lookback Option Agreements

There are no risks for the option holder, because this option will always be exercised.

The option writer runs the highest possible risk.

$$c_{fixed} = \max(0, S_{\max} - X)$$

$$c_{float} = \max(0, S - S_{\min})$$

## **Your Securities, Opportunities and Risks in Treasury Transactions**

### **INTRODUCTION**

Dear Client,

The range of treasury products and services has considerably widened in recent years. This makes it increasingly difficult to keep track of them as well as to understand all the opportunities and risks involved. This brochure is intended as a guide for the prudent investor, explaining the basics and providing information on the risks involved in treasury products. Based on the brochure "Your Securities, Opportunities and Risks in Investment Transactions", it provides a general overview of treasury instruments, the knowledge of which we consider crucial to reaching sound decisions.

Take advantage of the manifold opportunities of the treasury products offered and, at the same time, identify and limit the risks involved. If you require more detailed information, your personal adviser will be pleased to assist you with comprehensive advice and to design an investment strategy with you that best answers your personal needs.

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### **FOREIGN EXCHANGE FORWARD CONTRACTS**

A foreign exchange forward contract is the firm undertaking to buy or sell a certain amount in a foreign currency at a specified date in the future or during a specified period of time at a price agreed upon conclusion of the contract. Delivery and receipt of the counter currency take place at the same value.

Detailed data about the Company's Forward Contracts Trading Regulations Realized through "MetaTrader Just2Trade" trading system adopted by Just2Trade Online Ltd and also necessary data and information for the Client are posted by the Company on the Internet at <https://just2trade.online/>, section "Fees & Commissions".

#### **Return**

The return (profit/loss) to be achieved by speculative users of foreign exchange forward contracts is the difference between the exchange rates at a given time during the term or at maturity of the forward operation, according to the contract specifications. The use of foreign exchange forward contracts for hedging purposes means that an exchange rate is locked in so that the cost of and return on the hedged transaction will neither increase nor decrease as a result of any exchange rate fluctuations.

#### **Currency Risk**

The currency risk inherent in foreign exchange forward contracts is, in the case of hedging transactions, the possibility that the buyer/seller could buy/sell the foreign currency at a more favourable price during the term or at maturity or, in the case of unmatched positions, the possibility that the buyer/seller must buy/sell the currency at a less favourable price than the price fixed in the contract. The potential loss may substantially exceed the original contract value.

#### **Credit Risk**

The credit risk in connection with foreign exchange forward contracts consists in the possibility of the counterparty's default due to insolvency, i.e. one party's temporary or permanent inability to fulfil the foreign exchange forward contract, making more expensive covering transactions in the market necessary.

#### Transfer Risk

In the case of individual foreign currencies, the possibilities of transfer may be restricted, in particular as a result of exchange-control regulations imposed by the country issuing that currency. The due and proper execution of the foreign exchange forward contract would then be at risk.

## FOREIGN CURRENCY SWAPS

A currency swap is the exchange of two currencies over a specified period of time. The interest rate differential between the two currencies is reflected in a premium/discount to the re-exchange rate. Delivery and receipt of the counter currency take place at the same value.

#### Return

The return (profit/loss) for the user of foreign currency swaps results from the positive/negative development of the interest rate differential and may be achieved in the course of a counter transaction during the maturity of the currency swap.

#### Credit Risk

The credit risk in connection with currency swaps consists in the possibility of the counterparty's default due to insolvency, i.e. one party's temporary or permanent inability to complete the currency swap, making more expensive covering transactions in the market necessary.

#### Transfer Risk

In the case of individual foreign currencies, the possibilities of transfer may be restricted, in particular as a result of exchange-control regulations imposed by the country issuing that currency. The due and proper execution of the foreign currency swap would then be at risk.

## INTEREST RATE SWAPS (IRS)

An interest rate swap regulates the exchange between two parties of interest obligations at different rates in respect of a notional principal amount. As a rule, fixed interest rates are exchanged for variable ones. Both payment streams are denominated in the same currency and relate to the same principal amount. This means that only interest payments are swapped, whereas no flow of capital takes place.

#### Return

The buyer of an interest rate swap, who pays a interest rate, benefits from a rise in market interest rates. The seller of an interest rate swap, who receives a fixed interest rate, benefits from a fall in market interest rates.

The return on an interest rate swap cannot be determined in advance.

#### Interest Rate Risk

The interest rate risk results from the uncertainty as to future changes in market interest rates. The buyer/seller of an interest rate swap incurs a loss if interest rates fall/rise.

#### Credit Risk

The credit risk for the buyer of an interest rate swap consists in the possibility of the counterparty's default, making more expensive covering transactions in the market necessary.

## Special Features of Interest Rate Swaps

Interest rate swaps do not have standardised terms, they are customised products. Therefore, it is imperative that full information on the exact terms and conditions of interest rate swaps is gathered, in particular on:

- principal (notional) amount
- term (maturity)
- interest rates agreed.

## FORWARD RATE AGREEMENTS (FRA)

Forward rate agreements are used to lock in interest rates to be paid in future interest periods. Since forward rate agreements are traded on the inter-bank market and not on exchanges, they do not have standardised terms. Unlike the closely related interest rate futures, forward rate agreements are customised products in terms of principal (notional) amount, currency and interest period.

### Return

By buying/selling a forward rate agreement, the buyer/seller has fixed the interest rate. If the reference interest rate is higher than the agreed interest rate (price of forward rate agreement) on the date of maturity, the buyer of the FRA will be compensated for the movement in interest rates. If the reference rate is lower than the agreed interest rate on the date of maturity, the seller of the FRA will receive a compensation payment.

### Interest Rate Risk

The interest rate risk results from the uncertainty as to future changes in interest rates. The general rule is: the more pronounced the increase/decrease in interest rates is, the higher is the risk.

### Credit Risk

The credit risk in connection with buying forward rate agreements derives from the possibility of the counterparty's default, making more expensive covering transactions in the market necessary.

## Special Features of Forward Rate Agreements

Forward rate agreements do not have standardised terms, but they are customised products. Therefore, it is imperative that full information on the exact terms and conditions of the contract is gathered, in particular on:

- principal (notional) amount
- term (maturity)
- interest rates agreed

## INTEREST RATE FUTURES

Interest rate futures are exchange-traded forward contracts on short-term investments, money market or capital market instruments with standardised maturities and contract sizes. This means that the yield on a deposit can be fixed in advance by means of an interest rate future.

### Return

The return (profit/loss) achievable by the speculative user results from the interest rate or price differentials at maturity of the transactions and those stipulated in the contract. Using interest rate futures for hedging purposes reduces the financial risk of existing or future positions.

## Interest Rate Risk

The value of an interest rate future primarily depends on the yield trend of the underlying instrument. The buyer's exposure is therefore comparable to that of a holder of the underlying instrument. The risk results from the uncertainty as to future changes in the market interest level.

The interest rate risk taken by the buyer/seller of a futures contract consists in the potential obligation to put up further margin or to complete the deal at maturity if market interest rates rise/fall. The general rule is: the more pronounced the increase/decrease in current market interest rates is, the higher is the risk. The resulting potential of loss may be many times higher than the original capital invested (initial margin).

## Liquidity Risk

In some markets, the closing out of futures positions (sale/repurchase of contracts) may lead to heavy adverse price movements in the case of either excessive supply or excessive demand.

## OVER-THE-COUNTER OPTIONS (OTC)

The buyer of an option acquires the right (valid for a limited period of time) to buy (call option) or to sell (put option) the underlying instrument (e.g. securities, currencies etc.) at a fixed (strike) price or (as is the case with interest rate options) to receive a compensation payment resulting from a positive difference between the strike price and the market value at the time the option is exercised.

Writing an option (opening) obligates the option writer (seller) to fulfil the rights of the option buyer. Options may differ according to the style of exercise: an American-style option is exercisable at any time up to the expiry date, whereas a European style option may be exercised only at expiry.

## Return

The buyer (holder) of an option will make a profit if the price of the underlying instrument rises above the strike price (in the case of a call option) or falls below the strike price (in the case of a put option). The option holder may either exercise the option or sell it. The option writer (seller) receives a premium in return for granting this right. His return will be the premium if the option is not exercised by the holder.

## General Risks

The value (price) of an option is determined by the strike price, the performance and the volatility of the underlying instrument, the option's life, the level of interest rates and the market situation. In the worst case, therefore, the capital invested (option premium) may become completely worthless. If the price of the underlying instrument moves contrary to the expectation of the option writer, the potential loss can be virtually unlimited. It is important to note that options not exercised on or before the expiry date cease to exist as financial instruments and will be taken off the books. Please note that the Company will not exercise your option without your explicit instruction!

## Special Risks of OTC Option Agreements

As a rule, OTC options do not have standardised terms, but, predominantly, they are customised investments. Therefore, it is imperative that full information on the exact terms and conditions (style of exercise, exercise, expiry etc.) is gathered. The credit risk taken by the buyer of an OTC option derives from the possibility of losing the premium due to the counterparty's default, which would indirectly make more expensive covering transactions in the market necessary.

Being customised products, over-the-counter options are usually not traded on organised (secondary) markets. Consequently, no guarantee can be given that such options are tradable at any time.

## **FOREIGN CURRENCY OPTIONS**

The buyer of a foreign currency option acquires the right, but not the obligation, to buy or sell a fixed amount of a foreign currency at a predetermined price at a predetermined date in the future or within a predetermined period of time. The seller (writer) of the option grants this right to the buyer. In exchange for this right, the buyer pays the seller a premium. The following possibilities exist: The buyer of a call option acquires the right to buy a fixed amount of a specified currency at a predetermined price (exercise or strike price) on or before a specified date (delivery date).

The seller of a call option undertakes to deliver/ sell, at the option holder's request, a fixed amount in a particular currency at the agreed strike price on or before a specified date. The buyer of a put option acquires the right to sell a fixed amount of a specified currency at a predetermined price (exercise or strike price) on or before a specified date (expiry date). The seller of a put option undertakes to buy, at the option holder's request, a fixed amount in a specified currency at the agreed strike price on or before a specified date.

### **Return**

The buyer of a call option will make a profit if the market price of the currency rises above the agreed strike price (the purchase price of the option – the option premium - must be deducted from this profit). Then, the option holder may buy the foreign currency at the strike price and re-sell it immediately at the market price.

The call option writer receives a premium in exchange for selling the option.

The same applies, in the opposite direction, to put options, which are purchased in the expectation of falling foreign currency rates.

## **RISKS ATTACHED TO THE PURCHASE OF OPTIONS**

### **Risk of total loss**

The buyer (holder) of an option runs the risk of losing the full amount of the premium. This happens if the option holder does not exercise the option, for example, considering the prevailing market conditions.

### **Credit risk**

The credit risk in connection with the purchase of foreign currency options results from the possibility of the counterparty's default. This would involve the loss of the premium already paid and thus indirectly the need to make more expensive covering transactions in the market.

### **Currency risk**

The currency risk results from the possibility that the exchange rate of the relevant currency may develop differently during the life of the option than you expected when buying the option. In the worst case, the invested capital may be completely lost.

## **RISKS ATTACHED TO THE SALE OF OPTIONS**

### **Currency risk**

The currency risk results from the possibility that the exchange rate of the relevant currency may develop differently during the life of the option than you expected when selling the option. The resulting risk of loss is virtually unlimited for option writers.

The premium (pricing) of a currency option is determined by the following factors:

- volatility of the underlying currency (measure of the expected fluctuation margin of the exchange rate)
- agreed strike price
- life of the option
- prevailing exchange rate
- interest rate levels of both currencies

## Transfer risk

In the case of individual foreign currencies, the possibilities of transfer may be restricted, in particular as a result of exchange-control regulations imposed by the country issuing that currency. The due and proper execution of the foreign currency option would then be at risk.

## Liquidity risk

Being largely customised products, there usually are no organised secondary markets for currency options. Consequently, it cannot be guaranteed that a currency option can be readily sold.

## SPECIAL FEATURES OF CURRENCY OPTIONS

Currency options do not have standardised terms. Therefore, it is imperative that full information on the exact terms and conditions of the option is gathered, in particular:

### Style of exercise

Is the option exercisable at any time during its life (American option) or only at expiry (European option)?

### Expiry

When does the option expire? Please note that your Company will not exercise your option without your explicit instruction!

## INTEREST RATE OPTIONS

Interest rate options are agreements on cap or floor interest rates. They are used either

- for hedging purposes or
- for speculative trading to realise a gain.

Interest rate options are either calls or puts. There are also a number of widely used special variants, for example, caps, floors, swaptions etc.

By buying a call option, the buyer locks in an interest rate cap (= strike price) for future borrowings. In speculative trading, the value of a call option goes up on rising interest rates.

The sale of a call option can be used as a speculative instrument only. The seller receives the premium and undertakes to compensate the buyer for any difference in interest rates.

Put options guarantee the buyer a certain minimum return on a future investment. In speculative trading, the value of a put option increases on falling interest rates.

Caps and floors are series of successive interest rate calls or puts.

They can be used for:

## 1. Hedging purposes

Depending on the agreed reference periods, the current three-month or six-month interest rate is compared with the agreed strike price every three or six months. If the market rate is higher than the strike price, the holder of the cap will be compensated for the difference.

## 2. Speculative trading to realise a gain

The value of a cap increases along with rising interest rates. In this case, however, the forward rates (future interest rates traded for delivery a later time) are the decisive factor, not the current interest rates.

The same applies, in the opposite direction, to the purchase/sale of a floor. The buyer secures a floor interest rate for himself, while the seller holds a speculative position.

A swaption is an option on an interest rate swap (interest rate swap = agreement to exchange interest obligations). There are two basic types of swaptions: call swaptions (the right to pay fixed interest rates) and put swaptions (the right to receive fixed interest rates). Both variants can either be bought or sold.

Swaptions can be settled in two different ways with different risk profiles attached:

### Swaption with swap settlement

The buyer enters into a swap agreement upon exercising the swaption:

- The buyer of a call swaption acquires the right to make fixed interest payments at the strike price on a notional amount on the delivery date and to receive variable interest payments in return.
- The seller of a call swaption undertakes to receive fixed interest payments at the agreed strike price on a notional amount on the delivery date and to make variable interest payments in return.
- The buyer of a put swaption acquires the right to receive fixed interest payments at the agreed strike price on a notional principal amount on the delivery date and to make variable interest payments in return.
- The seller of a put swaption undertakes to make fixed interest payments at the agreed strike price on a notional principal amount on the delivery date and to receive variable interest payments in return.

### Swaption with cash settlement

When exercising the swaption, the buyer will receive the difference between the cash values of the swaps at the interest rate agreed upon in the swaption and the current market interest rate.

### Return

The holder of an interest rate option will realise a gain if on exercise date the market interest rate is higher than the strike price of the call or lower than the strike price of the put. In the case of swaptions, a return can be achieved if on exercise date the market interest rate is above the agreed strike price (with call swaptions) or below the agreed strike price (with put swaptions). In any case, the premium paid must be deducted from the return. The seller of an interest rate option will receive a premium. This will represent his return if the option is not exercised by the holder.

### Interest Rate Risk

The interest rate risk results from the possibility of future interest rate changes in the market. The buyer/seller of an interest rate option may incur a price loss if interest rates rise/fall. The more pronounced the increase/decrease in interest rates is, the higher is the risk. This may result in a virtually unlimited potential of loss.

The premium of an interest rate option is determined by the following factors:

- volatility of interest rates

- agreed strike price
- life of the option
- market interest level
- current financing cost

This means that the price of an option may remain unchanged or decrease even though interest rates may have developed as you expected.

## Credit Risk

The credit risk taken by the buyer of an interest rate option derives from the possibility of the counterparty's default. This would involve the loss of the premium already paid and thus indirectly the need to make more expensive covering transactions in the market.

## Risk of Total Premium Loss at Purchase

The risk involved in the purchase of interest rate options is the total loss of the premium. This happens if the option holder lets the option expire in view of the interest trend in the market.

## Special Features of Interest Rate Options

Interest rate options do not have standardised terms, but they are exclusively customised investments. Therefore, it is imperative that full information on the exact terms and conditions of such options is gathered, in particular:

### Style of exercise

Is the option exercisable at any time during its life (American option) or only at expiry (European option)?

### Exercise

Delivery of the underlying instruments or cash settlement?

### Expiry

When does the option expire? Please note that Company will not exercise your option without your specific instruction!

## **CROSS CURRENCY SWAPS (CCS)**

A cross currency swap regulates the exchange between two contracting parties of different interest obligations and of different currencies in respect of a fixed notional amount. As a rule, fixed interest rates in one currency are exchanged against fixed interest rates in another. It is, however, also possible to exchange floating rates in one currency against floating rates in another. The payment streams will take place in different currencies on the basis of the same principal amount, which is fixed on contract date at the spot rate ruling that day.

In addition to an exchange of interest rate payments, an exchange of principal will take place at the start (initial exchange) and at expiry (final exchange) of the swap. The parties may agree on the omission of the initial exchange.

## Return

The return on a cross currency swap cannot be determined in advance.

In the event of a positive development of the exchange rate and the interest rate differential, a return can be achieved by liquidating the position prior to maturity.

If a cross currency swap is concluded to improve the interest rate differential, lower interest rates in one currency may result in a profit. However, this gain may be wiped out by any currency losses. If the exchange rate develops favourably, the return can be even increased.

## Interest Risk

The interest rate risk results from the uncertainty as to future interest rate moves in the market. The buyer/seller of a cross currency swap may incur a loss if the market interest rate level or the interest rate differential falls/rises.

## Currency Risk

The currency risk results from the uncertainty as to future moves in the values of the two currencies. It is important to note that, in the case of cross currency swaps with final exchange, the currency risk exists not only in the event of counterparty's default but throughout the life of the swap.

## Credit Risk

The credit risk in connection with the purchase/sale of cross currency swaps derives from the possibility of the counterparty's default, making more expensive covering transactions in the market necessary.

## **INSTRUMENT GLD**

The Instrument GLD – is a non-deliverable derivative instrument for the forward contract XAUUSD. The price of this instrument is assumed to be equal to the price of the instrument XAUUSD in the trading platform MetaTrader. A unit of the Instrument GLD is equal to a thousandth of an ounce of gold.

The Instrument GLD in case of a withdrawal is subject to an obligatory sale in the currencies of EURO/USD/RUR. The Instrument GLD does not imply obtaining rights on gold nor receiving gold in any given way.

## **RISK CLASSIFICATION OF INSTRUMENT GLD**

### Currency Risk

Risk inherent in transactions with the Instrument GLD presents a possibility, that in the period between the buying and selling of the instrument, the dynamics of the underlying asset will be different from the expectations at the time of purchase. This could lead to a sufficient loss of capital invested.

### Credit Risk

Credit risk connected with the Instrument GLD means the possibility of default of the issuer on the transaction in connection with insolvency, i.e. a temporary or permanent inability of one party to close an instrument in a foreign currency. This would entail the need to increase costs on the operation in the OTC market.

### Interest Rate Risk

The interest rate risk results from the uncertainty as to future changes in interest rates. The general rule is: the more pronounced the increase/decrease in interest rates is, the higher is the risk.

### Liquidity Risk

In some markets, a closing position on the underlying asset (sale / repurchase of contracts) can result in significant adverse price movements in the case of excess supply or excess demand.

## **INVESTMENT RISKS RELATED TO TRADING IN CONTRACTS FOR DIFFERENCE (CFDs) (Investor warning by the European Securities and Markets Authority)**

CFDs are complex products, generally used for speculative purposes.

A CFD is an agreement between a 'buyer' and a 'seller' to exchange the difference between the current price of an underlying asset (shares, currencies, commodities, indices, etc.) and its price when the contract is closed.

CFDs are leveraged products. They offer exposure to the markets while requiring you to only put down a small margin ('deposit') of the total value of the trade. They allow investors to take advantage of prices moving up (by taking 'long positions') or prices moving down (by taking 'short positions') on underlying assets.

In addition to any profits or losses, there are different types of costs linked to transactions in CFDs. Costs will impact the effective return. Examples of costs include charge of commissions, for example charge of a general commission, or a commission on each trade (i.e. on opening and closing a contract). Costs related to CFD trading may also include bid-offer spreads, daily and overnight financing costs, account management fees, and taxes as may be applicable. These costs can be complex to calculate and may outweigh the gross profits from a trade.

### **What are the main risks of investing in CFDs?**

CFDs, especially when highly leveraged (the higher the leverage of the CFD, the more risky it becomes), carry a very high level of risk. They are not standardized products. CFD providers have their own terms, conditions and costs. Therefore, generally, they are not suitable for most retail investors.

Investors should only consider trading in CFDs if they wish to speculate, especially on a very short-term basis, or if Investors wish to hedge against an exposure in their existing portfolio, and if Investors have extensive experience in trading, in particular during volatile markets, and can afford any losses.

#### **Timing risk**

CFDs are not suitable for 'buy and hold' trading. They can require constant monitoring over a short period of time (minutes/hours/days). Even maintaining your investment overnight exposes you to greater risk and additional cost.

The volatility of the stock market and other financial markets, together with the extra leverage on your investment, can result in rapid changes to your overall investment position. Immediate action may be required to manage your risk exposure, or to post additional margin.

Therefore, if you do not have enough time to monitor your investment on a regular basis, you should not trade in CFDs.

#### **Liquidity risk**

Liquidity risk affects your ability to trade. It is the risk that your CFD or asset cannot be traded at the time you want to trade (to prevent a loss, or to make a profit).

In addition, the margin you need to maintain as a deposit with the CFD provider is recalculated daily in accordance with changes in the value of the underlying assets of the CFDs you hold. If this recalculation (revaluation) produces a reduction in value compared with the valuation on the previous day, you will be required to pay cash to the CFD provider immediately in order to restore the margin position and to cover the

loss. If you cannot make the payment, then the CFD provider may close your position whether or not you agree with this action. You will have to meet the loss, even if the price of the underlying asset subsequently recovers. There are CFD providers that liquidate all your CFD positions if you do not have the required margin, even if one of those positions is showing a profit for you at that stage.

To keep your position open, you may have to agree to allow the CFD provider to take additional payments (usually from your credit card), at their discretion, when required to meet relevant margin calls. In a fast moving, volatile market you can easily run up a large credit card bill in this way.

## Leverage risk

Leveraged trading means that potential profits are magnified; it also means that losses are magnified.

The lower the margin requirement, the higher the risk of potential losses if the market moves against you. Sometimes the margins required can be as little as 0.5%. Be aware that when trading using margin, your losses can exceed your initial payment and it is possible.

## Stop loss' limits

To limit losses many CFD providers offer you the opportunity to choose 'stop loss' limits. This auto-matically closes your position when it reaches a price limit of your choice. There are some circumstances in which a 'stop loss' limit is ineffective - for example, where there are rapid price movements, or market closure. Stop loss limits cannot always protect you from losses.

## Execution risk

Execution risk is associated with the fact that trades may not take place immediately. For example, there might be a time lag between the moment you place your order and the moment it is executed. In this period, the market might have moved against you. That is, your order is not executed at the price you expected.

Some CFD providers allow you to trade even when the market is closed. Be aware that the prices for these trades can differ widely from the closing price of the underlying asset. In many cases, the spread can be wider than it is when the market is open

## Counterparty risk

Counterparty risk is the risk that the provider issuing the CFD (i.e. your counterparty) defaults and is unable to meet its financial obligations. If your funds are not properly segregated from the CFD provider's funds, and the CFD provider faces financial difficulties, then there is a risk that you may not receive back any monies due to you.

## Stop-loss

The Company shall not be held liable for the non-execution or improper execution of stop-loss orders or limit orders placed by the Client, and also for any losses inflicted against the Client due to the non-execution/improper execution of said stop-loss orders if such non-execution is caused by systemic and other risks as provided in Appendix 8.1 and Appendix 8.2 to the Regulations.

To avoid/mitigate the above risks the Company shall have the right to take technical action, including action to limit the placement of stop-loss orders through the online trading system without further notice of the Client, but the Company shall not be able to fully exclude all risks that may arise.

The Client shall accept all risks set forth in this clause.

## Online trading risks

The Company shall not be held responsible or liable for any loss or damage suffered by the client or any other person due to the following:

**Online trading risks** – When trading online, you should be aware that during periods of high internet traffic, you might experience delays in accessing account data due to systems capacity limitations. Additionally, system response times may be adversely affected by increased market volatility conditions, quote delays, system performance; and other factors outside the control of the Company, which may include your computer system and internet service provider. You may also experience system outages or delays as a result of, among other things, power failures, programming failures or heavy trading volume. During periods of increased volatility, you might suffer market losses in the price and share volume of a particular stock when systems problems result in an inability to place buy or sell orders. The risk of financial loss in trading online can be substantial; therefore, you should consider whether such trading is suitable for you in light of your circumstances and financial resources.

- the Client shall be exposed to the so-called risks (malfunction of equipment, software glitches, disruptions in telecommunications and power supply, other technical issues), as a result of which it may become not possible to place an Order at a certain point in time or an Order may not be executed (in part or in full) or executed not in accordance with the Client's instructions;
- there is a risk for the Client to make accidental mistakes when placing Orders online (the Client places an Order which is not in accordance with actual intentions), including by reason of the Client's insufficient knowledge of how to operate the Online trading System and/or the lack of hands-on experience;
- the Client shall also be exposed to the risks associated with unauthorized access of third parties to his/her Account and any actions taken by the unauthorized person using the Client's key and/or Password, IDs or Account number(s).

## **Appendix 8.2 to the Regulations for provision of brokerage, investment and agency services on the securities market**

### **DECLARATION OF RISKS RELATED TO MARGIN AND NON-COVERED TRANSACTIONS IN FINANCIAL MARKETS**

This Declaration is provided for your familiarization and further signature in connection with your desire to execute Margin and Non-covered Transactions on international stock markets in order and according to the conditions offered by the Company and /or third parties. This Declaration is not exhaustive and does not describe the entire scope of risks related to Margin and Non-covered Transactions. Its main purpose is to give you general and, whenever possible, comprehensive information on the risks arising in connection with margin trading.

The main purpose of the margin lending is granting to the Clients greater opportunity for profit. At the same time you should understand the raised risk. Prior to exercising margin privileges you agree to carefully consider whether margin trading is suitable for you, taking into consideration your financial resources, objectives and other relevant circumstances and your tolerance for risk along with margin requirements published on the Company's and/or third parties' websites.

In case of margin lending is granted to you by the third parties, you agree that margin or unsecured transactions are executed on the terms specified by the third parties using funds provided by the third parties and information on your margin positions will be disclosed to these third parties for monitoring of your margin position by these third parties. The Company shall control the activity of these third parties on monitoring of your margin positions.

When trading with borrowed monetary funds, you bear all the risks associated with trading ordinary on stock markets plus some additional risks. This Declaration focuses on these additional risks related to Margin/ Non-covered Transactions in greater detail.

Let us consider three possible scenarios to describe the potential risks: **(1) Margin/Non-covered Transaction on buying Financial Instruments;** **(2) Margin/Non-covered Transaction on selling Financial Instruments;** **(3) selling Financial Instruments when they are not available or not sufficient for settlement of transactions concluded in your interest in case when the record date for the dividend payment related to Financial Instruments' is ratified and announced within the timeframe of Client's Indebtedness before the Company and /or third parties.**

- (1) When issuing an instruction to purchase Financial Instruments,** the Client bears a price risk on the Assets acquired on the basis that the Instruction is not secured by Client's funds and on the Assets used to secure Company's and /or third parties' requirements to the Client. Thus, the amount of the Client's Assets exposed to the risk of adverse price fluctuations is greater than in the case of usual trading when the Client's Instructions are secured with cash. In other words, the losses can take place much earlier and of a greater scale than in case of usual trading. It's necessary to note the fact that in this case the amount of losses is limited by the sum of Margin/Non-covered Transactions but not with the Client's assets.
- (2) When issuing an instruction on Margin/Non-covered Transaction on selling Financial Instruments,** the Client bears a price risk on the Assets to be sold on the basis of the Instruction not secured by Client's funds and on the Assets used to secure Company's and /or third parties' requirements to the Client. The core difference is that the scale of losses in this case is not limited. The Client is obliged to return the Financial Instruments irrespective of their price fluctuations. Meanwhile the current market value of Financial Instruments can significantly exceed their value in Margin/Non-covered Transaction settlements.
- (3) When the record date for the payment of dividend attributable to Financial Instruments' is within the timeframe of Client's Indebtedness before the Company and /or third parties arisen in connection of Margin/Non-covered Transactions in Client's interests,** the Client undertakes to pay the Company and /or third parties a sum of money equal to the sum of dividends of the Financial

Instruments used by the Company and /or third parties for settlements of such Margin/Non-covered Transactions.

A significant factor influencing the increase of the Client's risk is the requirement to maintain a necessary level of collateral reflecting the sufficiency of the Client's funds to satisfy the requirements of the Company and/or third parties. When the actual level of collateral decreases the Company and /or third parties require the Client to increase it to an acceptable level. This may necessitate the Client to sell some of the Client's Assets irrespective of the prevailing market conditions and accept and incur losses from such sale.

## SHORT SELLING RISK

The concept of short selling is a fairly simple - you borrow a stock, sell it, wait for its price to drop, and then buy it back at the lower price to return it to the lender. Short selling has its risks.

- History has shown that in the long term markets trend upwards.
- When short selling, the losses can be unlimited.
- Margin trading is always riskier.
- A short selling stock includes margin trading. Just as with going long on margin, selling short on margin can significantly increase your losses.
- Short selling includes the risk of a "short squeeze". When many short sellers try to cover their positions at once because a stock price has started to rise, this can drive the prices up even further. This is known as a "short squeeze" and can make you lose money very fast.

In addition to the aforesaid the Company hereby notifies the Client, and the Client agrees that for ensuring its interests in Margin/Non-covered Transactions executed in Client's interests:

- (i) the Company has a right to execute exclusively at Company's own discretion the following actions and transactions, and the Client shall bear and accept such risks, and the risk of possible losses arising from the following actions:
- to refuse the execution of the Client's Instruction for Margin/Non-covered Transaction or suspend its execution, whereas, the performance of Margin/Non-covered transactions may result in incremental credit or/and market risks of the Company and /or third parties;
  - provided that granting Funds and Financial Instruments depends on actual availability of the Funds and Financial Instruments in the market and at Company's and /or third parties' disposal, the Company and /or third parties, exclusively at its own discretion and without any sanctions against the Company and /or third parties,
  - to refuse to grant monetary funds and/or financial instruments;
  - to pay off Indebtedness in full or in part regardless to of the actual level of collateral;
  - to dispose the Client's Funds for the purpose of acquiring Financial Instruments to settle the Client's Indebtedness before the Company and /or third parties;
  - to sell the Client's Financial Instruments for the purpose of settling the Client's Indebtedness before the Company and /or third parties, and
- (ii) the Client shall bear and accept abovementioned in item (i) risks, and the risk of possible losses, including opportunity losses, arising from the abovementioned actions of the Company.

The Company and also the third parties via which the margin service is provided to the Clients have the right to unilaterally change the conditions of the provision of the service, as well as refuse provision of the service to the Client.

The Client shall pay the Company and/or third parties remuneration for margin lending.

The Client shall bear sole responsibility for the financial result from the Client's Margin/Non-covered transactions even if negative financial result exceeds the sum of the Client's own Assets.

The Company may request the Client to pay off all liabilities towards the Company and third parties before withdrawing monetary funds from the brokerage account if the Client has open positions on margin transactions.

Taking into account when contemplating Margin/Non-covered Transactions you should carefully consider the risks involved and decide whether they are acceptable for you in view of your possibilities and circumstances. We would also like to emphasize that the aforesaid is not intended to discourage you from Margin/Non-covered Transactions but was written for the only purpose of helping you understand the risks related to this business, decide on their suitability, define your financial goals, evaluate your potential, and make a responsible and informed decision on your investment strategy.

**"I have read and understood the Declaration of Risks related to Margin/Non-covered Transactions in international financial markets and I hereby agree to bear the above-mentioned risks, including margin requirements of the Company and /or third parties."**

**Acknowledged and accepted by the Client:**

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Signature: \_\_\_\_\_