# List of Financial Instruments and Associated Risks

Dear Client or Prospective Client,

## Opportunities and Risks in Investment Transactions with Securities - Introduction

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. This notice cannot and does not disclose or explain all of the risks and other significant aspects involved in dealing in all Financial Instrument and investment services.

## 1. 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:

### 1.1 GENERAL INVESTMENT RISKS

**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 realization 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.

**1.2 PLACING ORDERS**
Buy or sell orders placed with the bank 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

**1.3 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 must exist good reasons – 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 prorate 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.

## 1.4 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 traded on the Vienna stock market and thus 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.

## 1.5 INVESTMENT RISKS RELATED TO MONEY MARKET INSTRUMENTS

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.

| 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. |

## 1.6 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 familiarize 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 he 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, we 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 unfavorable 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 standardized 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, we 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 abovementioned risks in mind and make due allowance for them at all times.

**Disclaimer**

**The information herein is intended for general guidance only. It does not constitute an offer or solicitation for the purchase or sale of securities or any other service. It does not purport to provide a full description of the products and services referred to and are not intended to guide investment decisions.**

**Not all products and services may be available under different national jurisdictions. The precise extent of local laws and regulations must be sought on beforehand. The information contained in this brochure herein is subject to change. Although Omega has taken the utmost to ensure that it is accurate, Omega does not accept any responsibility for possible errors or omissions.**

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

Dear Client or Prospective Client,

**INTRODUCTION**

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.

**2. 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:

**2.1 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.

**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 favorable 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 favorable 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 fulfill 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.

**2.2 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.

**2.3 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 standardized terms, they are customized 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

## 2.4 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 standardized terms. Unlike the closely related interest rate futures, forward rate agreements are customized 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 standardized terms, but they are customized 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

## 2.5 INTEREST RATE FUTURES

Interest rate futures are exchange-traded forward contracts on short-term investments, money market or capital market instruments with standardized 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.

**2.6 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 fulfill 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 Company will not exercise your option without your explicit instruction!

**Special Risks of OTC Option Agreements**

As a rule, OTC options do not have standardized terms, but, predominantly, they are customized 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 customized products, over-the-counter options are usually not traded on organized (secondary) markets. Consequently, no guarantee can be given that such options are tradable at any time.

**2.7 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.

## 2.8 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.

## 2.9 RISKS ATTACHED TO THE SALE OF OPTIONSэ

**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 customized products, there usually are no organized secondary markets for currency options. Consequently, it cannot be guaranteed that a currency option can be readily sold.

## 2.10 SPECIAL FEATURES OF CURRENCY OPTIONS
Currency options do not have standardized 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!

## 2.11 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 realize 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 realize 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. They 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. Furthermore, 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 realize 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 standardized terms, but they are exclusively customized 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!

**2.12 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.

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 Sub-brokers. This Declaration is not exhaustive and does not describe the entire scope of risks related to Margin and Noncovered Transactions. Its main purpose is to give you general and, whenever possible, comprehensive information on the risks arising in connection with margin trading.
When trading with borrowed cash, 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 of buying Financial Instruments;
**(2)** Margin/Noncovered Transaction of 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.

(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 requirements to the Client. Thus, the amount of Client's Assets exposed to the risk of adverse price fluctuations is greater than in the case of usual trading when 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. Noteworthy is the
fact that the amount of losses in this case is limited by the sum of Margin/Non-covered Transactions.

(2) **When issuing an Instruction to sell Financial Instruments,** the Client bears a price risk on the Assets to be acquired on the basis of the Instruction not secured by Client's funds and on the Assets used to secure Company's 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 arisen in connection of Margin/Non-covered Transactions in Client's interests,** the Client undertakes to pay the Company a sum of money equal to the sum of dividends of the Financial Instruments used by the Company for settlements of such Margin/Non-covered Transactions. The significant factor influencing the increased Client's risk is the requirement to maintain a necessary margin level reflecting the sufficiency Client's funds. When the actual margin level declines the Company requires the Client to increase it to an acceptable level. This may necessitate the Client to sell some of Client's Assets irrespective of the prevailing market conditions and accept and incur losses from such sale. In addition to the aforesaid the Company hereby notifies the Client, and the Client agrees that for the purposes of the Rules and 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 Client's Instruction for Margin/Non-covered Transaction or suspend its execution, whereas, the performance by the Company of Margin/Non-covered transactions may result in incremental credit or/and market risks of the Company;
- provided that granting Funds and Financial Instruments depends on actual availability of the Funds and Financial
Instruments in the market and at Company's disposal, the Company, exclusively at its own discretion and without
any sanctions against the Company, - to refuse to grant Funds and Securites;.
- to pay off Indebtedness in full or in part regardless to of the Actual Margin Level;

- to dispose Client's Funds for the purpose of acquiring Financial Instruments to settle Client's Indebtedness before the Company;
- to sell Client's Financial Instruments for the purpose of settling Client's Indebtedness before the Company, 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.
One other significant risk mentioned herein can be the market risk. This risk factor arises from the unconditional Client's obligation to pay additional fee to the Company. Thus it may happen that the sum due to be paid by the Client to the Company in connection with Margin/Non-covered Transactions will exceed Client's revenues from margin trading.

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.

**Disclaimer**

**The information herein is intended for general guidance only. It does not constitute an offer or solicitation for the purchase or sale of securities or any other service. It does not purport to provide a full description of the products and services referred to and are not intended to guide investment decisions.**

**Not all products and services may be available under different national jurisdictions. The precise extent of local laws and regulations must be sought on beforehand. The information contained in this brochure herein is subject to change. Although Omega has taken the utmost to ensure that it is accurate, Omega does not accept any responsibility for possible errors or omissions.**