

WAG Customer Information (MIFID II)

Last update: May 2019

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1. Information for our customers about us and our services

According to the Securities Supervision Act of 2018 (WAG 2018), we hereby provide the following information:

a. Information about us

Capital Bank - GRAWE Gruppe AG
 Registered office: A-8010 Graz , Burgring 16
 Commercial register: Landesgericht für ZRS Graz as Handelsgericht, FN 259167d
 Phone: + 43-316 / 80 72-0, Fax: + 43-316 / 80 72-2390
 E-mail: office@capitalbank.at; online: www.capitalbank.at
 VAT ID: ATU26019901
 Data Processing Register: 0043974
 Swift Code/BIC: RSBUAT2K
 Sort code: 19600

You can contact us

Mon. – Thur. 8:00 a.m. – 5:00 p.m.
 Fri. 8:00 a.m. – 3.30 p.m.
 and upon individual arrangement.

Capital Bank – GRAWE Gruppe AG (hereinafter referred to as “Bank”) is a bank licensed according to Section 1 (1) Banking Act (BWG). The scope of the licence includes:

- Section 1 (1) no. 1 BWG - The acceptance of funds from other parties for the purpose of administration or as deposits (deposit business)
- Section 1 (1) no. 2 BWG - The provision of non-cash payment transactions, clearing services and current-account services for other parties (current account business)
- Section 1 (1) no. 3 BWG - The conclusion of money-lending agreements and the extension of monetary loans (lending business)
- Section 1 (1) no. 4 BWG - The purchase of cheques and bills of exchange, and, in particular, the discounting of bills of exchange (discounting business)
- Section 1 (1) no. 5 BWG - The safekeeping and administration of securities for other parties (custody business)
- Section 1 (1) no. 7 BWG - Trading for one's own account or on behalf of others in: a) foreign means of payment (foreign exchange and foreign currency business); b) money-market instruments; c) financial futures contracts, including equivalent instruments settled in cash as well as call and put options on the instruments listed in lit. a and d to f, including equivalent instruments settled in cash (futures and options business); d) interest-rate futures contracts, forward rate agreements (FRA), interest-rate and currency swaps as well as equity swaps; e) transferable securities (securities business); derivative financial instruments based on lit. b to e;
- Section 1 (1) no. 7a BWG - The trade for own or third party account with financial instruments according to Section 1 (1) no. 7 lit. e to g and j WAG 2018, except the trade by persons according to Section 2 (1) no. 11 and 13 WAG 2007
- Section 1 (1) no. 8 BWG - The assumption of suretyships, guarantees and other forms of liability for other parties where the obligation assumed is monetary in nature (guarantee business)
- Section 1 (1) no. 10 BWG - The issuance of other fixed-income securities for the purpose of investing the proceeds in other banking transactions (miscellaneous securities underwriting business)
- Section 1 (1) no. 11 BWG - Participation in underwriting third-party issues of one or more of the instruments listed under no. 7 lit. b to f as well as related services (third-party securities underwriting business)
- Section 1 (1) no. 15 BWG - The business of financing through the acquisition and resale of equity shares (capital financing business)
- Section 1 (1) no. 16 BWG - The purchase of receivables from the delivery of goods or services, assumption of the risk of non-payment associated with such receivables - with the exception of credit insurance - and the related collection of such receivables (factoring business)
- Section 1 (1) no. 17 BWG - The conduct of money brokering transactions on the interbank market
- Section 1 (1) no. 18 BWG - The brokering of transactions as specified in a) no. 1, except for transactions conducted by contract insurance undertakings; b) no. 3, except for the brokering of mortgage loans and personal loans by real estate agents, personal loan and mortgage loan brokers, and investment advisers; c) no. 7 lit. a where this applies to foreign exchange transactions; d) no. 8;

Responsible regulatory authority

Financial Market Authority (FMA) (field: Banking Supervision)
 A-1090 Vienna, Otto-Wagner-Platz 5
 Phone: +43-1-24959-0
 Fax: +43-1-24959-5499
 Online: www.fma.gv.at

Statutory provisions

Applicable legal provisions are especially the Banking Act (BWG) and the Securities Supervision Act (WAG) as amended (<http://www.ris.bka.gv.at>).

Communication

The relevant language for the contractual relationship is German. If requested, we will communicate with customers in the English language and provide documents and other information in English.

Subject to agreement, the customer has the option to communicate with the Bank personally, by phone, by letter, by fax or by e-mail.

Recording of telephone and/or electronic orders

Telephone conversations and electronic communications with the customer are recorded according to the statutory provisions. A copy of such record will be provided to the customer on demand. The records are stored according to the statutory provisions for a period of at least 5 years as from recording.

b. Information on the services provided

The Bank provides its customers with

- services according to Section 1 no. 3 WAG.
 - Acceptance and submission of orders if such activities involve one or several financial instruments.
 - Execution of orders for customers' account: the conclusion of agreements to purchase or sell financial instruments for customers' accounts; with regard to the paragraphs 5 to 11 of the 2nd section, this includes both the execution of orders according to Section 1 (1) no. 7 Banking Act – BWG, [BGBI. \[Federal Law Gazette\] no. 532/1993](#) and the service according to lit a
 - Dealing on own account Dealing by using own capital for the conclusion of transactions with financial instruments, unless the deal is made for private assets
 - Portfolio management: the management of portfolios on individual customer basis with a margin of discretion in line with a power of attorney of the customer if the customer portfolio includes one or several financial instruments
 - Investment consulting: the provision of personal recommendations according to no. 27 for transactions with financial instruments to a customer, be it upon their request or at the initiative of the service provider
 - Assumption of issue of financial instruments or placement of financial instruments with a fixed underwriting commitment
 - Placement of financial instruments without a fixed underwriting commitment
- Services according to Section 1 no. 4 WAG.
 - The safekeeping and administration of financial instruments for the account of customers, including the safekeeping of custodian accounts and related services such as cash management or collateral administration
 - The grant of credits or loans to investors for the performance of transactions with one or several financial instruments if the company granting the credit or loan participates in such transactions
 - Foreign exchange transactions if they are connected to the provision of securities services
 - Services related to underwriting for third parties
 - Securities services and investment activities according to no. 2 as well as ancillary securities services according to lit a to f concerning goods, climatic variables, freight rates, emission allowances or inflation rates and other official economic statistics if they are used as underlying assets of the derivatives stated in no. 7 lit e – g and j and if they are related to the provision of the securities service, investment activity or ancillary securities service.

Non-independent advice

The Bank has to inform its customers according to the provisions of the Delegated Regulation Art. 52 2017/565 whether the advice regarding financial instruments is given independently or non-independently in terms of the provisions of the WAG 2018 as well as the directly applicable EU Regulations on the MiFID II. The main difference between the two methods of advice is that no commissions of third parties may be retained with independent advice. As the Bank receives its remuneration for the rendered investment services not only directly from customers, but also via Group-owned investment companies, the services of the Bank are rendered by way of non-independent advice. The increases of the quality of the services required according to Section 52 WAG to retain such payments made by third parties are recorded and assessed by the Bank on an ongoing basis. The specific commissions and benefits of third parties that are obtained from the mediation of transactions in financial instruments are disclosed prior to the conclusion of the transaction.

The Bank is partly in a group relationship with the product providers. As an essential measure to increase the quality of the investment advice in terms of Section 52 WAG 2018, the Bank offers wide access to a large number of product providers as well as sufficient availability of advice on site. In addition, there are special technical solutions to improve the advice and information given to customers.

c. Information on customer classification

Customers in terms of the WAG 2018 are all domestic and foreign customers, not only private customers, but also all other customers such as banks, business and institutional investors. The customer classification stipulated by law distinguishes between **eligible counterparties**, **professional customers** and **private customers**.

According to Section 67 (3) WAG, the Bank needs to allocate its customers to customer categories. The guidelines prepared for this purpose apply to all securities services and ancillary securities services with regard to all financial instruments offered by the Bank.

You are a private investor, unless you have been classified as professional customer or eligible counterparty according to any of the following criteria. (Section 1 no. 36 WAG)

The following criteria for customer classification apply in the Bank. Unless otherwise agreed below, the classification made for the customers always applies to all securities services.

If a reclassification has been made upon request, the fulfilment of the criteria must be checked once a year and documented in the customer file. If a customer no longer meets the criteria, he needs to be reclassified to the next higher customer category in terms of the level of protection. The same applies if the customer withdraws the application.

1. Eligible counterparty

The WAG 2018 grants the lowest level of protection to the eligible counterparty. This has the consequence, amongst others, that the Bank does not check the suitability or appropriateness of the ordered transactions.

The following entities are qualified as eligible counterparties (**by law**) for the mere acceptance and placing of orders as well as for the execution of orders if only such transactions are intended within the customer relationship:

- Banks;
- Investment firms;
- Other licensed or supervised financial institutions;
- Insurance companies;
- Entities for investments according to Section 1 (1) no. 3 KMG, domestic or foreign investment funds, domestic or foreign real estate funds or similar entities that summarise assets with risk spread, as well as their relevant management companies;
- Pension funds and their management companies;
- Commodity dealers and commodity derivatives dealers;
- Local companies according to Art. 4 (1) number 4 of Regulation (EU) No 575/2013;
- Other institutional investors showing net sales in the amount of at least EUR 40 million;
- Central governments, countries, regional governments of the Member States and third countries as well as public bodies that manage public debt on a national or regional level;
- Central banks according to Art. 4 (1) number 46 of Regulation (EU) No 575/2013 as well as international institutions, such as particularly the World Bank, the International Monetary Fund, the European Investment Bank and similar international organisations.

Furthermore, the following entities can be classified as eligible counterparties for the mere acceptance and placing of orders as well as for the execution of orders if only such transactions are intended within the customer relationship:

- Large companies who meet at least two of the following criteria on a corporate level:
 - A balance sheet total of at least EUR 20 million;
 - Net sales of at least EUR 40 million;
 - Own funds of at least EUR 2 million.

In all cases, it is irrelevant to the qualification as eligible counterparty whether such customers have a valid account/custodian account with us or not (trading partner). If they have a valid account/custodian account with us and if applied for in writing, customers qualified as eligible counterparty have the option to be qualified as professional customers.

2. Professional customers

The level of protection granted to the professional customer includes the review of the ordered transactions with regard to their suitability for the earnings and investment targets as well as the customer's risk tolerance. Adequate knowledge and experience in the field of investment can be assumed. For a portfolio management, the financial circumstances must be taken into account as well.

Unless the business relationship solely consists in the reception and transmission of orders as well as for the execution of orders, Professional Clients are qualified (by law) as the legal entities specified (by law) under "1. Eligible Counterparties" and other institutional investors whose main activity is the investment in financial instruments, including facilities operating security-type securitisation of liabilities and other financing transactions.

Upon request, the following clients can be qualified as Professional Clients:

- Persons qualified as private clients, including corporations under public law, meeting at least two of the following criteria:
 - The client carried out an average of ten transactions of substantial volume per quarter in the relevant market within the last four preceding quarters (totalling at least EUR 15,000).
 - The client's portfolio of financial instruments including the client's bank balances exceed a value of EUR 500,000.
 - The client works or worked for at least one year in a financial position in the financial sector, presuming knowledge of the planned transactions or services.
- All clients qualified as Eligible Counterparty.

By written request, clients classified as Professional Clients have the possibility to have themselves qualified as a private client, but have no legal claim to such reclassification.

3. Private customers

All customers who are neither eligible counterparty nor professional customer in consideration of the above criteria are deemed private customers. The private customer enjoys the highest investor protection level. This is reflected, in particular, in the necessary review of the orders placed by the customer with regard to his investment targets, his financial circumstances and his product experience and know-how.

If specific criteria are met (see above in "Professional customers" upon request) with regard to the scope and number of transactions with financial instruments carried out in the past and/or professionally acquired knowledge in this regard, investors classified as "private customers" also have the option to be reclassified as "professional customers", although they have no legal claim to such reclassification.

d. Information on protective provisions for customer assets

Information on third-party and collective deposit

Securities are held in safe custody in accordance with the conditions set out in the General Terms and Conditions of the Bank (no. 69 et seq., section "II. Safekeeping of securities and other assets").

They are held in safe custody mainly via domestic and foreign third-party custodians. Domestic securities are held in Austria; foreign securities are held in the country where the security was acquired or where the issuer has its registered office. However, there is also the option to hold securities issued in Austria abroad and to hold securities issued abroad in Austria (no. 69 (2) of the General Terms and Conditions). Our annual statement of custodian accounts shows in what country your securities are held in safe custody.

The legal status regarding the securities held by us depends on what law applies. Either (co-)ownership or a legal position similar to ownership in the form of a contractual delivery claim is established. (No. 67 of the General Terms and Conditions)

When holding securities in safe custody, the Bank is only liable to an entrepreneur for the careful selection of the third-party custodian; to a consumer, it is also liable for the intention or negligence of the third-party custodian, unless otherwise expressly agreed.

Austria

The Bank holds securities deposited with it in Austria mostly in its name at a securities depository (central securities depository) or in another bank of the group in a collective deposit, unless the customer expressly desires segregation (individual safe custody) and the Bank complies with this request. The depositor obtains co-ownership of the collective holding of the securities of the same class. This does not affect the customers' rights, as particularly the scope of the customers' securities can be identified at all times. If securities are held in safe custody in Austria, Austrian law applies.

Abroad:

The Bank has securities acquired abroad kept in safe custody by a foreign third-party custodian. The customer obtains for securities held abroad a so-called credit in foreign securities depository, the subject matter of which is the contractual claim to similar, but not to the same securities. This claim of the customer vis-à-vis the Bank corresponds to the share held by the Bank for the customer's account in the entire portfolio of securities of the same type held by the Bank for its customers abroad according to the relevant legal provisions and customs. The safekeeping of securities at a third-party custodian abroad is subject to the legal provisions of this third-party custodian; this may affect the customer's rights with regard to the affected financial instruments and funds. If the third-party custodian holds the securities at another custodian (e.g. the central securities depository of the relevant country), the legal provisions of such depository and/or the storage location applies. The Bank generally holds the securities in trust for the customer. If the procurement of ownership or co-ownership rights of the customer in the securities is not possible according to the legal system of the relevant storage country, the Bank acquires a comparable legal status. The separation of the Bank's own portfolios from the customer's portfolio is guaranteed, amongst others, by organisational measures, such as bank records and customer custodian account statements.

Protection of customer funds:

The Bank ensures that the compliance with the legal provisions with regard to the protection of customer funds and financial instruments is guaranteed by an adequacy qualified and authorised person.

Information on deposit protection and investor compensation

Based on the guidelines, implemented in Austria in the Deposit Guarantee and Investor Compensation Act (ESAEG), every bank that accepts deposits subject to safekeeping and/or renders securities services subject to safekeeping is legally obliged to be part of a protection scheme.

As an Austrian bank, the Bank is subject without limitation to the Austrian provisions on deposit guarantee and investor compensation and is a member of the corresponding statutory protection scheme.

In this connection, we refer to the information sheet according to Section 37a BWG as amended and to the statutory provisions of the ESAEG, which we will provide upon request.

Information for private customers on financial instruments

- Risk description
You can find a detailed description of the risks related to a financial instrument in the "General information and risk information on financial instruments and investments" (see item 4).
- Securities offered to the public
Prospectuses on securities that are offered to the public are generally published on the issuer's website and may be requested from the issuer in paper form.

e. Guidelines for dealing with conflicts of interest

The Bank has established guidelines for dealing with conflicts of interest according to statutory provisions. It is established in these guidelines what measures are taken by the Bank to deal with conflicts of interest. You can find more details in the "Information on dealing with conflicts of interest" (see item 2).

f. Information on reporting

Before an order is executed, and in compliance with the statutory provisions, the Bank provides the customer with information related to the financial instrument on the costs and ancillary costs, information on the suitability, and information on funds and benefits of third parties. The Bank immediately provides the essential information on the execution of an order. The customer receives information on the status of his order at any time upon request. The customer receives a list of all financial instruments and funds held by the Bank on his behalf on a quarterly basis (Section 60 WAG 2018). Furthermore, the customer will be informed about his account balance on a quarterly basis according to Section 34 BWG. Information is submitted in the form requested by the customer. As from a loss in value of 10% of the initial value, the Bank will inform the private customer immediately if the loss is related to leverage products and transactions in contingent liabilities.

Portfolio management reporting

With portfolio management, the customer must be informed on a quarterly basis about the portfolio service rendered. If the customer wants to be immediately informed about every order execution separately, he shall be provided with an additional annual statement of activities carried out during the reporting period. If an overdraft facility for the settlement account has been agreed within the portfolio management, the statement shall be sent to the customer on a monthly basis. The Bank is obliged to inform the customer immediately as from a loss in value of 10% of the portfolio's initial value since the last reporting period.

Portfolio management – information submission		
<i>General</i>	<i>Credit financing</i>	<i>Customer request</i>
quarterly	monthly	annually if execution confirmations are submitted immediately

Reporting with other types of transactions

With all other securities accounts, the customer must be provided with the execution confirmation immediately (at the next banking day at the latest). Monthly savers are an exception; the execution confirmations can be compiled and sent to them every six months.

g. Information on tied agents and independent agents

When rendering its securities services, the Bank may employ tied agents (according to Section 1 no. 44 WAG 2018) and independent agents (according to Section 1 no. 45 WAG 2018) who are listed in the register kept by the FMA. The Bank is liable for such persons according to the provisions of Section 1313a ABGB [Austrian Civil Code]. Tied agents and independent agents are also subject to the provisions of WAG 2018.

h. Information on how to complain

When rendering services for our customers, it is our top priority to guarantee a high degree of care and honesty without exception and to ensure that our actions are lawful and professional and that market standards are complied with. However, you may still have reasons to complain.

If you are not satisfied with us and/or our service, you can address your complaint in writing, by phone or by e-mail to the complaints office set up by us. It can be contacted by e-mail at beschwerde-bb@grawe-bankengruppe.at or by phone at +43/316/8072-3200. When processing complaints, the Bank adheres to the following principles: Immediate processing: The Bank takes all customer complaints very seriously and will process any complaints received without delay.

Clear communication: The results of the complaints analysis are communicated in plain language. This information also includes information on alternatives that are possible in individual cases, including the option to forward the complaint to a body for alternative dispute resolution (mediation for consumer transactions: www.bankenschlichtung.at) or the option to file a civil action.

Internal review: Complaints processing within the Bank is subject to continuous monitoring by the Compliance function. This ensures that all risks and issues related to the complaint are identified and eliminated.

2. Information on dealing with conflicts of interest

a. General information on conflicts of interest

A conflict of interest is a situation where different interests of various (groups of) persons are in conflict. Such conflicts may arise from the various interests of our Bank, other companies of our banking group, our management, our employees, tied agents, our customers or other natural and/or legal persons that have a business affiliation with us.

At a bank that provides numerous securities services to its customers and at the same time offers corporate financing and consulting, conflicts of interest cannot always be totally excluded.

The Bank has established guidelines for resolving conflicts of interest according to statutory provisions. It is established in these guidelines what measures are taken by the Bank to deal with conflicts of interest.

Conflicts of interest may arise between a customer and the Bank or any of its employees or a company controlled by the Bank or between customers of the Bank.

If such organisational or administrative measures are not sufficient to guarantee that the impairment of customer interests is prevented, the Bank shall describe how and when the conflict of interest has arisen so that the customer can make his investment decision on this basis.

b. Examples for conflicts of interest

Conflicts of interest may arise if the Bank provides e.g. the following services:

- Investment consulting
- Portfolio management
- Issue of financial instruments
- Sale of self-issued or intra-group financial instruments
- Proprietary trading in financial instruments
- Forwarding and processing of third party orders concerning financial instruments
- Safekeeping and administration of financial instruments
- Start or maintenance of a loan relationship,

particularly based on

- Relations of our Bank or our employees with issuers of financial instruments, such as a participating interest, the performance of corporate body activities or a customer relationship;
- Own turnover and profit interests of the Bank, e.g. when selling financial instruments or in the proprietary trading in securities;
- Turnover and profit interests of own employees,

namely through

- The receipt of information not available to the public about financial instruments and/or their issuers;
- The acceptance or grant of benefits from or to third parties for rendered securities services;
- The contractual obligation for the provision of binding purchase and selling prices for specific financial instruments traded on stock markets (Market Making);
- Performance-related remuneration of own employees;
- The provision of different services by the same person;
- Agreement of performance-related remuneration for portfolio management.

c. Important notes in connection with conflicts of interest - Benefits

We would like to point out the following in connection with conflicts of interest:

According to the provisions of Sections 51 et seq. WAG 2018, banks may only grant a benefit to a third party in connection with the rendering of investment or ancillary services ("allowances") or accept such benefit from third parties ("commissions") if the person making the payment is not the customer himself or a person who acts by order of the customer, if this is justified by the rendering of an additional or higher-value service for the relevant customer, and by the continuous quality improvement for the related customer, which is proportionate to the ongoing benefit, and this does not cause any bias or distortion on part of the legal entity when rendering the relevant service to the customer, and does not directly benefit the receiving legal entity, its shareholders or employees, without at the same time constituting a material benefit for the customer concerned.

The regulations apply to all commissions of third parties accruing from 3 January 2018. A third party is any person other than the legal entity itself, including group companies. Commissions and allowances also include benefits in kind, such as training courses, advertising materials, and software.

The amount and type of the commission and the granted allowances are disclosed to the customer before the service is rendered. Non-cash commissions and allowances must be quantified; other benefits may be stated generically. During the term of a custodian account relationship, an annual report on the commissions and allowances must be provided.

As long as the quality-increasing measures are in proportion to the commissions received from third parties, they may be retained. The Bank uses the benefits received from third parties for quality-increasing measures. The specific amount of such commissions is individually disclosed to the customer by means of ex ante documents.

Payments and allowances as described above as well as all other incentives accepted or granted (hereinafter referred to as "benefits") are used to effect a quality improvement when rendering the securities services and to cover the related costs.

With regard to the option to be able to regard measures as quality-increasing, the following criteria must be taken into account within the framework of the other statutory requirements:

- Service exceeding the statutory requirements
- Added value for the customer (information, etc.), not just for sales promotion
- No services that are required for the ongoing and state of the art business operation

In summary, it is essentially the provision of efficient, high-quality infrastructures and services for the purchase and sale of financial instruments, which are subject to corresponding (previous) investments and cause permanent costs, e.g. also due to the ongoing and comprehensive training of our employees.

The acceptance of such benefits is never in conflict with the proper provision of our securities services that best serve the customer's interests.

The issue surcharges charged to the customer for the sale of investment fund units or other securities, the amount of which is determined by the relevant investment company and/or by the issuer of the financial instrument, are collected by us in whole or in part. They serve to cover the costs we incur in connection with the services rendered to you.

Based on existing contractual agreements, we sometimes grant tied or independent agents as well as other persons who procure customers or individual transactions for us with or without reference to a specific transaction performance-based commissions and fixed remunerations.

d. Information on conflict of interest resolution

An independent Compliance organisation operates in our company under the direct responsibility of the management. Its task is the identification, prevention and management of conflicts of interest.

We have furthermore taken a number of adequate organisational measures in order to prevent that external interests affect the type of provision of various securities services. These are, for example,

- The creation of confidentiality areas by establishing virtual and/or actual barriers to limit the flow of information;
- The separation of responsibilities and/or the physical separation of individual business units;
- Monitoring the handling of public, but not (yet) accessible information gained from the business activity;
- The issue of regulations for the acceptance and grant of allowances and their disclosure;
- The issue and control of bans on trading, consulting and the preparation of financial analyses for specific financial instruments;
- The equality of incentives for employees for the sale of different financial instruments of the same category;
- The issue of guidelines for transactions in financial instruments of our own employees;
- The mandatory disclosure and ongoing control of such securities transactions that are carried out by employees of our company for own account or that employees of our company have carried out for own account;
- Making sure that orders are processed in the chronological order in which they were received;
- The internal monitoring of the investment decisions made within the portfolio managements; and
- Permanent training of our employees, particularly with regard to Compliance-relevant topics and to raise awareness for the unconditional safeguarding of the interests of our customers in investment consulting and portfolio management.

To guarantee a high degree of care and honesty as well as lawful and professional actions, the compliance with market standards, and particularly the permanent compliance with the customer's interests, we and our employees have undertaken to comply with high ethical standards.

If, despite all organisational measures taken, conflicts of interest cannot be avoided, we will disclose them to the affected customers before concluding a transaction or providing advice.

3. Information on our execution policy – Best Execution Policy

a. Preliminary remark

In compliance with the provisions of the WAG 2018 and the Delegated Regulation EU No. 2017/565, Capital Bank – GRAWE Gruppe AG has established regulations on how it will execute orders of its customers to achieve the best possible result for its customers on an ongoing basis. These regulations are the content of the following Best Execution Policy. The Best Execution Policy is set out according to the current technical and organisational possibilities and applies to the processing of purchase and sales orders of financial instruments that are carried out by Capital Bank – GRAWE Gruppe AG for small investors and professional customers. The Bank executes all orders within the meaning of the Best Execution Policy, but cannot guarantee that the best possible result is actually achieved for each individual order.

Capital Bank – GRAWE Gruppe AG will execute customer orders for the purchase or sale of financial instruments either as commission agent (commission business) or as the sole counterparty (fixed-price business). If Capital Bank – GRAWE Gruppe AG is not a stock exchange member itself, the customer order is forwarded to third parties in compliance with the execution principles of Capital Bank – GRAWE Gruppe AG.

b. Commission business

Execution of a commission order

Execution transaction and/or engagement of an intermediate commission agent

Capital Bank – GRAWE Gruppe AG carries out orders of its customers for the purchase and sale of financial instruments in Austria and abroad as a commission agent. For this purpose, Capital Bank – GRAWE Gruppe AG enters into a purchase or sales transaction (execution transaction) with another market participant for the customer's account or it engages another commission agent (intermediate commission agent) for the conclusion of an execution transaction.

Applicability of legal provisions/customs/terms and conditions

The execution transactions are subject to the legal provisions and terms and conditions (customs) applicable at the execution venue for securities trading; the General Terms and Conditions of Capital Bank – GRAWE Gruppe AG's contractual partners apply in addition.

Price of the execution transaction/fees/expenses

Capital Bank – GRAWE Gruppe AG charges the customer for the price of the execution transaction; it is entitled to invoice its fees and its expenses including external costs.

Consolidation of orders

Capital Bank – GRAWE Gruppe AG reserves the right to consolidate orders of customers with orders of other customers or also with transactions for own account. However, such consolidation will only be done if disadvantages for the customer are overall not expected. In principle, such a consolidation of orders may have disadvantages with regard to a specific order.

Priority of customer instructions

An instruction given by the customer always has priority. When executing a purchase or sales order, Capital Bank – GRAWE Gruppe AG will comply with the customer's instructions. Instructions shall be issued in writing. It is expressly pointed out to the customer that, if he has issued instructions, Capital Bank – GRAWE Gruppe AG will carry out the order according to such instructions and may be prevented from achieving the best possible result due to the resulting deviation from the execution principles. If the customer instruction only covers part of the order, the Bank will carry out the part of the order that is not covered by the instruction according to the applicable principles.

Criteria for the best possible order execution (“execution factors”)

The following criteria are relevant and weighted for the execution of purchase and sales orders for investors classified as “**small investors**”:

- Price (high weighting)
- Costs (high weighting)

For small investors, the total costs of the order are the only relevant criterion for the selection of the Best Execution venue. The total costs result from the price of the financial instrument, intra-company commissions and fees, execution venue fees, clearing and settlement fees and other fees paid to third parties (who may be involved in the execution of the order).

The following criteria are regarded as relevant to the execution of purchase and sales orders for investors classified as “**professional customers**” and weighted as follows:

- Price (high weighting)
- Costs (high weighting)
- Speed of execution (high weighting)
- Probability of execution and settlement (medium weighting)
- Scope and type of order (medium weighting)

Classes of financial instruments

Financial instruments with the same or similar characteristics are summarised to the following classes and treated equally in line with the execution policy per class.

- Equity – shares & depositary receipt/depositary certificate
- Exchange traded products (such as ETFs)
- Debt instruments (bonds)
- Securitised derivatives (warrants and certificates)
- Interest derivatives
- Credit derivatives
- Currency derivatives
- Structured financial instruments
- Equity derivatives
- Commodity derivatives
- CFDs
- Authorisation to issue
- Other instruments

Execution policy

Orders may be executed in regulated markets, via a multilateral trading facility (MTF), via a systematic internaliser or outside such trading venues. This information on the execution policy is followed by an overview of execution venues where Capital Bank – GRAWE Gruppe AG usually executes orders.

The execution venues best suited for the relevant class of financial instruments is selected, in addition to the “execution factors” set out in 2.2., also in consideration of the following qualitative factors, which are also weighted:

- Clearing system of the trading venue (high weighting)
- Trading times (high weighting)

Execution venues

The following execution venues are generally intended for the relevant class of financial instruments. Due to the availability of clearing systems and volatility disruptions as well as auctions to increase liquidity, priority is given to the regulated markets and the MTFs. OTC trading is considered as alternative execution venue due to the related counterparty risk. To compare several OTC trading venues, at least three comparison prices are obtained and documented for each transaction with OTC executions in individual cases (if this number of OTC quotes is available).

Asset class	Intended execution venue	Alternative execution venue
Equity – shares & depositary receipt/depositary certificate	Regulated market	OTC, systematic internaliser
Exchange traded products (such as ETFs)	Regulated market	OTC, systematic internaliser
Debit instruments (bonds)	MTF, regulated market	OTC, systematic internaliser, OTF
Securitised derivatives (warrants and certificates)	Regulated market	OTC, systematic internaliser
Interest derivatives	Regulated market	OTC
Credit derivatives	Regulated market	OTC
Currency derivatives	Regulated market	OTC
Structured financial instruments	MTF, regulated market	OTC, systematic internaliser, OTF
Equity derivatives	Regulated market	Regulated market
Commodity derivatives	Regulated market	OTC
CFDs	Not defined	Not defined
Authorisation to issue	Not defined	Not defined
Other instruments	Not defined	Not defined

Execution venues in detail

Equity – shares & depositary receipt/depositary certificate and exchange traded products (such as ETFs)

Orders related to these instruments are primarily executed at the relevant home exchange or, if the home exchange is not the main marketplace, at the main marketplace, as a cost-effective execution is usually possible there due to high liquidity.

The home exchange describes the exchange of first listing; this is most often the/an exchange of the state where the issuer has its registered office. The main marketplace is such exchange where the largest trading volume is achieved in the long term.

Austrian shares

Orders related to shares whose home exchange is in Austria are primarily executed via XETRA Vienna. If the share is not listed there, they are executed at another stock exchange according to the criteria listed in 2.2.

German shares

Orders related to shares whose home exchange is in Germany are primarily executed via XETRA Frankfurt. If the share is not listed there, they are executed at another German stock exchange.

US-American shares

Orders related to shares whose home exchange is in the USA are primarily executed via the New York Stock Exchange (NYSE) or the Nasdaq. If the share is not listed there, they are executed at another US-American stock exchange.

Other foreign shares

Other foreign shares are primarily executed via the relevant home exchange or, if the home exchange does not correspond to the main marketplace, at the main marketplace.

Debt instruments (bonds) and structured financial instruments

Shares of domestic and foreign issuers of this class are primarily executed via a multilateral trading facility (MTF), as the best prices and highest volumes are usually traded there. If this option is not available, the order is executed via a systematic internaliser or at a regulated market according to the criteria listed in 2.2.

Securitised derivatives (warrants and certificates)

Certificates and warrants are primarily executed via the relevant home exchange or, if the home exchange does not correspond to the main marketplace, at the main marketplace.

Exchange-traded derivatives

Exchange-traded derivatives are primarily traded via the main futures market of the country where the base value of the derivative has its registered office.

Investment funds and real estate investment funds

The purchase and sale of investment fund shares and of real estate investment fund shares is generally made via the relevant custodian bank, the investment company, the transfer agent or a third-party provider of the (real estate) investment fund, as the price is formed according to the Austrian investment fund act (InvFG) and/or the Austrian real estate investment fund act (ImmoInvFG). According to the WAG 2018, these are not executions of customer orders in terms of the execution policy.

On grounds of cost, sales orders related to shares of all classes of financial instruments are executed either in the country where the depositary is situated or at such trading venue via which the security was acquired.

Notification

Capital Bank – GRAWE Gruppe AG will inform the customer immediately about the execution, the execution venue and the type of execution.

Review of the principles

For the selection of execution venues and policies made according to these principles, Capital Bank – GRAWE Gruppe AG will regularly review whether the execution venues including the execution policy guarantee the best possible result for the customer. In addition, it will perform a review if it is suspected that essential criteria that have spoken in favour of a specific execution venue do no longer apply. Capital Bank – GRAWE Gruppe AG will inform the customer about significant changes to the selection of execution venues. Capital Bank – GRAWE Gruppe AG will inform its customers about the quality of the execution on a quarterly basis. Likewise, an annual summary of the top five execution venues with regard to the execution quality will be provided.

Deviation from the execution policy without the customer's instruction

Capital Bank – GRAWE Gruppe AG reserves the right to deviate from the execution policy even without the customer's instruction if this is in the customer's best interest. Capital Bank – GRAWE Gruppe AG generally reserves the right to carry out high-volume customer orders in shares or equity-like securities via one of its intermediaries at an MTF (multilateral trading facility) or off-market if this achieves a better or equivalent result for the customer.

System failures and other incidents

If unforeseen incidents occur (such as technical issues of any kind), Capital Bank – GRAWE Gruppe AG may be forced to select other types of order execution than the ones established in the execution policy. In such cases, the Bank will also attempt to achieve the best possible result for the customer when rendering the service.

c. Fixed-price business

If the customer and Capital Bank – GRAWE Gruppe AG agree on a fixed price for the purchase or sale of financial instruments (fixed-price business), a contract is concluded. Accordingly, Capital Bank – GRAWE Gruppe AG takes over the financial instruments from the customer as the purchaser or it delivers the financial instruments to the customer as the seller. If a fixed-price transaction is concluded, the market situation must be taken into account. Capital Bank – GRAWE Gruppe AG charges the customer for the agreed price, plus any accrued interest for interest-bearing debt instruments (accrued interest). Capital Bank – GRAWE Gruppe AG undertakes to make sure, by taking the regulation on the achievement of the best possible execution into account, that an equivalent result is usually achieved that would also be achieved by Capital Bank – GRAWE Gruppe AG through the execution of the order as commission agent. It is expressly pointed out that the performance of fixed-price transactions is possible for all kinds of financial instruments.

d. Regulated markets where Capital Bank – GRAWE Gruppe AG can trade

Germany, Xetra Frankfurt	XETR
Germany, regional exchanges	XFRA, XSTU, XBER, XHAM, XDUS, XHAN, XGAT, XMUN
Belgium, Brussels	XBRU
Denmark, Copenhagen	XCSE
Finland, Helsinki	XHEL
France, Paris	XPAR
Greece, Athens	XATH
Ireland, Dublin	XDUB
Italy, Milan	XMIL
Luxembourg	XLUX
Malta	XMAL
Netherlands, Amsterdam	XAMS
Norway, Oslo	XOSL
Austria, Vienna	XVIE
Portugal, Lisbon	XLIS
Sweden, Stockholm	XSTO
Switzerland	XSWX, XVTX, XBRN (Bern)
Spain, Madrid	XMCE
Great Britain, London	XLON
Australia	XASX
Hong Kong	XHKG
Japan, Tokyo	XTKS
Singapore	XSES
Canada, Toronto	XTSE
USA	XNYS, XNMS
Dubai	XDFM
Bosnia-Herzegovina	XBLB (Banja Luka), XSSE (Sarajevo)
Croatia, Zagreb	XZAG
Montenegro, Podgorica	XMNX
Poland, Warsaw	XWAR
Romania, Bucharest	XBSE, XRAS
Russia, Moscow	MISX
Serbia, Belgrade	XBEL
Slovenia, Ljubljana	XLJU
Czech Republic, Prague	XPRA
Turkey, Istanbul	XIST
Hungary, Budapest	XBUD
South Africa, Johannesburg	XJSE

CAPITAL BANK – GRAWE GRUPPE AG mainly employs for the execution of commission orders in the various financial market groups the following intermediate commission agents for stock exchanges where it is not a member, and mainly trades with the following trading partners off-market:

Asset class	(Intermediate) commission agent / trading partner
Austrian shares and equity-like securities (Vienna Stock Exchange)	Direct Stock exchange membership
German shares and equity-like securities (German stock exchanges)	HSBC Trinkaus & Burkhardt AG, Düsseldorf JPMorgan Chase Bank, Frankfurt Morgan Stanley Bank AG, Frankfurt
Shares and equity-like securities from other foreign countries (other foreign stock exchanges)	HSBC Trinkaus & Burkhardt AG, Düsseldorf Erste Group Bank AG, Vienna Raiffeisen Centrobank AG, Vienna JPMorgan Chase Bank, Frankfurt Morgan Stanley Bank AG, Frankfurt
Derivatives traded at the stock exchange	HSBC Trinkaus & Burkhardt AG, Düsseldorf
Certificates and warrants	On market Austria: Direct Stock exchange membership On market abroad: HSBC Trinkaus & Burkhardt AG, Düsseldorf OTC/off-market Austria and abroad: Issuers
Investment fund units	Domestic units: relevant investment company/custodian bank/transfer agents as well as Erste Group Bank AG, Vienna Raiffeisen Bank International AG, Vienna Foreign units: B. Metzler seel. Sohn & Co. KGaA, Frankfurt European Bank for Financial Services GmbH (ebase) Erste Group Bank AG, Vienna Raiffeisen Bank International AG, Vienna as well as relevant investment company/custodian bank/transfer agents
Bonds (off-market)	In their function as issuer and/or broker for domestic and foreign securities: Banca IMI Spa, Milan Bayerische Landesbank, Munich Bank of America Merrill Lynch Intl. Ltd, Frankfurt UniCredit Bank AG, Munich Citigroup Global Markets Deutschland AG, Frankfurt Commerzbank AG, Frankfurt Credit Suisse AG, Zürich Deutsche Bank AG, Frankfurt Banque Internationale à Luxembourg, Luxembourg Erste Group Bank AG, Vienna Goldman Sachs International, London HSBC Trinkaus & Burkhardt AG, Düsseldorf JPMorgan Chase Bank, Frankfurt ING Financial Markets, Amsterdam KBL European Private Bankers SA, Luxembourg Landesbank Baden-Württemberg, Stuttgart Lloyds Bank PLC, London Morgan Capital Advisors LLP, London RBC Europe Ltd, London Royal Bank of Scotland PLC, London Raiffeisen Bank International AG, Vienna Wells Fargo Securities Intl. Ltd, London Zürcher Kantonalbank, Zürich as well as Further issuers/brokers from Austria and abroad

e. Reporting Top 5 execution venues

Once a year Capital Bank – GRAWE Gruppe AG publishes the 5 at a time most important volume weighted venues for all executed client orders divided into different classes of financial instruments .

The publication is done through the homepage of the bank.

4. General information and risk information on financial instruments and investments

a. Preliminary remarks

Different investment products and the related opportunities and risks are described in the following.

Risk means the non-achievement of an expected return of the invested capital and/or the loss of the invested capital up to its total loss. Such risk may have various causes depending on the type of product – causes inherent to the product, the markets or the issuers. Such risks cannot always be foreseen in advance, which is why the following list is not exhaustive.

The risk resulting from the product issuer's credit rating always depends on the individual case and requires special attention from the investor.

The description of the investment products follows the most common product characteristics. However, the specific features of the individual product are decisive. This description can therefore not replace the thorough review of the specific product by the investor.

b. General investment risks

Currency risk

If a foreign currency transaction is selected, the profit and/or the performance of this transaction does not only depend on the local return of the security on the foreign market, but also strongly on the development of the exchange rate of the foreign currency with regard to the basic currency of the investor (e.g. euro). A change to the exchange rate can therefore increase or reduce the revenue and the value of the investment.

Transfer risk

In transactions with a foreign element (e.g. foreign debtor), there is, depending on the relevant country, the additional risk that the realisation of the investment is prevented or complicated due to political or foreign exchange measures. Furthermore, problems may occur during the order processing. In foreign currency transactions, such measures may also cause that the foreign currency is no longer freely convertible.

Country risk

The country risk is the credit risk of a country. If the relevant country constitutes a political or economic risk, this may have a negative impact on all partners resident in such country.

Liquidity risk

The possibility to purchase, sell and/or close an investment at any time at competitive prices is called tradability (= liquidity). A market is a liquid market if an investor can trade his securities without causing that an average-size order (measured on the sales volume usual at the market) leads to noticeable price fluctuations or cannot be settled at all or only at a significantly changed price level.

Credit risk

Credit risk means the risk that the partner becomes unable to pay, i.e. the possible inability to meet their obligations finally or when due, such as dividend payment, interest payment, redemption, etc. Alternative terms for credit risk are debtor risk or issuer risk. This risk can be evaluated by means of the so-called "rating". A rating is an evaluation scale for the assessment of issuers' creditworthiness. The rating is prepared by rating agencies. The credit and country risks are evaluated in particular. The rating scale extends from "AAA" (best credit rating) to "D" (worst credit rating).

Interest rate risk

The interest rate risk results from possible future changes to the market interest rate level. During the term of fixed-interest bonds, an increasing market interest rate level leads to price losses; a declining market interest rate level leads to price gains.

Price risk

The price risk is the potential value fluctuation of individual investments. With committed transactions (e.g. forward exchange transactions, futures, writing options), the price risk may require a hedging (margin) and/or the increase of its amount, i.e. the binding of liquidity.

Risk of total loss

Risk of total loss means the risk that an investment may become worthless, e.g. due to its structure as a temporary right. A total loss may occur, in particular, if the issuer of a security is no longer able to meet its payment obligations for economic or legal reasons (insolvency). The risk of total loss also exists if issuers of securities experience financial difficulties and the resolution authority responsible for the issuer applies resolution tools, such as cancelling shares of shareholders or applying the instrument of creditor participation (bail-in) to unsecured bonds, which may cause the full write-down of the bonds.

Credit purchase of securities

The credit purchase of securities constitutes an increased risk. The borrowed money must be repaid irrespective of whether the investment is successful or not. In addition, the credit costs reduce the profit.

Order placement

Purchase or sales orders to the Bank (order placement) must include as a minimum what investment is to be purchased/sold in what number/nominal value and during which period.

Price limit

By marking "best" (without price limit) on the order, you accept every possible price, which means that any required capital investment/sales proceeds remain uncertain. You can limit the purchase price of a stock exchange order and thus the capital investment by setting a purchase limit; purchases exceeding the price limit are not executed. With a selling limit, you define the lowest selling price acceptable to you; sales under such price limit are not executed.

Please note: A stop market order is only activated as soon as the price formed on the stock exchange corresponds to the selected stop limit. As from its activation, the order is valid as "best order", i.e. without a limit. The price actually achieved can thus considerably deviate from the selected stop limit, particularly with illiquid securities.

Time limit

You can limit the time during which your order is valid. The validity of orders without a time limit is in accordance with the customs of the relevant stock market. Please contact your customer adviser for more information on further order codes.

Guarantees

The term "guarantee" can have different meanings. On the one hand, it means the promise of a third party (which is not the issuer) that it will ensure the fulfilment of the issuer's liabilities. On the other hand, it may be the promise of the issuer itself that it will render a specific service irrespective of the development of certain indicators that would, in principle, be decisive for the amount of the issuer's obligation. Guarantees may also refer to the most varied other circumstances.

Capital guarantees are usually enforceable only at end of term (repayment), so that price fluctuations (price losses) are quite possible during the term. The quality of a capital guarantee significantly depends on the guarantor's credit rating.

Tax aspects

Please contact your customer adviser if you wish to receive information on the general tax aspects of the various investments. You should assess the effects of an investment on your personal tax situation jointly with your tax adviser.

Risks on stock markets, particularly on ancillary markets (such as Eastern Europe, Latin America, etc.)

There is no direct connection to a large number of the ancillary market stock exchanges, i.e. all orders must be forwarded by phone. Errors and/or time delays may occur. On some ancillary stock markets, limited purchase and selling orders are not possible. Therefore, limited orders may only be issued after a corresponding phone enquiry to the broker on site, which can lead to time delays. It is also possible that such limits are not implemented at all.

At some ancillary stock markets, it is difficult to get updated prices on a permanent basis, which makes a current assessment of existing customer positions more complicated. If a trading quotation is discontinued on a stock exchange, it may no longer be possible to sell such securities on the exchange in question. A transfer to another stock exchange may also cause problems. In certain exchanges of secondary markets, the trading hours by no means correspond to Western European standards. Short trading hours of only three or four hours per day can lead to bottlenecks or failure to process securities orders.

c. Bonds

Definition

Bonds (= debentures, notes) are securities that obligate the issuer (= debtor) to pay the bondholder (= creditor, purchaser) interest on the capital invested and to repay the principal amount according to the bond terms. Besides such bonds in the strict sense of the term, there are also debentures that differ significantly from the aforementioned characteristics and the description given below. We refer, in particular, to the debentures described in the "structured products" section.

In this area in particular, not the designation as bond or debenture is decisive for the product-specific risks, but the specific structure of the product.

Income

The income of a bond consists of the interest paid on the invested capital and any difference between the purchase price and the achievable price upon sale/repayment.

Consequently, the income can only be determined in advance if the bond is held until maturity. If the bond bears variable interest, the income cannot be determined in advance. The return (upon maturity) is used as comparative figure/measure for the income, which is calculated according to customary international standards. Bond yields which are significantly above the levels of bonds with a similar term should always be questioned, with an increased credit risk being a possible reason. If the bond is sold before the regular repayment date, the achievable sell price is uncertain and the effective return may differ from the originally calculated return. When calculating the income, accrued expenses must also be taken into account.

Credit risk

There is the risk that the debtor is not able to meet its obligations in whole or in part, e.g. if it is insolvent. Therefore, you need to take the debtor's credit rating into account in your investment decision.

The so-called rating (= credit assessment of the debtor) by an independent rating agency may be an indication for the assessment of the debtor's creditworthiness. The rating "AAA" and/or "Aaa" is the best credit rating; the worse the rating (e.g. B or C rating), the higher the credit risk and the higher will probably be the interest (risk premium) of the security at the expense of an increased default risk (credit risk) of the debtor. Investments with a comparable rating BBB or better are called "investment grade".

Price risk

If the bond is held until maturity, you will receive the redemption proceeds set out in the bond conditions upon redemption. Please note in this connection the risk of early termination by the issuer (where stipulated in the terms of issue). If you sell the bond before maturity, you receive the market price. It is based on supply and demand, which depend, amongst others, on the current interest rate level. For example, the price of fixed-interest bonds will decline if the interest rates increase for similar terms; conversely, the bond will increase in value if the interest rates for similar terms decline. A change in the debtor's creditworthiness may also affect the market price of a bond. With variable-interest bonds whose yield curve is flattening and/or flat, the price risk is considerably higher with bonds the interest rate of which is adjusted to the capital market interest rates than with bonds whose interest rate depends on the amount of the money market interest rates.

The degree of change in the price of a bond in response to a change in the interest level is described by the indicator "duration". The duration depends on the residual term of the bond. The greater the duration, the stronger the effects of changes to the general interest rate level on the price, both positive and negative.

Liquidity risk

The tradability of bonds depends on several factors, e.g. issuing volume, residual term to maturity, stock market rules and market situation. A bond may also be difficult to sell or not sellable at all and would have to be held until redemption in such case.

Bond trading

Bonds are traded at a stock exchange or off-market. Upon request, your investment company can usually provide you with the buy and sell prices of specific bonds. However, there is no claim for tradability.

If bonds are also traded at the stock exchange, the prices formed at the exchange may differ considerably from the OTC prices. The risk of weak trading can be limited by a limit supplement.

Right to terminate and repurchase limit

Subordinated bonds must not be terminated at the bondholders' option. Any rights of the issuer for termination or repurchase of the subordinated bonds depend on the prior consent of the responsible authority.

Some special bonds

Subordinated bonds ("tier 2")

These are instruments of the supplementary capital (tier 2) according to Art. 63 CRR. The bonds establish immediate, unconditional, unsecured and subordinated liabilities of the issuer with a minimum term of 5 years. The creditors are not entitled to terminate. In case of liquidation or the issuer's insolvency, the creditors' claims of tier 2 bonds are subordinate to the claims of creditors of non-subordinated bonds.

High-yield bonds

High-yield bonds are securities where an issuer with a low credit rating (= debtor, issuer) undertakes to pay fixed or variable interest on the capital received from the holder (= creditor, purchaser) and to repay such capital according to the bond conditions.

Residential convertible bonds

Residential convertible bonds are issued by housing banks and serve to finance housing (new construction and refurbishment). They securitise, in addition to the right to claim payment of capital and interest, a conversion right. They may be converted (= exchanged) to participation rights of a housing bank according to the bond conditions. After the conversion, the rank of the participation rights corresponds to the rank of ordinary shares. Payments on the participation rights are profit-based; a supplementary payment of remunerations cancelled in individual years is not made. There are currently tax benefits for residential convertible bonds. Prior to acquisition, it should be checked whether such benefits still apply.

Further special bonds

Please contact your customer adviser if you have any queries about further special forms of bonds, such as option bonds, convertible bonds or zero-coupon bonds.

d. Shares

Definition

Shares are securities that confirm in writing the participating interest in a company (company limited by shares). The most significant rights of a shareholder are the participation in the profit of the company and the voting right in the general meeting (exception: preference shares).

Income

The income from equity investments consists of dividend payments and market price gains/losses of the share and cannot be predicted with any certainty. The dividend is the profit of the company distributed by resolution of the general meeting. The amount of the dividend is stated either in an absolute amount per share or in percent of the nominal value. The income gained from the dividend, referred to the share price, is called dividend yield. This will usually be significantly below the dividend stated in percent.

The more significant portion of the proceeds from equity investments is regularly reflected by the value/price performance of the share (see price risk).

Price risk

The share is a security that is mostly traded at a stock exchange. A price is usually determined daily on the basis of supply and demand. Equity investments may lead to significant losses.

The price of a share is generally in accordance with the economic development of the company and with the general economic and political framework conditions. Irrational factors (moods, opinions) may influence the price development and thus the income of your investment as well.

Credit risk

As a shareholder, you participate in a company. Your participating interest may become worthless, particularly if the company becomes insolvent.

Liquidity risk

The tradability of illiquid securities (particularly listings on non-regulated markets, OTC trading) can be problematic. If a share is quoted at several stock exchanges, this may lead to differences in its tradability on different international stock exchanges (e.g. quotation of an American share in Frankfurt).

Equity trading

Shares are traded at a stock exchange, occasionally off-market. If traded at a stock exchange, the relevant stock market customs (round lots, order types, foreign exchange regulations, etc.) must be complied with. If a share is traded at various stock exchanges in different currencies (e.g. a US share is traded at the Frankfurt stock exchange in euros), the price risk also entails a currency risk. You will receive more information about this topic from your customer adviser. When purchasing a share at a foreign stock exchange, please note that foreign stock exchanges always charge "third-party fees", which accrue in addition to the usual banking fees. Please contact your customer adviser for more information on their exact amount.

e. Investment funds

I. Domestic investment funds

General information

Shares in Austrian investment funds (share certificates) are securities that confirm quasi-co-ownership of an investment fund in writing. Investment funds invest the unit holders' money according to the investment fund's investment strategy; the principle of risk spreading applies. Traditional investment funds are typically divided into three main types, namely bond funds, equity funds and mixed funds that invest in both bonds and shares. Investment funds may invest in domestic and/or foreign assets.

The range of investment of domestic investment funds includes not only securities, but also money market instruments, liquid financial investments, derivative products and other investment fund units.

Furthermore, where tax is concerned, distributing investment funds and reinvestment funds are distinguished. Contrary to a distributing fund, a reinvestment fund does not distribute the profits, but reinvests them in the fund. Funds of funds invest in other domestic and/or foreign funds. Guarantee funds are connected to a binding promise of a guarantor appointed by the investment company regarding the distributions during a certain term, the repayment of the capital or the performance.

Income

The income of investment funds consists of the annual distributions and the development of the calculated value of the fund and cannot be determined in advance. The performance depends on the investment policy set out in the fund regulations and on the development of the markets for the various individual assets in the investment fund. Depending on the composition of a fund, the risk information for bonds, shares and options need to be observed.

Price/valuation risk

Investment fund units can typically be returned at any time at the repurchase price. Under exceptional circumstances, the repurchase may be temporarily suspended until the assets of the investment fund are sold and the proceeds are received. If many unit holders return their share certificates at once, and if no corresponding measures have been taken in the fund regulations, this may cause that the investment fund suspends the taking back of investment fund units due to a liquidity bottleneck. This must take place according to exact statutory provisions and also requires a notification to the FMA as well as a public announcement. The purpose of such a suspension is the attempt of procuring additional liquidity for the investment fund. If this is unsuccessful, it may cause the closure of the investment fund. Please contact your customer adviser for information on any expenses and/or the day your purchase or selling order is executed. The term of the investment fund is in accordance with the fund regulations and is usually unlimited. Please keep in mind that investment fund units, unlike bonds, are not normally redeemed and, consequently, do not carry a fixed redemption price. The risk of a fund investment therefore depends on the investment policy and the relevant market development of the investment fund assets. **A loss cannot be excluded.** Despite the normal option of returning units at any time, investment funds are investment products that typically only make economic sense over a longer investment period.

Like shares, investment funds may be traded at stock exchanges, so-called exchange traded funds (ETF). In this regard, please note that only such investment funds are deemed ETFs for which the management company has a relevant agreement with a market maker. Prices forming at the relevant stock exchange may differ from the redemption price. Reference is made to the risk information on shares in this regard.

Tax consequences

Depending on the investment fund type, the profits are subject to different fiscal treatments.

II. Foreign investment funds

Foreign investment funds are subject to statutory provisions of foreign (EU) countries, which may differ from the provisions applicable in Austria. In particular, the regulatory law of (non-EU) foreign countries may often be less strict than in Austria.

It is also important to note that there are other types of investment funds in other (EU) countries that do not exist in Austria, such as funds constructed under stock corporation law. The value of such investment funds is in accordance with supply and demand and not with the internal value of the investment fund, comparable to shares. Please keep in mind that the distributions and income equivalent to distributions of foreign investment funds (e.g. reinvestment funds) may be subject to other tax regulations, irrespective of their legal form.

III. Exchange traded funds

Exchange traded funds (ETFs) are investment fund units that are traded at a stock exchange, similar to a share. An ETF usually depicts a basket of securities (e.g. basket of shares) which reflects the composition of an index, i.e. replicates the index in a security by means of the securities included in the index and their current weighting in the index, which is why ETFs are often referred to as index shares.

Income

The income depends on the development of the underlying assets included in the basket of securities.

Risk

The risk depends on the underlying assets of the basket of securities.

f. Real estate funds

General information

Real estate funds are special assets owned by an investment company for real estates (Immo-KAG) who holds the special assets in trust and manages them on behalf of the unit holders. The unit certificates confirm by document the participation in these special assets under the law of obligations. Real estate funds invest the funds they receive from the unit holders according to the principle of risk spreading particularly in real properties, buildings, shares in real estate companies and similar assets as well as own construction projects; in addition, they hold liquid financial assets (liquidity portfolio) such as securities and bank balances. The liquidity portfolio serves to guarantee the imminent payment obligations of the real estate fund (e.g. based on the acquisition of real properties) as well as redemptions of unit certificates.

Income

From the unit holders' point of view, the total income from investment funds consists of the annual distributions (if it is a distributing fund and not a reinvestment fund) and the development of the calculated unit value of the fund and cannot be determined in advance. The performance of real estate funds depends on the investment policy set out in the fund provisions, the market development, the individual real properties held in the fund and the other assets of the fund (securities, bank balances). The historic performance of an investment fund is no indication for its future performance.

Amongst others, real estate funds are exposed to an earnings risk due to potential vacancies in the properties. Problems may occur regarding the initial letting, particularly with regard to own construction projects. As a further consequence, vacancies may have negative effects on the value of the real estate fund and may also lead to reduced distributions. The investment in real estate funds may also reduce the invested capital.

Real estate funds invest liquid assets in other investment forms in addition to bank balances, particularly in interest-bearing securities. These elements of the fund assets are then subject to the special risks that apply to the selected investment form. If real estate funds invest in international projects outside the euro area, the unit holder is exposed to additional currency risks, as the fair market value and earnings value of such an international project is converted into euros in every calculation of the issue and/or redemption price for the unit certificates.

Price/valuation risk

Unit certificates can normally be returned at any time at the repurchase price. Please note that the redemption of unit shares can be subject to restrictions with real estate funds. Under exceptional circumstances, the repurchase may be temporarily suspended until the assets of the real estate fund are sold and the proceeds are received. The fund provisions can stipulate, in particular, that the redemption may be suspended even for a longer term of up to two years after larger returns of unit certificates. In such cases, it is not possible to pay out the redemption price during this period. Real estate funds are typically classified as long-term investment projects.

g. Warrants

Definition

Warrants are securities without interest and dividends that grant the holder the right to purchase (call warrants) or sell (put warrants) a specific underlying asset (e.g. shares) at a specific time or during a specific period at a price fixed in advance (exercise price).

Income

By purchasing the warrant, the holder of the call warrants has fixed the purchase price of his underlying asset. The income can result from the market price of the underlying asset becoming higher than the exercise price to be paid by him, whereby the purchase price of the warrant is deducted. The holder then has the option to purchase the underlying asset at the exercise price and immediately resell it at the market price. The price increase of the underlying asset is usually reflected in a relatively larger increase of the price of the warrant (leverage effect), so that most investors generate their profit by selling the warrant. The same applies accordingly to put warrants, which usually increase in price if the price of the underlying asset declines. The income from warrant investments cannot be determined in advance. The maximum loss is limited to the amount of the invested capital

Price risk

The risk of warrant investments is that the underlying asset does not perform in the manner until the expiry of the warrant that you have taken as a basis in your purchase decision. In extreme cases, this may cause the total loss of the invested capital. Furthermore, the price of your warrant depends on other factors. The most important ones are:

- **Volatility of the underlying asset** (measured value for the fluctuation margin of the underlying asset expected at the time of purchase and at the same time the most important parameter for the affordability of the warrant). High value generally means a higher price for the warrant.
- **Term of the warrant** (the longer the term of a warrant, the higher the price).

A declining volatility or a declining residual term may effect that – although your expectations with regard to the price development of the underlying asset have been met – the price of the warrant remains the same or declines. We generally do not recommend to purchase a warrant shortly before the end of its term.

A purchase at a time of high volatility makes your investment more expensive and is therefore highly speculative.

Liquidity risk

Warrants are usually issued in smaller quantities only. This leads to an increased liquidity risk, which may cause particularly high price fluctuations with individual warrants.

Trading in warrants

Warrants are traded over the counter to a large extent. There is usually a difference between purchase price and selling price. Such difference is at your expense. When trading at the stock exchange, particular attention must be paid to the often very little liquidity.

Warrants terms and conditions

Warrants are not standardised. It is thus of particular importance to obtain information on the exact details, particularly on:

- **Type of exercise:** Can the option right be exercised permanently (American option) or only at the exercise date (European option)?
- **Subscription ratio:** How many warrants are required to maintain the value of the underlying asset?
- **Exercise:** Supply of the underlying asset or cash compensation?
- **Maturity:** When does the right expire? Please note that the investment company or the Bank will not exercise your option rights without your express order.
- **Last trading day:** This often occurs some time before the maturity date so that it cannot be readily assumed that the warrant can actually be sold until the maturity date.

h. Forward transactions in securities on the stock exchange (option and forward contracts)

The high profit opportunities of option and forward transactions are faced by particularly high risks of loss. As your investment company, we consider it our task to also inform you about the related risks before you conclude any option or forward contracts.

Purchase of options

This means the purchase (opening = purchase for opening, long position) of calls (call options) or puts (put options) by means of which you acquire the claim for delivery or acceptance of the underlying asset and/or, should this be excluded, like with index options, the claim for payment of a monetary amount that is calculated based on the positive difference between the price taken as a basis for the acquisition of the option right and the market price upon exercise. With options of the American type, this right can be exercised during the entire agreed term; with options of the European type, it can be exercised at the end of the agreed term. You pay the option price for the grant of the option right (option writer premium); if the price changes contrary to your expectations about the purchase of the option, the value of your option right may decline and may even become completely worthless by the end of the agreed term. Your risk of loss is therefore the price you paid for the option right.

Sale of option contracts and purchase and/or sale of unconditional futures contracts

Sale of calls

This means the sale (opening = sale for opening, short position) of a call (call option), where you undertake to deliver the underlying asset at a fixed price at any time during (American-type call options) or at the end of the agreed term (European-type call options). You receive the option price for the assumption of this obligation. If the prices increase, you must accept the risk of delivering the underlying asset at the agreed price even if the market price is significantly higher than that price. Your risk of loss, which cannot be determined in advance and is generally unlimited, is that difference. If you do not own the underlying assets (**uncovered short position**), you will need to purchase them at the cash market at the time of delivery (stock-up transaction), and, in this case, your **risk of loss cannot be determined in advance**. If you do own the underlying assets, you are protected from stock-up losses and also able to deliver promptly. Since such assets must be kept blocked until the expiration date of your option transaction, however, you will not be able to dispose of them during that time, which means you cannot sell them to protect yourself against falling prices.

Sale of puts

This means the sale (opening = sale for opening, short position) of a put (put position), where you undertake to accept the underlying asset at a fixed price at any time during (American-type put options) or at the end of the agreed term (European-type put options). You receive the option price for the assumption of this obligation. If the prices fall, you must accept the risk of accepting the underlying asset at the agreed price even if the market price is significantly lower than that price. That difference also constitutes your **general risk of loss that cannot be determined in advance, which results from the exercise price minus the option writer premium**. An immediate sale of the assets will be possible only at a loss. However, if you do not consider the immediate sale of the assets and wish to keep them, you will need to take the expenses of the required financial means into account.

Purchase and/or sale of unconditional futures contracts

This means the purchase and/or sale at a specified time, where you accept the obligation to accept and/or deliver the underlying asset at a fixed price at the end of the agreed term. If the prices rise, you must accept the risk of delivering the underlying asset at the agreed price even if the market price is significantly higher than that price. If the prices fall, you must accept the risk of accepting the underlying asset at the agreed price even if the market price is significantly lower than that price. Such difference is your risk of loss. In the case of an obligation to purchase, you must have all the necessary cash available at maturity. If you do not own the underlying assets (**uncovered short position**), you will need to purchase them at the cash market at the time of delivery (stock-up transaction), and, in this case, your **risk of loss cannot be determined in advance**. If you do own the underlying assets, you are protected from stock-up losses and also able to deliver promptly.

Transactions with settlement of differences

If the delivery or acceptance of the underlying asset is not possible in a forward transaction (e.g. with index options or index futures), you are obliged, if your market expectations have not been met, to pay a cash settlement based on the difference between the underlying price at the time of conclusion of the option or forward contract and the market price upon exercise or maturity. This constitutes your **risk of loss that cannot be determined in advance and is generally unlimited**; in this case, you must always take the liquidity to cover this transaction into account.

Provision of collaterals (margins)

For uncovered sales of options (opening = sale for opening, uncovered short position) and/or purchase or sale at a specified date (future transactions), the provision of collaterals in the form of so-called margins is required. You are obliged to provide such collaterals both upon opening and where required (price developments contrary to your expectations) during the entire term of the option and/or forward contract. Should you not be able to provide additional collaterals required, we are obliged, unfortunately, to close open positions immediately and use any already provided collaterals to cover the transaction in accordance with item 5(1) of the "Special conditions for stock market and over-the-counter option and forward transactions".

Closing positions

When trading in American-type options and forward contracts, you can liquidate your position even before the maturity date (closing).

However, do not rely on this option always being available. It always very strongly depends on the market conditions and, under difficult market conditions, the conclusion of transactions might only be possible at an unfavourable market price, which may lead to further losses.

Other risks

Options include both risks and obligations – forward contracts excluding obligations – with a short term and defined maturity and/or delivery dates. This and the speed of these types of transactions result in the following additional risks in particular:

- Options that are not exercised in due time will expire and become worthless.
- If any required additional collaterals are not provided in due time, we will close your position and exploit the collaterals provided up to that point, without prejudice to your obligation to settle any outstanding balances.
- With option writer positions (short position), we will take the measures required for you without informing you in advance in case of allocation. Securities allocated based on the exercise of puts will be sold by us if the cover is not sufficient.
- Should you enter into forward transactions in foreign currency, an unfavourable development at the currency market can increase your risk of loss.

i. Money market instruments

Definition

The money market instruments include securitised money market instruments and borrowings such as certificates of deposit (CD), medium term bonds, global note facilities, commercial papers and all notes with a capital term of approx. five years and fixed interest rates of up to approx. one year. Moreover, money market transactions include genuine repo agreements and transactions.

Income and risk components

The income and risk components of the money market instruments largely correspond to such of the "bonds/ debentures / notes". Distinctive features apply to the liquidity risk.

Liquidity risk

There is typically no regulated secondary market for money market instruments. Permanent saleability can thus not be guaranteed. The liquidity risk becomes of secondary importance if the issuer guarantees the repayment of the invested capital at any time and has the necessary solvency.

Money market instruments – in simple terms

Certificates of deposit: Money market securities with terms of usually 30 to 360 days that are issued by banks.

Medium term bonds: Money market securities with a term of up to 5 years that are issued by banks.

Commercial papers: Money market instruments, short-term promissory notes with terms between 5 and 270 days that are issued by large companies.

Global note facility: Variation of a commercial paper facility that permits the issue of the commercial papers at the same time in the USA and in European markets.

Notes: Short-term capital market securities, terms of usually 1 to 5 years.

j. Structured products

“Structured investment vehicles” are investment vehicles the earnings and/or capital repayments of which are often not fixed, but depend on specific future events or developments. Furthermore, such investment vehicles may be structured e.g. so that the product can be terminated early by the issuer upon the achievement of objectives determined in advance or that automatic termination is generally possible.

Individual product types are described below. To describe these product types, usual collective names are used, which are, however, not uniformly used at the market. Due to the various connecting, combination and payment options of these investment vehicles, different structures have developed whose selected designations do not always uniformly follow the relevant structures. It is therefore always required to check the specific product conditions. Your customer adviser will inform you about the various structures of these investment vehicles.

Risks

When the terms provide for payments of interest and/or dividends, such payments may depend on future events or developments (indexes, baskets, individual shares, certain prices, commodities, precious metals, etc.) and may therefore be reduced or even eliminated in the future.

Capital repayments may depend on future events or developments (indexes, baskets, individual shares, certain prices, commodities, precious metals, etc.) and may therefore be reduced or even eliminated.

With regard to interest and/or dividend payments as well as capital repayments, interest rate, currency, corporate, industry, country and credit risks (potentially missing claims for separation and segregation) and/or fiscal risks must be taken into account in particular.

Irrespective of any existing interest rate, profit or capital guarantees, the risks according to items 1) to 3) may lead to high price fluctuations (price losses) during the term and/or make sales during the term complicated and/or impossible.

Interest spread security products (constant maturity swap)

These products structured as debentures are initially provided with a fixed coupon. After this fixed-interest phase, the products are converted to variable interest. The coupon, which is mostly presented on an annual basis, depends on the current interest rate situation (e.g. yield curve). These products can additionally be provided with a target interest variation, i.e. if a target interest determined in advance is achieved, the product is terminated early.

Income

The investor usually achieves a higher coupon in the fixed interest rate phase than the one paid for classic bonds at the market. In the variable interest rate phase, he has the chance to achieve higher coupons than with fixed interest rate bonds.

Risk

Due to developments in the market, prices may fluctuate during the term. Such fluctuations may be significant depending on the interest rate development.

Guarantee certificates

With guarantee certificates, the nominal initial value or a specific percentage thereof is repaid at maturity, irrespective of the underlying asset's development (“minimum repayment”).

Income

The income to be generated from the performance of the underlying asset may be limited by a maximum repayment amount set out in the certificate's conditions or other limitations of the participation in the underlying asset's performance. The investor is not entitled to dividends and similar distributions of the underlying asset.

Risk

The value of the certificate may fall below the agreed minimum repayment during the term. However, at the end of the term, the value will usually amount to the minimum repayment. The minimum repayment depends on the issuer's credit rating.

Twin-win certificates

Twin-win certificates are paid out a redemption amount by the issuer at the end of the term, which depends on the performance of the underlying instrument. The certificates are provided with a barrier. Should the barrier not be reached or undercut (usually) during the term of the twin-win certificates, the investor participates in the absolute performance of the underlying instrument starting from the basic price fixed by the issuer. This means that losses of the underlying instrument can also be converted into gains of the certificate. If the barrier is reached or undercut during the term of the twin-win certificates, the redemption is made at least in accordance with the development of the underlying instrument. If so determined by the issuer, a disproportionate participation in the price development of the underlying instrument may be stipulated above the basic price. However, the maximum redemption amount may be limited.

Income

If the barrier is not reached, the investor may also benefit from negative performances of the underlying instrument, as he participates in the absolute performance. Losses of the underlying instrument can thus be converted into gains. Due to various influencing factors (e.g. fluctuation range of the underlying instrument, residual term, distance of the underlying instrument to the barrier), the certificate can respond stronger or weaker to fluctuating values of the underlying instrument.

Risk

Twin-win certificates are risky instruments of asset investment. If the price of the asset underlying the relevant twin-win certificate shows an unfavourable development, a significant part of or the entire invested capital may be lost.

Express certificates

An express certificate participates in the development of the underlying instrument with the option of early repayment. If the underlying instrument meets the threshold condition stipulated by the issuer at one of the chaining dates, the certificate ends early and is automatically repaid by the issuer at the redemption amount valid at the relevant chaining date. If the underlying instrument does not meet the stipulated threshold condition at the last chaining date either, the redemption shall be made at the closing price of the instrument underlying the certificates identified at the end of the term/last chaining date. If, in this case, the issuer has determined a barrier at the start of issue of the certificate and the price of the underlying instrument has neither reached nor breached the barrier during the period under review, the redemption is made at least at a minimum rate defined by the issuer.

Income

Express certificates provide the option of early realisation of the positive performance of the underlying instrument. Even if the stipulated threshold condition is not met, a minimum repayment may be made, unless the barrier is reached or breached. Due to various influencing factors (e.g. fluctuation range of the underlying instrument, residual term, distance of the underlying instrument to the barrier), the certificate can respond stronger or weaker to fluctuating values of the underlying instrument.

Risk

Express certificates are risky instruments of asset investment. If the price of the asset underlying the relevant express certificate shows an unfavourable development, a significant part of or the entire invested capital may be lost.

Discount certificates

With discount certificates, the investor receives the underlying asset (e.g. underlying share or index) with a discount on the current price (safety margin), but only participates in a positive performance of the underlying asset up to a specific ceiling of the underlying asset (cap or reference price). At the end of the term, the issuer has the option to either repay the certificate at maximum value (cap) or deliver shares and/or – if an index is used as an underlying asset – pay a cash compensation corresponding to the index value.

Income

The difference between the discounted purchase price of the underlying asset and the price ceiling determined by the cap constitutes the possible income.

Risk

If the prices for the underlying asset strongly decline, shares are delivered at the end of the term. (The counter value of the delivered shares will be lower than the purchase price at that time.) As the allocation of shares is possible, please note the risk information on shares.

Bonus certificates

Bonus certificates are debentures where, if certain preconditions are met, a bonus or, where applicable, the better performance of an underlying asset (individual shares or indexes) is paid at the end of the term, in addition to the nominal value. Bonus certificates have a fixed term. The certificate terms regularly document the payment of a monetary amount or the delivery of the underlying asset at the end of the term. Type and amount of the repayment at the end of the term depend on the performance of the underlying asset. For a bonus certificate, a starting level, a barrier beneath the starting level and a bonus level exceeding the starting level are determined. If the underlying asset corresponds to the barrier or falls short of it, the bonus forfeits and the repayment is made in the amount of the underlying asset. Otherwise, the minimum repayment results from the bonus level. The bonus is paid out at the end of the certificate's term in addition to the initially paid-in capital for the nominal value of the certificate.

Income

With a bonus certificate, the investor acquires the claim vis-à-vis the issuer for the payment of a monetary amount that depends on the performance of the underlying asset. The profit depends on the development of the underlying asset.

Risk

The risk depends on the underlying asset. If the issuer becomes insolvent, there is no claim for separation or segregation with regard to the underlying asset.

Cash or share bonds

They consist of three components whose risk is borne by the bond purchaser: A bond (bond component) is purchased, the interest rate of which includes an option writer premium. This structure thus leads to a higher interest rate than a similar bond with the same term. The bond may be redeemed either in cash or in shares, depending on the price trend of the underlying shares (share component).

The bond purchaser is therefore the writer of a put option (option component) that sells to a third party the right to transfer shares to him; in so doing, the bond purchaser agrees to accept the consequences of the share price changes in a way that is contrary to his interests. This means that the bond purchaser bears the risk of the price development and receives the premium for doing so, which essentially depends on the volatility of the underlying share. If the bond is not held to maturity, that risk is compounded by the interest rate risk. A change in interest rates thus affects the price of the bond and thus the net profit of the bond with regard to its term.

Please note the respective risk information in the sections credit risk, interest rate risk, price risk of the share.

Index certificates

Index certificates are debentures (mostly listed) and provide investors with the opportunity to participate in a specific index without the need to own the assets included in the index themselves. The underlying index is usually reflected 1:1; any changes in the relevant index are taken into account.

Income

With an index certificate, the investor acquires the claim vis-à-vis the issuer for the payment of a monetary amount that depends on the state of the underlying index. The profit depends on the development of the underlying index.

Risk

The risk depends on the underlying assets of the index.

If the issuer becomes insolvent, there is no claim for separation or segregation with regard to the underlying assets.

Basket certificates

Basket certificates are debentures and provide investors with the opportunity to participate in the performance of a specific basket of securities without the need to own the securities included in the basket themselves. The issuer is obliged to compile the underlying basket. Within the basket of securities, the included securities may be weighted equally or differently. The composition may be adjusted at fixed dates (e.g. annually).

Knock-out certificates (turbo certificates)

The name knock-out certificates describes such certificates which document the right to purchase and/or sell a specific underlying asset at a specific price if the underlying asset does not reach the stipulated price threshold (knock-out threshold) during the term. Once the threshold is reached, the investment ends early and most of it will generally be lost. Depending on the price trend of the underlying asset, a distinction is made between knock-out long certificates, which bank on a bull market, and knock-out short certificates, which are especially designed for bear markets. Besides normal knock-out certificates, "leveraged" knock-out certificates are issued, usually under the name of "turbo certificates" (or leverage certificates). The leverage (turbo) causes that the value of the turbo certificate, as a percentage, responds stronger to the price movement of the relevant underlying instrument and may rise, but also fall more sharply. Therefore, higher gains can be earned through smaller investments, but the risk of loss is increased as well.

Income

Income may be gained from the positive difference between cost price and/or market price and exercise price. (Option to purchase the underlying asset at the lower exercise price and/or sell it at the higher exercise price).

Risk

If the knock-out threshold is reached before maturity, either the certificate expires and becomes worthless or an estimated residual value is paid out (the product is "knocked out"). In the case of certain issuers, it suffices to knock out the certificate if the price reaches the knock-out level during the trading day (intraday). The closer the current market price is quoted to the basic price, the higher is the leverage effect. At the same time, there is a higher risk that the knock-out level is undercut and either the certificate becomes worthless or the identified residual amount is paid out.

Spread certificates

Spread certificates offer investors the possibility of sharing disproportionately in the performance of the underlying asset in expectation of a share price or index varying within a certain price range (spread) defined by a starting point and a stopping point.

Income

Income may be gained from the disproportionate participation in the price development of the underlying asset.

Risk

However, if the closing price identified at the valuation date is below the starting point, the certificate only replicates the price development of the underlying asset. If the price slumps below the stopping point, the investor receives a fixed maximum repayment amount at the end of the term, without being able to participate in any price increase.

k. Hedge funds, CTA

Hedge funds

(Hedge funds, funds of hedge funds, hedge funds index certificates and other products with hedging strategies as basic investment)

General information

Hedge funds are funds that are not subject to any and/or are subject to only little restrictions regarding the investment principles. By utilising all investment vehicles, they strive for the multiplication of their capital by alternative and partly non-transparent investment strategies.

Examples for investment strategies:

- **Long/Short:** Undervalued securities are purchased and, at the same time, overvalued securities are sold short.
- **Event-Driven:** The attempt is made to exploit specific corporate results such as mergers, acquisitions, reorganisations or insolvencies.
- **Global macro:** The attempt is made to identify and exploit inefficiencies at the markets through the macroeconomic analysis of the most important developments in economy and politics.

Funds of hedge funds are funds investing in individual hedge funds. Hedge fund index certificates are debt securities whose performance and earnings trend depend on the average development of several hedge funds that are summarised into an index as calculation basis. The investor benefits from the greater risk spreading resulting from funds of hedge funds and hedge funds index certificates.

Income and risk components

Hedge funds offer the chance for very high returns, but also carry a correspondingly high risk of capital loss. The performance of hedge fund products is particularly influenced by the following factors, which result in opportunities and risks:

- Hedge funds tend to develop independently from the development of the international stock and bond markets. Depending on the hedge fund strategy, the general market development may be intensified or a significantly contrasting development may occur.
- The development of hedge funds is mainly influenced by the sub-market defined by it.
- Due to its composition, the assets of a hedge fund can have an increased range of fluctuations, i.e. the unit prices may be subject to significant upward and downward fluctuations, even within short periods of time. In extreme cases, total loss may occur with non-guaranteed hedge fund products.
- The focus on one or only few strategies increases the risk additionally – such risk may be reduced through the spread of funds of hedge funds or hedge fund index certificates.
- The fund of hedge funds manager selects the individual funds and/or their composition depending on the pursued risk/earnings profile of the fund or an index committee carries out this selection according to a fixed country and sector allocation.
- Underlying hedge funds cannot always be transparent to the fund of funds management/index committee.

Liquidity risk

Due to complex hedge fund strategies and the elaborate management of the hedge funds, it takes more time to determine the price of a hedge fund product compared to traditional funds. Hedge fund products are therefore also less liquid than traditional funds. For the most part, the prices are determined monthly and not daily, and units are thus often redeemed only once a month. To be able to return the units at that time, the investor must have declared the return quite some time prior to the redemption date. The unit value can change significantly between the time redemption is declared and the performance of the redemption without the investor having the option to respond, as his redemption declaration cannot be revoked. Redemption details depend on the relevant product. The limited liquidity of the individual funds and the instruments used by them can thus lead to limited tradability of the hedge fund product.

CTA

Most CTAs use fully automated trading systems for trading with forward transactions, i.e. computer programs that make all decisions independently. The goal is to forecast certain trends and future market developments based on studies from the immediate past up to a certain degree.

Income

Income is composed of the profitable fully automated investment resulting from the exploitation of identified trends.

Risk

The risk is that the forecast trends do not materialise or that the automated trading system does not identify any trends.

I. Forward exchange transactions

Definition

A forward exchange transaction comprises the firm commitment to buy or sell a specific foreign currency amount at a later point in time or during a time period at a price defined upon conclusion. The delivery and/or receipt of the counter currency occurs with the same value date.

Income

The income (profit/loss) for the speculative user of forward exchange transactions results from the difference between the foreign exchange parities during or at maturity of the forward transaction, under the conditions of this forward transaction. Use for hedging purposes means the definition of an exchange rate, so that the cost or income of the hedged transaction is neither increased nor reduced by exchange rate changes in the interim.

Currency risk

With hedging transactions, the foreign exchange risk of forward exchange transactions is that the purchaser/seller could buy/sell the foreign currency more favourably during or at maturity of the forward exchange transaction than upon conclusion of the transaction, or with open transactions, the risk is that he must buy/sell less favourably. The risk of loss may significantly exceed the original contract value.

Credit risk

The credit risk of foreign exchange transactions is the risk of the partner's insolvency, i.e. a possible, temporary or ultimate inability to fulfil the foreign exchange transaction and therefore the necessity to obtain possibly expensive subsequent cover on the market.

Transfer risk

The transfer options of individual currencies may be limited specifically by the relevant home country of the currency. This would endanger the proper settlement of the foreign exchange transaction.

m. Currency swaps

Definition

A currency swap is the exchange of two currencies over a specified time period. The interest rate difference of the two involved currencies is taken into account by premiums and discounts in the re-exchange rate. The delivery and/or receipt of the counter currency occurs with the same value date.

Income

The income (profit/loss) for the user of currency swaps results from the positive/ negative development of the interest rate difference and may be generated during the term of the currency swap if an offset transaction is concluded.

Credit risk

The credit risk of foreign exchange swaps is the risk of the partner's insolvency, i.e. a possible, temporary or ultimate inability to fulfil the foreign exchange swap and therefore the necessity to obtain possibly expensive subsequent cover on the market.

Transfer risk

The transfer options of individual currencies may be limited specifically by the relevant home country of the currency. This would endanger the proper settlement of the currency swap.

n. Interest rate swaps (IRS)

Definition

An interest rate swap regulates the exchange of differently defined interest liabilities on a fixed nominal amount between two contracting parties. This generally involves the exchange of fixed against variable interest payments. Therefore, there is only an exchange of interest payments, but no flow of capital.

Income

The purchaser of the IRS (pays fixed interest rates) benefits from an increase in interest rates. The seller of the IRS (receives fixed interest rates) benefits from a fall in interest rates. The income from an IRS cannot be determined in advance.

Interest rate risk

The interest rate risk results from the uncertainty of the future changes to the market interest rate level. The purchaser/seller of an IRS is exposed to a risk of loss if the market interest rate level declines/increases.

Credit risk

The credit risk encountered with IRS is derived from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions in the market necessary.

Special conditions for IRS

IRS are not standardised. The settlement details must be contractually agreed in advance. They are customised products. It is thus of particular importance to obtain information on the exact conditions, particularly on:

- Nominal amount
- Term
- Interest rate definitions

Special form: Constant maturity swap (CMS)

Definition:

A constant maturity swap regulates the exchange of differently defined interest liabilities on a fixed nominal amount between two contracting parties. This generally involves the exchange of a variable money market interest rate (e.g. 3 month EURIBOR) for a capital market interest rate (e.g. 10-year EUR-IRS). However, this capital market interest rate does not remain fixed during the entire term, but is adjusted in regular intervals.

Income

The purchaser of the CMS (payer of the capital market interest rate) gains his income in the case of a flattening yield curve, i.e. if e.g. the capital market interest rates fall and the money market interest rates rise. The income from a CMS cannot be determined in advance.

Interest rate risk

The interest rate risk results from the uncertainty of the future changes to the interest rate level of the capital market and the money market. The purchaser/seller of a CMS is exposed to a risk of loss if the yield curve steepens/flattens.

Special form: CMS spread linked swap

Definition:

With a CMS spread linked swap, differently defined interest rate liabilities are exchanged again. Such swaps generally involve the exchange of a money market interest rate (e.g. the 3 month EURIBOR; or alternatively a fixed interest rate for the entire term of the swap), on the one hand, and the difference between two CMS (e.g. the 10-year EUR CMS minus the 2 year CMS), often increased by a certain multiple (e.g. x 2), on the other hand. The CMS spread is often provided with a fixed coupon for a specific initial term.

Income

The purchaser of the CMS spread linked swap (payer of the CMS difference) gains his income in the case of a flattening of both capital market interest rate curves involved (e.g. 10-year EUR IRS and 2-year EUR IRS). The income from a CMS spread linked swap cannot be determined in advance.

Interest rate risk

The interest rate risk results from the uncertainty about the future changes to the interest rate level of the shorter-term capital market compared with the longer-term capital market with regard to the interest rate level of the money market (and/or the amount of the fixed interest rate).

o. Forward rate agreements (FRA)

Definition

The forward rate agreement serves to agree on interest rates of future interest periods in advance. As trading takes place at the interbank market and not at the stock exchange, there is no standardisation. Unlike the closely related interest rate futures, FRAs are customised investment products in terms of principal amount, currency and interest period.

Income

The purchaser/seller of the FRA has fixed the interest rate by the purchase/sale. If the reference interest rate exceeds the agreed interest rate (FRA price) at the agreed maturity date, the purchaser receives a settlement payment. If the reference interest rate is below the agreed interest rate (FRA price) at the agreed maturity date, the seller receives a settlement payment.

Interest rate risk

The interest rate risk results from the uncertainty of the future changes to the market interest rate level. Generally, this risk is all the higher, the more pronounced the increase/decrease in interest rates is.

Credit risk

The credit risk encountered with FRAs is derived from the possibility of counterparty default, losing positive cash values and/or making more expensive covering transactions in the market at a less favourable price necessary.

Special conditions for FRAs

FRAs are not standardised. They are customised products. It is thus of particular importance to obtain information on the exact conditions, particularly on:

- Nominal amount
- Term
- Interest rate definitions

p. Interest rate futures

Definition

Interest rate futures are exchange-traded forward contracts on short-term investments, money market or capital market instruments, which are standardised in terms of maturity and contract size. The return of an investment (interest rate and/or price) can thus be fixed in advance with an interest rate future. Interest rate futures also entail mandatory obligations that must be fulfilled irrespective of the further development and the occurrence of the risks discussed below.

Income

The income (profit/loss) for the speculative user of interest rate futures transactions results from the difference between the interest rates and/or prices at maturity of the forward transaction, under the conditions of this forward transaction. If used for hedging purposes, the financial risk of existing or future positions is reduced.

Interest rate risk

The value of an interest rate future mainly depends on the development of the underlying instrument's return. Therefore, the risk position of a purchaser is comparable with the risk position of an owner of the underlying instruments. The risk results from the uncertainty of the future changes to the market interest rate level.

The interest rate risk encountered by the purchaser/seller of a futures contract is the obligation to put up further margin or to complete the deal upon maturity, if interest rates rise/fall. Generally, this risk is all the higher, the more pronounced the increase/decrease in interest rates is. The resulting loss potential may be many times higher than the original capital invested (sum paid in).

Liquidity risk

The liquidity risk of futures is that the closing (sale/repurchase) of the futures may cause noticeable and unfavourable price fluctuations in certain markets with an above-average order situation.

q. Over-the-counter (OTC) option transactions

Standard option – plain vanilla option

The purchaser of the option acquires the temporary right to purchase (call) or sell (put) the underlying asset (e.g. securities, foreign exchange, etc.) at a fixed exercise price and/or (e.g. with interest options) the claim for a settlement payment calculated from the positive difference between exercise and market price at the time of exercise. By writing (opening) options, you undertake to fulfil the rights of the option purchaser.

Options may stipulate different exercise conditions:

American type: during the entire term.

European type: at the end of the term.

Exotic options

Exotic options are financial derivatives derived from standard options (plain vanilla options).

Special form: barrier option

In addition to the exercise price, there is a threshold value (barrier), which activates (knock-in option) or deactivates (knock-out option) the option when reached.

Special form: digital (payout) option

Option with a fixed payout amount (payout), which is received by the purchaser of the option against the payment of a premium if the price (interest rate) of the underlying asset is below or above (depending on the option) the threshold value (barrier).

Income

The holder of options receives the income when the price of the underlying asset rises above the exercise price of the call and/or falls below the exercise price of the put and he can exercise or sell his option (plain vanilla option, activated knock-in option, non-deactivated knock-out option). With a non-activated knock-in option and/or a deactivated know-out option, the option right lapses and the option becomes worthless. The holder of digital (payout) options receives the income when the threshold value is reached during the term and/or upon maturity, so that the payout occurs.

General risks

The value (price) of options depends on the exercise price, the development and volatility of the underlying security, the term, the interest rates and the market situation. The capital investment (option premium) can therefore decline so far that it may become completely worthless. If the price of the underlying asset does not develop according to the expectations of the seller of an option, the resulting loss potential can, in theory, be unlimited (plain vanilla option, barrier option) and/or reach the amount of the agreed payout (digital option). Please note, in particular, that options not exercised in due time will expire on the expiration date and will therefore be erased from the accounts as worthless. Please note: The Bank will not exercise your option rights without your express order.

Specific risks of over-the-counter option transactions

Over-the-counter options are usually not standardised. They are mainly customised instruments. It is thus of particular importance to obtain information on the exact details (type of exercise, exercise and maturity). The credit risk when purchasing OTC options lies in the risk of losing the premium already paid if the business partner defaults and thereby being indirectly forced to obtain expensive subsequent cover on the market. For over-the-counter options as customised products, a regulated (secondary) market typically does not exist. Permanent availability can thus not be guaranteed.

r. Currency options

Definition

The purchaser of a currency option acquires the right, but not the obligation, to either buy or sell a certain amount of currencies at a specified price and time and/or period of time. The seller (writer) of the option grants the relevant right. The purchaser pays a premium to the seller for this option. There are the following types of options:

With the purchase of an option on a call basis, the purchaser acquires a right to purchase a defined amount of a specific currency at a delivery price defined in advance (base price or exercise price) as at/prior to a specific date (delivery date).

With the sale of an option on a call basis, at the request of the option purchaser, the seller commits to deliver/sell a defined amount of a specific currency at the base price on/prior to a specific date.

With the sale of an option on a put basis, the purchaser acquires the right to sell a defined amount of a specific currency at the base price as at/prior to a specific date.

With the sale of an option on a put basis, the seller undertakes, at the request of the option purchaser, to purchase a defined amount of a specific currency at the base price as at/prior to a specific date.

Income

The income of a call option can result from the market price of the currency becoming higher than the exercise price to be paid by the purchaser, whereby the purchase price (=premium) is deducted. The purchaser then has the option to purchase the foreign currency at the exercise price and immediately resell it at the market price. The seller of the call option receives a premium for the sale of the option. The same applies accordingly to put options with contrasting currency developments.

Risks when purchasing an option

Risk of total loss of the premium

The risk of purchasing currency options is the total loss of the premium, which must be paid irrespective of whether the option will be exercised in the future.

Credit risk

The credit risk when purchasing currency options lies in the risk of losing the premium already paid if the business partner defaults and thereby being indirectly forced to obtain expensive subsequent cover on the market.

Currency risk

The risk of currency options is that the currency parity does not develop in the manner that you have based your buying decision on by the time of the option expiring. In extreme cases, this may cause the total loss of the premium.

Risks when selling an option

Currency risk

The risk of selling currency options is that the market price of the foreign currency does not develop in the manner that the seller has based his decision on by the time of the option expiry. The resulting loss potential is not limited for written options.

The premium of the currency option depends on the following factors:

- Volatility of the underlying currency rate (measure for the fluctuation margin in the exchange rate)
- Selected exercise price
- Term of the option
- Current exchange rate
- Interest of the two currencies
- Liquidity

Transfer risk

The transfer options of individual currencies may be limited specifically by the relevant home country of the currency. This would endanger the proper settlement of the transaction.

Liquidity risk

For currency options as customised products, a regulated secondary market typically does not exist. Permanent saleability can thus not be guaranteed.

Special conditions for currency options

Currency options are not standardised. It is thus of particular importance to obtain information on the exact details, particularly on:

Type of exercise: Can the option right be exercised permanently (American option) or only at the exercise date (European option)?
Maturity: When does the right expire? Please note that the Bank will not exercise your option rights without your express order.

s. Interest rate options

Definition

Interest rate options constitute an agreement on an upper and lower interest limit or an option for interest rate swaps. They either serve

- a) Hedging purposes or
- b) To achieve gains on a speculative basis.

It is distinguished between calls and puts. Common special forms are: Caps, floors or swaptions, etc. The purchaser of a cap hedges a fixed maximum interest rate ceiling fixed by the exercise price for future borrowings. In a speculative case, the value of the cap increases with rising interest rates. The sale of a cap can only be used as a speculative instrument; the seller receives the premium and undertakes to make settlement payments. With floors, the purchaser secures a minimum interest on a future investment. In a speculative case, the value of the floor increases with falling interest rates.

ad a) for hedging purposes

Depending on the agreed reference term, the current three-month or six-month market interest rate is compared with the agreed strike price every three or six months. Should the market price be higher than the exercise price, a settlement payment is made to the cap holder.

ad b) To achieve gains on a speculative basis

The value of the cap increases with rising interest rates, whereby the forward interest rates (currently traded future interest rates) are relevant, rather than the current interest rates.

The same applies accordingly to the purchase/sale of a floor. Here, the purchaser secures a lower interest limit, while the seller holds a speculative position. A swaption is an option on an interest rate swap (IRS = agreement on the swap of interest payments). A basic distinction is made between payers (=fixed payer) and receivers swaption (receiver of the fixed side with IRS). Both option forms may be purchased and sold. Furthermore, a distinction is made between two different types of performance with different risk profiles:

Swaption with swap settlement

The purchaser becomes a party to the swap at the time of exercise of the swaption.

With the purchase of a payer's swaption, the purchaser acquires the right to pay the fixed interest rate agreed in the exercise price, on the basis of a specific nominal amount, and receive variable interest rate payments in exchange for this, on the delivery date.

With the sale of a payer's swaption, the seller undertakes to receive the fixed interest rate agreed in the exercise price, on the basis of a specific nominal amount, and make variable interest rate payments in exchange for this, on the delivery date.

With the purchase of a receiver's swaption, the purchaser acquires the right to receive the fixed interest rate agreed in the exercise price, on the basis of a specific nominal amount, and make variable interest rate payments in exchange for this, on the delivery date.

With the sale of a receiver's swaption, the seller undertakes to pay the fixed interest rate agreed in the exercise price, on the basis of a specific nominal amount, and receive variable interest rate payments in exchange for this, on the delivery date.

Swaption with cash settlement

At the time of exercise of the swaption, the purchaser receives the difference between the cash value of the swaps and swaption interest rate and/or current market interest rate.

Income

The holder of interest rate options receives his income from the market interest rate level exceeding the strike price of the cap and/or falling below the strike price of the floor at the exercise date. With swaptions, income is gained if the market interest rate level is above the agreed exercise price with payers swaptions and/or is below the agreed exercise price with receivers swaptions at the exercise date. The received option premium remains with the seller, irrespective of whether the option is exercised or not.

Interest rate risk

The interest rate risk results from possible future changes to the market interest rate level. The purchaser/seller of an interest rate option is exposed to an interest rate risk in the form of a price loss if the market interest rate level rises/falls. Generally, this risk is all the higher, the more pronounced the increase/decrease in interest rates is. The resulting loss potential is not limited for the seller.

The premium of the interest rate option depends on the following factors:

- Interest volatility (fluctuation margin of the interest)
- The selected exercise price
- Term of the option
- Market interest rate level
- Current financing costs
- Liquidity

These factors may effect that – although your expectations with regard to the interest rate development of the option have been met – the price of the option remains the same or declines.

Credit risk

The credit risk encountered when purchasing interest rate options is derived from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions in the market necessary.

Risk of total loss upon purchase

The risk of purchasing interest rate options is the total loss of the premium, which must be paid irrespective of whether the option will be exercised in the future.

Special conditions for interest rate options

Interest rate options are not standardised. They are exclusively customised products. It is thus of particular importance to obtain information on the exact details, particularly on:

Type of exercise: Can the option right be exercised permanently (American option) or only at the exercise date (European option)?

Exercise: Supply of the underlying asset or cash compensation?

Maturity: When does the right expire? Please note that the investment company or the Bank will not exercise your option rights without your express order.

t. Cross currency swap (CCS)

Definition

A cross currency swap governs both the exchange of differently defined interest liabilities and also of different currencies at a fixed nominal amount between two contractual partners. This generally involves the exchange of fixed interest payments in two different currencies. Both interest payments may of course also take place within variable interest obligations. The payment flows occur in different currencies on the basis of the same capital amount, which is fixed at the applicable spot exchange rate on the contract date. Besides the exchange of interest rates payable or interest rates receivable, there is an exchange of capital both at the beginning (Initial Exchange) and at the end (Final Exchange). In accordance with the requirements of the individual business partners, the Initial Exchange may be omitted.

Income

The income from a CCS cannot be determined in advance. If the exchange rate and the interest rate difference develop positively, income may be generated when the CCS is cancelled early. If the CCS is concluded to improve the interest rate difference, income can be generated from the lower interest rates of a different currency. This income may, however, be offset by any currency losses. Should the currency ratio develop positively, the income may even be improved.

Interest rate risk

The interest rate risk results from the uncertainty of the future changes to the market interest rate level. The purchaser/seller of a CCS is exposed to a risk of loss if the market interest rate level declines/increases.

Currency risk

The currency risk results from the uncertainty about the future changes of the relevant exchange rates of the currencies involved. It is particularly important that with a CCS with Final Exchange, the foreign exchange risk not only exists if a contracting party defaults, but also during the entire term.

Credit risk

The credit risk with buying/selling CCS lies in the risk of being forced to obtain subsequent cover on the market if the business partner defaults.

Special conditions for CSS

CSS are not standardised. They are customised products. It is thus of particular importance to obtain information on the exact conditions, particularly on:

- Nominal amount
- Term
- Interest rate definition
- Currency definition
- Price definition
- Initial Exchange yes or no

u. Commodity swaps and commodity options with cash settlement (“commodity futures transactions”)

Commodity futures transactions are special contracts that involve rights or obligations to buy or sell certain commodities at a predetermined price and time or during a specified period. Commodity futures transactions exist, amongst others, in the different instruments described below.

General information on the individual instruments

Commodity swaps

A commodity swap is an agreement on the exchange of a number of fixed commodity price payments (“fixed amount”) against variable commodity price payments (“market price”), where there is only a cash settlement (“settlement amount”).

The purchaser of a commodity swap acquires the claim for payment of the settlement amount if the market price exceeds the fixed amount. In turn, the purchaser of a commodity swap is obliged to pay the settlement amount if the market price falls below the fixed amount. The seller of a commodity swap acquires the claim for payment of the settlement amount if the market price falls below the fixed amount. In turn, the seller of a commodity swap is obliged to pay the settlement amount if the market price exceeds the fixed amount. Both payment flows (fixed/variable) occur in the same currency and on the basis of the same nominal amount. While the fixed side of the swap has the character of a benchmark, the variable side relates to the trading price of the relevant commodities or a commodity price index that is quoted at a stock exchange or otherwise published in the commodity futures market on the relevant fixing date.

Commodity options with cash settlement

The purchaser of a commodity put option acquires the right to receive the difference between the strike price and the market price in relation to a nominal amount on any exercise date, if the market price is below the fixed amount. The purchaser of a commodity call option acquires the right to receive the difference between the strike price and the market price in relation to a nominal amount on any exercise date, if the market price is above the fixed amount.

Risks – details on the various instruments

Risk of commodity swaps and commodity options with cash settlement

If expectations are not met, the difference between the underlying price when signing the agreement and the current market price when the transaction reaches maturity must be paid. This difference constitutes the loss. The maximum amount of the loss cannot be determined in advance. It may exceed any collaterals provided.

Risk when purchasing commodity options - loss of value

A price change to the underlying asset (e.g. a commodity) based on the option as subject matter of the contract may reduce the option's value. With a call option, the value is reduced if the price of the underlying subject matter of the contract falls; with a put option, the value is reduced if this price increases. However, the options may also decline in value if the price of the underlying asset does not change because the value of the option depends on further price-forming factors (e.g. term or frequency and intensity of the price fluctuations of the underlying asset).

Risk when selling commodity options - leverage effect

The risk of selling commodity options is that the value of the underlying asset does not develop in the manner that the seller has based his decision on by the time of the option expiry. The resulting loss potential is not limited for written options.

General risks of commodity future transactions

Price fluctuations

The amount of the payment obligation arising from commodity future transactions is based on the prices at a specific commodity futures market.

Commodity futures markets can be subject to strong price fluctuations. Many factors pertaining to the supply and demand of the goods can influence the prices. Such pricing factors are not easy to forecast or foresee. Unforeseen events such as natural disasters, diseases, epidemics as well as official orders may affect the price as significantly as unpredictable developments, such as weather conditions, variations in harvests or delivery, storage and transport risks.

Currency risk

Commodity prices are often quoted in foreign currency. If you enter into a commodity transaction, in which your obligation or the counter-performance to be claimed by you is in a foreign currency or unit of account or the value of the subject matter of the contract is determined according to this, you are exposed to the additional foreign exchange market risk.

Closing / liquidity

Commodity futures markets are generally narrower than financial futures markets and can therefore be less liquid. You may be wholly or partially unable to liquidate a commodity futures position at the desired time due to insufficient market liquidity. Moreover, the spread between the bid and ask prices in a contract may be relatively wide. In addition, it may be difficult or even impossible to liquidate positions under certain market conditions. For example, most commodities futures exchanges are authorised to set price fluctuation limits that do not permit any bid or ask prices outside certain limits for a specified period of time. This may restrict or completely prevent the liquidation of individual positions.

Limit / stop order

Limit orders or stop loss orders are orders serving to limit the trading losses if certain market movements occur. Although such risk limitation options are permitted at most commodity futures exchanges, limit orders or stop loss orders are usually not agreed with OTC commodities.

Futures and cash market

It is of particular importance to understand the relation between the forward contract prices and the cash market prices. Although market forces can adjust the differences between the forward contract price and the cash market (spot) price of the affected commodity to the extent that the price difference can be virtually zero at the delivery date, a large number of market factors, including supply and demand, can cause that there are still differences between the forward contract price and the cash market (spot) price of the affected commodity.

Determination of the market price

Market prices are either quoted at commodities futures exchanges or are published according to normal market practice. Due to system failures, system malfunctions at the exchange or other causes, it sometimes happens that no market price can be determined for the agreed fixing date. If no regulations for an alternative determination of the market price are agreed, the calculation agent is usually authorised to determine a market price at its reasonable discretion.

v. Information on creditor participation in case of recovery or resolution of a bank (“bail-in”)

In order to create uniform regulations and instruments for the recovery and resolution of banks that apply throughout Europe, a corresponding EU Directive (Bank Recovery and Resolution Directive, “BRRD”) was passed. In Austria, this Directive was implemented by the federal act on bank recovery and resolution (“BaSAG”).

The BaSAG governs, amongst others, the participation (“bail-in”) of creditors of a bank in case of regulatory resolution. This shall prevent the use of taxpayers’ money in case of the imminent insolvency of a bank.

In case of the imminent insolvency of a bank, the responsible authority may apply various resolution instruments:

Sale of the undertaking

Assets and/or liabilities of a bank are transferred to a purchaser in whole or in part. For customers and creditors of the bank, the contractual partner and/or the debtor will change.

Bridging instrument

A public institution takes over the liabilities and/or assets of the bank affected by resolution. In this case as well, the contractual partner/debtor will change for the customers/creditors.

Spin-off

This is the so-called “bad bank” concept. Assets and/or liabilities of the affected bank are transferred to special-purpose vehicles for reduction. Here as well, the contractual partner/debtor will change for the customers/creditors.

Creditor participation (“bail-in”)

If resolution was instructed by authorities, own and borrowed capital of a bank is written off in whole or in part or converted into equity.

This approach shall stabilise the affected bank. In this case, shareholders and creditors may experience considerable losses, as their claims may be reduced to nil by the responsible authority in extreme cases, without obtaining their consent.

The following order of loss coverage is currently provided

1. Common equity (shares and other equity instruments)
2. Additional core capital (e.g. additional tier 1 issues, unsecured subordinated bonds without a fixed term with conversion and/or write-down clause)
3. Supplementary capital (e.g. supplementary and subordinated bonds – „tier 2“)
4. Unsecured subordinated financial instruments/ receivables that are not included in the additional core or supplementary capital (“tier 2“)
5. Unsecured non-subordinated financial instruments and receivables (e.g. unsecured bank bonds and certificates)
6. Lastly, deposits of companies and natural persons that are not covered by deposit protection are used

Excluded from the bail-in are deposits that are subject to deposit protection in their entirety as well as covered bonds and special assets (e.g. investment funds).

The provisions of the BRRD were enshrined in the laws of the Member States **throughout Europe**. This means that a creditor participation may be implemented e.g. with bank bonds from other EU Member States; the details of the national regulations may vary.

RISK INFORMATION:

The statutorily provided bail-in measures described may cause the **total loss** of the invested capital for the creditors of a bank. A **sale** of e.g. bonds may be more complicated and cause a considerable loss in value in the case of recovery or resolution. Even if the original **issuance documentation** or the **advertising material** of a banking product does not expressly describe the loss participation, this product may be affected by a statutory bail-in measure.

You can find further information on the website of the Oesterreichische Nationalbank:

<https://www.oenb.at/finanzmarkt/drei-saeulen-bankenunion/einheitlicher-abwicklungsmechanismus.html>

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