UniCredit Bank

CURRENCY OPTIONS

Definition

The buyer of a currency option acquires the right, but not the obligation, to buy or sell a fixed amount of the currency at a particular price at a specified date in the future or within a specified period of time. The seller (writer) of the option grants this right to the buyer. In exchange for this right the buyer pays the seller a premium. The following types of options exist:

- the buyer of the Call Option acquires the right to buy a fixed amount in a specified currency at a particular price (exercise price or strike price) on or before a particular date (expiry date);
- the seller of the Call Option guarantees to deliver or sell at the option holder's request a defined amount in a particular currency at the agreed strike price on or before a particular date;
- The buyer of a put option acquires the right to sell a fixed amount in a specified currency at a particular price (exercise price or strike price) on or before a particular date.
- The seller of a put option undertakes to buy, at the option holder's request, an agreed amount in a particular currency at the agreed strike price on or before a particular date.

Return

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

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

The same applies in the opposite direction to put options which are purchase in the expectation of rising currency rates.

Risks attached to the purchase of options

Risk of complete loss of a premium

The risk attached to the purchase of the foreign currency option consists in the complete loss of a premium which must be paid regardless of whether or not the option will be realized in future.

Credit risk

The credit risk in connection with the purchase of the currency option results from the possibility of a loss of the premium already paid in case of the counterparty's default and subsequent necessity to execute covering transactions on the market.

Currency risk

The currency risk derives from the possibility that the exchange rate will move adversely than expected by the investor upon buying the option. In the worst case the premium will be completely lost.

UniCredit Bank Czech Republic and Slovakia, a.s.

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/ Municipal Court in Prague, Section B, file 3608
Směrový kód banky / Bank Code: 2700
Swift Code: BACXCZPP

Risks attached to the sale of options

Currency risk

The risk in selling the option consists in the possibility that the value of the foreign currency will not develop, during the life of the option, as expected by the seller when making his decision.

The resulting loss is unlimited for option writers (sold option).

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

- volatility of the underlying instrument
- agreed strike price
- time remaining until maturity
- current exchange rate
- interest rate level of both currencies
- liquidity

Transfer risk

The transfer of certain currencies may be restricted, in particular as a result of exchange-control regulations in the country issuing that currency. The proper execution of the deal would then by at risk.

Liquidity risk

For currency options, as products largely customized, no organized secondary market exists. Consequently, it cannot be guaranteed that a currency option can be sold readily.

Special conditions for currency options

Currency options do not have standardized terms. It is therefore very important to obtain full information on the exact terms and conditions of the option, in particular:

***Style of the exercise**:*

Is it possible to exercise the option right any time during the option life (American style) or only at the option expire (European option)?

***Expiry**:*

When does the option right expire? Please note that the bank will not exercise the option unless specifically instructed by you to do so.