UniCredit Bank

WARRANTS

Definition

Warrants are securities without interest and dividends attached granting the warrant owner the right to buy (call warrants) or sell (put warrants) a certain underlying assets (e.g. shares) at a previously fixed price (exercise price) at a particular point in time or during a particular period of time.

Return

The buyer of a call warrant has secured the purchase price of the underlying asset. A return can be obtained if the market price of the underlying asset exceeds the set strike price to be paid by warrant holder. The warrant holder may then buy the underlying instrument at the strike price and sell it immediately at the market price.

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

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

The return on warrant transactions cannot be established in advance.

The maximum loss is limited to the amount of capital invested.

Price risk

The risk inherent in warrant transactions is the possibility that within the period between the purchase and expiration of the warrant the underlying asset will develop differently than expected at the time of its purchase. In the worst case, the entire capital invested may be lost.

The price of a warrant also depends on other factors, the most important of which are:

– volatility of the underlying asset. In general, high volatility implies a higher price of a warrant.

- time remaining until maturity (the higher the warrant maturity, the higher its price.

A decrease of volatility or shortening of time to maturity may cause the price of a warrant to remain unchanged or fall - even though the expectations in respect of the price trend of the underlying asset are met.

We generally advise the clients not to buy warrants which are close to expire. Buying warrants with high volatility makes your investment more expensive and is therefore highly speculative.

Liquidity risk

Warrants are usually issued only in small quantities, which fact increases the liquidity risk for investors.

Because of this, individual warrants may be subject to particularly heavy price fluctuations.

Warrant trading

Warrants are largely traded over the counter (OTC). A gap generally exists between the purchase price and selling price. This difference is for your account.

With respect to stock exchange trading, it is important to remember that the market frequently has very low liquidity.

Warrant terms

Warrants do not have standardised terms. It is therefore very important to obtain full information on the exact terms and conditions of a warrant, in particular:

Style of exercise:

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

Subscription ratio:

How many warrants are needed to obtain the underlying asset?

Exercise:

Is it necessary to deliver the underlying asset or is cash settlement possible?

Expiry:

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

Last trading day:

This date is often a bit earlier than the warrant's expiry date, so that it cannot be taken for granted that the option can be sold at any time up to the expiry date.