

Customer Information Brochure

concerning the EU Directive Markets in Financial Instruments (MiFID)

Responsible for content:

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The content of this brochure has been drawn up with the greatest possible care and has been checked several times. However, the possibility that it may contain errors cannot be excluded. Version: January 2011

Customer Information Brochure

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What you should know about MiFID

Dear customer,

Effective 1 November 2007, trading in securities has been subject to the new EU Directive on Markets in Financial Instruments, "MiFID", and also the new Securities Supervision Act 2007 (Wertpapieraufsichtsgesetz 2007 or WAG 2007).

The purpose of these statutory requirements is to provide greater protection for investors. The aim is to increase market transparency and to harmonise on a Europe-wide basis the rules for supervising the provision of securities services.

The rules apply throughout Europe in respect of all banks and companies offering services relating to any aspect of investment in securities. HYPO ALPE-ADRIA-BANK AG welcomes and supports this initiative, for it establishes as binding for all market makers much of what is already standard practice in our institution.

In this brochure we present to you in summary form the essential cornerstones on which our Bank and our securities services are based. However, an information brochure can never be a substitute for a personal discussion. Your customer adviser will be happy to provide you with information to answer any queries you may have.

Yours sincerely,
HYPO ALPE-ADRIA-BANK AG

Information about the company and its services

In accordance with the requirements of the Securities Supervision Act 2007 (Wertpapieraufsichtsgesetz 2007 or WAG 2007), we hereby provide you with the following information about us and our securities services.

A. Information about the company

HYPO ALPE-ADRIA-BANK AG
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 9020 Klagenfurt am Wörthersee, Austria
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Banking licence and competent supervisory authority

We have a banking licence as envisaged in Section 1 of the Austrian Banking Act (Bankwesengesetz or BWG). The competent supervisory authority is the financial markets supervisory authority (Finanzmarktaufsicht) as envisaged in the Financial Markets Supervisory Authorities Act (Finanzmarktaufsichtsbehördengesetz or FMABG), Praterstrasse 23, 1020 Vienna (Internet: www.fma.gv.at).

Means of communication and language

You can communicate with us in person, by telephone or in writing, using the German language. Customer orders can be communicated in person, by telephone or by Hypo Internetbroker, using the German language. Separate agreements apply in respect of orders communicated by Hypo Internetbroker.

Information on the protection of assets – investor compensation

Pursuant to EU Directives which have been transposed into Austrian national law through the Austrian Banking Act (BWG), every credit institution in Austria which accepts deposits that are subject to a deposit guarantee scheme or which provides securities services that are subject to a guarantee scheme, is under a statutory obligation to belong to a guarantee facility.

As an Austrian bank, HYPO ALPE-ADRIA-BANK AG (referred to in the following as HYPO) is subject, without restriction, to the Austrian provisions governing the protection of deposits and investor compensation (Section 93 et seq. BWG). HYPO is a member of the statutory guarantee facility of Hypo-Haftungs-Gesellschaft m.b.H., which is domiciled in Vienna.

Protection of deposits:

Natural persons: Deposits of natural persons are guaranteed for an unlimited amount until 31.12.2009. From 01.01.2010 onwards, deposits of natural persons will be guaranteed up to a maximum amount of EUR 100,000.

Non-natural persons: Deposits of small companies and small partnerships are guaranteed with 90% per depositor, but up to a maximum amount of EUR 50,000.

For these purposes, small companies (within the meaning of Section 221 (1) of the Austrian Code of Business Enterprises) are currently defined as companies which exceed at most one of the following criteria:

- EUR 4.84 million in total assets
- EUR 9.68 million in sales revenues during the twelve months preceding the balance sheet date
- An average annual staffing level of 50 employees.

Companies which exceed these criteria and other non-natural persons will continue to be guaranteed with 90% of their deposits but up to a maximum amount of EUR 20,000.

Large companies, however, continue to be excluded from the deposit guarantee scheme (for the relevant size criteria see Section 221 (3) Austrian Code of Business Enterprises – UGB).

Investor compensation:

Financial instruments deposited with the respective bank have to be returned to the investor. Funds resulting from the settlement of securities (especially dividends, sales proceeds, interest payments and redemptions) and compensation payments for financial instruments lost as a result of unlawful acts are guaranteed up to a maximum amount of EUR 20,000 for natural persons.

Claims of non-natural persons are guaranteed with 90% of the funds held on account, but up to a maximum amount of EUR 20,000.

In all other respects, we refer to the statutory provisions of Section 93 et seq. and Section 103h BWG governing the protection of deposits and investor compensation (particularly the exceptions pursuant to Section 93 (5) BWG), which we will gladly provide upon request.

Nature, frequency and date of reports

You will immediately receive a statement of account on each securities transaction undertaken. Once a year you will receive a securities deposit statement containing a summary of the securities you hold. Asset management customers will receive an additional report every six months (if requested, every quarter) in accordance with Section 50 (2) WAG.

Brokers

If HYPO uses contractually affiliated brokers in connection with the provision of HYPO's securities services, these brokers shall be registered in a public register pursuant to § 28 of the Securities Supervision Act (WAG) 2007.

B. Information about services

The purpose of the company is:

1. The operation of all banking business as envisaged in Section 1 (1) BWG, except for the issuing of funded bank bonds, the business of a building and loan association, the management of capital asset funds in accordance with the Austrian Investment Funds Act, the management of real estate funds in accordance with the Austrian Real Estate Investment Funds Act, the setting up or management of equity participation funds in accordance with the Austrian Equity Participation Funds Act, and the acceptance on deposit of severance contributions and the investment thereof;
2. The business of a mortgage bank
3. The company purpose also covers
 - the activities of a financial institution within the meaning of Section 1 (2) BWG,
 - the activities and ancillary activities envisaged in Section 1 (3) BWG,
 - the provision of advice in insurance matters, and the activity of an insurance broker,
 - management consultancy and organisation of companies,
 - asset consultancy and management, including on a fiduciary basis,
 - real estate management,
 - the leasing and letting of the company's own properties and movables,
 - the activity of a real estate broker and building developer,
 - the marketing of lottery shares of officially approved lottery games,
 - equity participations in companies of all kinds,
 - the acquisition or founding of companies,
 - the acquisition and sale of properties, buildings or rights equivalent to property, and

- taking into account the statutory regulations relating thereto, all transactions that are likely to directly or indirectly promote the business purpose of the company.
- 4. The company is entitled to set up branches, branch offices and subsidiaries, and to hive off branches of its business into such subsidiaries.
- 5. The activity of the company extends to Austria and abroad.

C. Information about customer classification

Guidelines on the classification of customers within the meaning of Section 59 (3) WAG 2007

These guidelines on the classification of customers apply in respect of all securities services and investment activities, and also ancillary services relating to securities (referred to in the following as “services”) in relation to all financial instruments of HYPO.

Hypo classifies its customers into three categories as follows:

- Private customers
- Professional customers
- Suitable counterparties

The classification of each customer is based in each case on the totality of the services provided to that customer and the financial instruments used. Classification does not differ according to each individual service provided or each individual financial instrument used. Thus a private customer is regarded as belonging to this category of customers in respect of all services provided and all financial instruments used.

Private customers are customers who are not classified as professional customers or as suitable counterparties.

Professional customers are deemed to be:

1. The following legal entities, if they have received a licence or are supervised in Austria or in a member state or a third party state in order for them to be able to operate on financial markets:
 - a) credit institutions
 - b) securities companies
 - c) other licensed or supervised financial institutions
 - d) insurance companies
 - e) organisms for undertaking investments as envisaged in Section 1 (1) (3) KMG, domestic or foreign capital investment funds, domestic or foreign real estate funds or similar institutions which combine assets with a spread of risk, and also their respective management companies
 - f) pension funds and their management companies
 - g) commodity traders or commodity derivatives traders
 - h) local companies within the meaning of Section 2 (14) WAG
 - i) other institutional investors
2. Large companies other than those referred to in paragraph 1., which fulfil at least two of the requirements listed below at company level:
 - a) balance sheet total of at least EUR 20,000,000;
 - b) net turnover of at least EUR 40,000,000;
 - c) equity of at least EUR 2,000,000.
3. Unitary states as envisaged in Section 2 (5a) BWG, countries, regional governments of the member states and third party countries, and national debt management agencies.
4. Central banks as envisaged in Section 2 (9a) BWG, and international and supranational institutions, such as in particular the World Bank, the International Currency Fund, the European Investment Bank and other comparable international organisations.

5. Other institutional investors whose main activity is investment in financial instruments, including institutions that use securities to secure liabilities and other financing transactions.

Before providing any services to any professional customer, HYPO will make reference to the fact that the customer in question has been classified as a professional customer, and is being treated as such, on the basis of the information available to HYPO.

A professional customer can agree in writing with HYPO to be classified as a private customer. Upon conclusion of any such agreement, the professional customer in question would be regarded as a private customer in relation to all services provided and financial instruments used.

Hypo is entitled to treat any professional customer as a private customer, even if the customer in question has not expressly requested this.

Because of the more stringent statutory protection provisions for private customers, HYPO will not comply with any wish of a private customer to be classified and treated as a professional customer.

Professional customers must inform HYPO in writing about any changes that could affect their classification. In the event that the decisive criteria for classification and treatment as a professional customer no longer apply, HYPO can only classify the customer in question as a private customer if it is known that these criteria no longer apply.

Suitable counterparties are deemed to be the legal entities referred to in items 1 to 4, insofar as HYPO carries out instructions on behalf of its customers with these legal entities, or engages in trading on its own account with these legal entities, or if orders are accepted or passed on between them.

D. Information about the protection of customer financial instruments and customer monies

In accordance with Section 3 (1) of the Securities Deposit Act (Depotgesetz or DepG), HYPO is entitled to entrust securities to another depositary (third party depositary) under its own name.

As far as financial instruments issued by HYPO are concerned, HYPO itself acts as the place of deposit in most cases. For financial instruments issued by other parties, it uses the services of third party depositaries in Austria and abroad, particularly in the South Eastern European countries of Slovenia, Croatia, Bosnia, Serbia, Montenegro and Macedonia.

In principle, financial instruments are held at a place of deposit (third party depositary) in the country in which the relevant transaction was concluded, either on an exchange located in that country or on an over-the-counter basis.

It should be borne in mind that the relevant national legal systems apply, so that the possibility cannot be excluded that these places of deposit (third party depositaries) can establish a right of lien or set-off or other right of retention with respect to the financial instruments or customer monies entrusted.

In accordance with item 49 of the General Terms and Conditions of HYPO ALPE-ADRIA-BANK AG, customers accord HYPO a right of lien in respect of items and rights of any kind which are held by HYPO.

HYPO points out that financial instruments held with third party depositaries are mostly managed in a collective account. In such cases the customer's claim against HYPO corresponds to that proportion which is held by HYPO on behalf of the customer of the entire stock of securities of the same kind held in other countries by HYPO on behalf of its customers in accordance with the respective legal regulations and usages.

E. Complaints/Inquiries

HYPO is committed to providing its customers with the best possible services in all respects. If a customer is ever less than completely satisfied, HYPO will immediately follow up on the complaint. Customers can bring their concerns either directly to their customer representative or to the HYPO Service Centre (tel. +43 (0) 50202 0 or e-mail: austria@hypo-alpe-adria.com). HYPO will follow up on the complaints/inquiries brought to its attention and inform the customers accordingly.

F. Information about fees and charges

Purchase and sale of securities (VAT-exempt) – domestic (Austria)

Product	Standard rate based on market value	Minimum
Fixed-interest issues		
New issues	free of charge	none
Secondary market	0.75%	EUR 7.27
Counter transactions	1.00%	EUR 21.80
Counter transactions – “Kunstpandbrief” mortgage bonds	0.75% + EUR 30.00 delivery charge	
Equities, warrants and similar categories		
XETRA (Vienna)	0.90%	EUR 21.80
Over the counter	1.00%	EUR 21.80
Counter transactions	1.25%	EUR 36.34
Subscription of shares from capital increase	1.00%	EUR 21.80
Subscription rights	1.25%	none

Minimum value for domestic stock exchange orders EUR 1,000.00. For non-MUM-currencies an additional foreign exchange commission of 0.30% (minimum amount EUR 2.90) applies. In case of equity trades being settled in foreign currencies, no foreign exchange commission applies. External fees are passed on in their entirety.

Purchase and sale of securities (VAT-exempt) – abroad (MUM-countries und non-MUM-countries)

Product	Standard rate based on market value	Minimum
Fixed-interest issues		
New issues	free of charge	none
Secondary market	0.75%	EUR 14.53
Counter transactions	1.00%	EUR 36.34
Equities, warrants and similar categories		
Germany		
XETRA	0.90%	EUR 29.07
Floor trading	1.00%	EUR 29.07
Other		
Other stock exchanges	1.00%	EUR 29.07
Over the counter	1.00%	EUR 29.07
Counter transactions	1.25%	EUR 43.60
Subscription of shares from capital increase	1.00%	EUR 29.07
Subscription rights	1.25%	none

Minimum order (XETRA and floor trading): EUR 1,000.00. Minimum order value Germany other foreign stock exchanges: EUR 2,200.00
For non-MUM-currencies an additional foreign exchange commission of 0.30% (minimum amount EUR 2.90) applies.
In case of equity trades being settled in foreign currencies, no foreign exchange commission applies. External fees are passed on in their entirety.

Purchase and sale of investment funds (VAT-exempt)

Product	Offering premium stand
Investment funds pursuant to investment information	
Bond funds	pursuant to master list
Mixed funds	pursuant to master list
Equity funds	pursuant to master list
Cash funds	pursuant to master list
Sale of investment funds	fixed fee of EUR 20,00 per sale
Other investment funds	
Cash funds	fund company requirements
Bond funds	fund company requirements
Mixed funds	fund company requirements
Equity funds	fund company requirements
Hedge funds	fund company requirements
Hypo investment and pension schemes	
Bond funds, Mixed funds, Equity funds	pursuant to master list

Minimum order for other investment funds: EUR 2,200. External fees are passed on in their entirety.

Securities settlement account – domestic and foreign customers (not subject to VAT)

Type	Standard rate
Account maintenance fee	EUR 22.00 per annum
Charges for accounting items or accounting entry lines	EUR 0,00

Custody charges (subject to VAT 20%)

Product	Standard rate based on market value	Minimum per position	Minimum per account
Own issues			
Medium term bonds	free of charge		
"Kunstpandbriefe" – mortgage bonds	free of charge		
Other own issues	2.00‰	EUR 2.91	EUR 10.00
Issues through other institutions			
Collective safekeeping			
all securities with domestic depository	2.00‰	EUR 2.91	EUR 10.00
Securities clearing			
all securities with foreign depository	5.20‰	EUR 7.27	EUR 10.00
Jacket custody			
individual safekeeping	3.00‰	EUR 3.63	EUR 10.00

Method of calculation: The charge is made quarterly over the period during which the securities are held, so that securities deposit charges are calculated quarterly and to the exact day. In the case of bonds, the charge is calculated from the nominal value if the bond is valued below par, and from the market value if the bond is valued above par. In the case of other financial instruments the charge is calculated from the market value. Foreign securities are valued at the foreign currency exchange rate.

Other charges (subject to VAT 20%)

Type	Standard rate	Minimum per position	Minimum per account
Revenue office's confirmation of purchase and sale of equities and participation certificates	EUR 7.27		
Procurement of voting cards – domestic/foreign, per card	EUR 7.27		
Turnover and income statement	EUR 7.27		
Subsequent requests/copies, statement of the securities account, various vouchers	EUR 7.27		
Procurement of coupon sheet	EUR 7.27		
Collection commission – counter collection			
Own issues – redemption/coupon	free of charge		
Issues through other institutions, domestic – redemption	0.50%	EUR 7.27	
Issues through other institutions, domestic – coupon/dividend	0.50%	EUR 7.27	
Issues through other institutions, foreign – redemption	2.00%	EUR 36.34	
Issues through other institutions, foreign – coupon/dividend	2.00%	EUR 14.53	
Collection commission for redemption/coupon securities account			
Own issues – redemption/coupon	free of charge	none	
Issues through other institutions, domestic – coupon	free of charge	none	
Issues through other institutions, domestic – redemption	0.125%	EUR 3.64	
Issues through other institutions, foreign – coupon/redemption	0.350%	EUR 3.64	
Transfer of securities, delivery, deposit			
Transfer and deposit – internal	free of charge	none	none
Transfer – other bank – domestic depository		EUR 10.90	EUR 14.53
Transfer – other bank – foreign depository		EUR 21.80	EUR 36.34
Delivery from account – domestic depository		EUR 21.80	
Delivery from account – foreign depository		EUR 36.34	
Deposit for sale – domestic securities with the exception of own securities		EUR 21.80 plus selling charges	
Deposit for sale – foreign securities		EUR 36.34 plus selling charges	
Exemption from investment income tax/changeover to calculation of investment income tax			
Accrual/deferral of investment income tax for purchase and sales	EUR 3.63		
Investment management			
Minimum volume of assets invested EUR 40,000.00	Lump sum fee (deposit fee, administration commission, transaction charges, foreign exchange and collecting commission)		
strategy "conservative"	0.9% p.a. (thereof 27% subject to VAT) settlement each quarter		
strategy "balanced"	1.0% p.a. (thereof 30% subject to VAT) settlement each quarter		
strategy "dynamic"	1.1% p.a. (thereof 33% subject to VAT) settlement each quarter		
strategy "total return"	1.0% p.a. (thereof 30% subject to VAT) settlement each quarter		
Settlement account			
Account maintenance fee	EUR 5.50 settlement each quarter		

External fees are passed on in their entirety.

G. Information about places of execution

Execution policy

WAG 2007 requires, in Section 53 (1) thereof, that securities companies inform their customers about their execution policy in an appropriate manner. The securities company in question must obtain the prior agreement of its customers to the execution policy, and must inform them of any significant change in the execution policy. In providing the present summary of its execution policy, HYPO is fulfilling this obligation.

The execution policy fulfils the legal requirements for guaranteeing the highest possible level of protection for private customers. The present execution policy describes HYPO's general procedure in respect of private customers. These principles also apply accordingly in respect of orders which are not bound by specific instructions, as received from professional customers.

The execution guidelines listed below do not apply :

- in respect of financial instruments that are directly purchased by or sold to HYPO at a fixed price.
- in respect of the issuing and taking back of fund shares, if undertaken through the depositary bank or a fund broker.
- if the customer has given express instructions.

Orders can have various execution and validity addenda attached to them. If no other instructions are issued, an order shall remain effective until the last trading day of the month. If an order is placed on or after the 20th calendar day of a month, it shall remain effective until the last trading day of the subsequent month. The possibilities for such depend on the respective product, trading place or trading partner. Information about the various options can be obtained from your customer adviser.

Hypo has taken the following considerations into account in determining the best possible execution:

- the possibility of achieving the best possible price
- all costs associated with the execution and processing of orders
- the rapidity with which orders can be passed on or executed
- the probability that the order will be processed

“Best possible price”

The possibility of achieving the best possible price depends, inter alia, on the specified price setting mechanism which is established in the regulations of the trading centres. Here it is specified, for example, whether the price setting takes place in accordance with the auction procedure or whether the services of a neutral market maker are used. A further important influencing factor on the achievable price is also the liquidity and trading currency of the place of execution.

“Associated costs”

In principle the “associated costs” factor is subdivided into two components: outside costs and own remuneration. Only the outside costs have to be taken into account for the purposes of determining the best possible execution of customer orders. The outside costs arising are calculated from the transaction costs and the processing costs. These costs can vary depending on the market segment and the place of execution.

“Rapidity with which orders can be passed on or executed”

This factor is understood as being the time interval that elapses between receiving an order and its allocation.

“Probability that the order will be processed”

The probability of executing a customer order depends mainly on the liquidity situation at the respective place of execution.

The weighting of these factors has been selected so that the greatest importance is attached to the “best possible price” and the “associated costs”. Where extraordinary market conditions in the home stock exchange require a different type of execution, HYPO shall execute the order in the interest of the customer. The selection based on these principles is reviewed by HYPO at least once a year. HYPO will undertake a review of the principles for executing orders if a significant change occurs. HYPO monitors the effectiveness of its execution principles on a regular basis, in order to rectify defects if necessary.

Hypo has evaluated its places of execution on the basis of the above criteria and has specified the respective places of execution for financial instruments as follows:

Financial instrument	Region	Place of execution	Order passed on
Shares and ETFs	Austria	Vienna stock exchange	directly
	Germany	Xetra-Frankfurt stock exchange	through partner/counterparty
	European Union	if listed or if sufficient liquidity, Frankfurt exchange floor trading, otherwise home exchange	
	Slovenia	Ljubljana stock exchange	broker
	Croatia	Zagreb stock exchange	
	Croatia	Varazdin stock exchange	
	Serbia	Belgrade stock exchange	
	Montenegro	Podgorica stock exchange	
	Bosnia and Herzegovina	Sarajevo stock exchange	
	Bosnia and Herzegovina	Banja Luka stock exchange	
	Macedonia	Skopje stock exchange	
	worldwide	if listed or if sufficient liquidity, Frankfurt exchange floor trading, otherwise home exchange	through partner/counterparty

Financial instrument	Region	Place of execution	Order passed on
Bonds	Austria	OTC	directly
	Germany	Bloomberg/counterparty/issuer	
	European Union		
	worldwide		
Funds	Austria	OTC	directly
	Germany	KAG/Transfer Agent	
	European Union		
	worldwide		
	Slovenia	Ljubljana stock exchange	broker
	Croatia	Zagreb stock exchange	
	Croatia	Varazdin stock exchange	
	Serbia	Belgrade stock exchange	
	Montenegro	Podgorica stock exchange	
	Bosnia and Herzegovina	Sarajevo stock exchange	
Bosnia and Herzegovina	Banja Luka stock exchange		
Macedonia	Skopje stock exchange		
Warrants	Austria	Vienna stock exchange, Stuttgart floor trading (EUWAX) or OTC from the issuer	directly/through partner/counterparty
	Germany	Stuttgart floor trading (EUWAX) or over the counter from the issuer	through partner/counterparty
	European Union		
	worldwide	if listed or if sufficient liquidity, Stuttgart floor trading (EUWAX), otherwise home exchange or OTC from the issuer	
Certificates	Austria	Vienna stock exchange, Stuttgart floor trading (EUWAX) or OTC from the issuer	directly/through partner/counterparty
	Germany	Stuttgart floor trading (EUWAX) or OTC from the issuer	through partner/counterparty
	European Union		
	worldwide	if listed or if sufficient liquidity, Stuttgart floor trading (EUWAX), otherwise home exchange or OTC from the issuer	
Securities derivatives	Austria	ÖTOB	through partner/counterparty
	Germany	EUREX, Life	
	European Union		
	worldwide	CBOT	

Hypo provides no guarantee that the order in question will actually be carried out at the selected places of execution. If a financial instrument is not traded on the envisaged exchange, or if trading events occur (reference market disruption, disruptions due to volatility, etc.), orders may, subject to the safeguarding of the customer's interests, be carried out at an alternative exchange, or the customers will be informed of the situation by HYPO as soon as HYPO has gained knowledge thereof.

If the customer assesses individual aspects or factors differently from HYPO, and if the customer therefore requires that the order in question be carried out at a place of execution other than as determined by the execution guideline, the customer must issue an express instruction regarding the place of execution desired. In the case of financial instruments which are not listed, orders can only be passed on if a customer instruction has been received.

Executions of sales are carried out subject to consideration of the overall charge at the places of execution that are possible without any change of depositary bank being necessary.

Hypo also reserves the right to combine orders of customers with orders of other customers, or with transactions on the Bank's own account. However, orders may only be combined if it is to be expected that this will not be generally disadvantageous to the customer or customers. In order to keep the costs associated with processing to a minimum, HYPO combines orders for (for example) the purchase or sale of subscription rights, in the interest of the customers. Similarly, with the aim of minimising the costs associated with processing, orders for the acquisition or sale of investment funds are combined and passed on to the corresponding processing centre.

Orders for subscription to issues and subscriptions in the course of capital increases are generally passed on for execution to the issuer, the issue manager or a member of the issue consortium appointed by the issuer. If no requirements are given by the issuer with regard to the allocation, or if the allocation quota received is too low, HYPO must select an allocation mode. The following have been determined as possible allocation modes: percentage allocation, gradation according to order quantity, date of receipt of subscription order, according to a special code, or by drawing lots.

If buy or sell orders are issued in the context of a fixed price transaction, HYPO ensures that these are executed at proper market conditions. Execution at a different place of execution is possible if the customer so requests, provided these financial instruments are traded at the place in question.

If customer orders are issued in the context of asset management, HYPO must decide at its own discretion at which places of execution the best possible result for the customer can be achieved on a consistent basis.

The prices charged by HYPO for securities services can be found in section **F** of this brochure and are on display in the cashier's halls of the Bank. Outside costs are not stated, since different charges, costs and taxes may arise depending on the levels set at the exchange in question and/or in respect of the security in question. More detailed information on the amount of the outside costs in respect of your individual securities order can be requested in the context of the advice on securities that we provide to you.

The policy on execution, including the list of places of execution, is reviewed at regular intervals (at least once a year) and modified if necessary. Customers are immediately informed in an appropriate manner of any significant change in the execution policy. The currently valid execution policy is available free of charge at all HYPO branches and can be inspected on the HYPO website (www.hypo-alpe-adria.at).

H. Information on allowances and benefits

General information on allowances and benefits

Financial instruments offer you as the investor a multitude of opportunities and advantages. Even if you only have a small amount to invest, they provide you with a means of participating in the development of a very wide variety of investment segments. There are financial instruments to suit almost any customer profile, which will meet the investor's requirements in terms of investment aims, duration of investment and the investor's willingness to take risks.

To enable you to orient yourself better among the many different capital investment products available, you have decided to use the services provided by HYPO. Many of the activities undertaken by HYPO are free of charge to you as the investor, and will not be separately invoiced to you, including in particular:

- the development and ongoing monitoring of investment decisions to ensure that they meet the requirements of the investor
- the training of staff
- the ongoing provision of product information
- the drafting of information material
- the holding of information events and customer events

To cover these costs, we receive benefits from our sales partners in the form of cash payments or other benefits equivalent to cash. In the context of these benefits we put organisational measures in place to ensure that these benefits do not conflict with your interests as the customer, and are used to maintain and further improve the quality of the securities services provided by us.

The requirements of supervisory law impose an obligation upon us to inform you about benefits (cash remuneration or other benefits equivalent to cash¹) which we receive from our sales partners in the context of the acquisition of:

- shares in investment funds
- investment certificates or structured bonds
- interest bearing securities

¹ In particular HYPO can receive reallowances in the form of benefits equivalent to cash as a result of the provision of:
 - technical support
 - information material
 and also for carrying out training measures and customer- or product-related sales campaigns.

Acquisition of shares in investment funds

Issue premium

Investment companies charge an issue premium in the context of the issue of shares in funds. We receive part or all of the issue premium, which can be up to 10.0% of the investment total depending on the investment class, as a reallowance.

Portfolio commission

The investment companies levy an administration charge from the respective fund assets, which depending on the investment class can be up to 2.6% p.a. of the value of the fund shares held by you, and part of which we receive as a reallowance, in each case in respect of the period in which you have the fund shares in safekeeping in your securities deposit.

Performance incentive

In addition to the portfolio commission, we may receive an additional remuneration from our sales partners if we sell products in quantities over and above a pre-determined threshold value. Your customer adviser will gladly provide you with details of the amount of any such remuneration on request.

Acquisition of investment certificates or structured bonds

Issue premium

With some of the investment certificates or structured bonds that are launched, the issuing institutions charge one-off issue premiums, which depending on the product structure and term can be up to 5.0% of the sum invested. We receive part or all of this issue premium as a reallowance.

Commission

Independently of the issue premiums, we may receive one-off commission amounts of up to 4.0% of the sum invested as remuneration from the issuing institutions.

Portfolio commission

With regard to certain investment certificates or structured bonds, we receive reallowances depending on the size of the portfolio, for as long as the corresponding investment certificates are held in your securities deposit. The portfolio-dependent remunerations can be up to 15.0% p.a. of the sum invested.

Acquisition of interest-bearing securities

Upon first acquisition (subscription) by you of interest-bearing securities, depending on the term of the security in question, we may receive remuneration from the issuer of up to 2.0% of the nominal amount. In respect of sales as a second acquisition, we may receive remuneration from the issuer of up to 2.0% of the nominal amount.

Acquisition of other financial instruments

We will inform you separately in the individual case as to whether we receive reallowances to cover sales costs relating to other financial instruments, and if so in what amount.

Under certain preconditions HYPO also pays all the aforementioned benefits to sales partners that use HYPO products. Your adviser will gladly provide you with detailed information on all the above benefits.

I. Conflicts of interest**Customer information on conflicts of interest**

WAG 2007, in Section 40 (2) (1) thereof, requires securities companies to disclose to private customers or potential private customers the principles they apply in the handling of conflicts of interest. With the present summary regarding the handling of conflicts of interest, HYPO is fulfilling this obligation.

HYPO is a full-services bank, i.e. it is competent in almost all sectors of banking business. Because of the large number of different transactions involved, HYPO staff are trained to the highest possible standards. In the context of this training the employees of the Bank are also presented with the HYPO quality standards, and undertake to abide by these.

HYPO is aware that in the context of investment transactions conflicts of interest may arise between:

- the customer and HYPO
- the customer and the employees
- one customer and another.

The following situations in particular may represent conflicts of interest:

The credit institution or a person associated with the credit institution either directly or in a supervisory function:

- attains a financial advantage or avoids a financial loss, to the detriment of the customer,
- has an interest in the result of a service provided for the customer, or of a transaction undertaken on behalf of the customer, and this interest goes against the interest of the customer,
- has a financial or other incentive to place the interests of another customer or another group of customers before the interests of the customer,
- pursues the same activity as the customer,
- is currently receiving or will in future receive, from a person other than the customer, in relation to a service provided for the customer, an incentive in the form of cash, goods or services, in addition to the normal commission or fee.

Examples:

- a security issued by HYPO is to be marketed more intensively;
- information gained from customer trading is used for the credit institution's own transactions;
- the share of a stock exchange listed customer is promoted more intensively;
- an employee has strongly recommended a security on the basis of expected commission.

At HYPO, conflicts of interest can arise in the following divisions in particular:

Investment consultancy, asset management, proprietary trading, company financing, issues, mergers & acquisitions.

HYPO constantly reviews all processes in order to detect and avoid conflicts of interest. If a conflict of interest is unavoidable, HYPO will inform the customer about the conflict of interest or refrain from carrying out the transaction in question.

All employees of HYPO sign the Compliance Regulations for HYPO staff. By signing this document they confirm that they are subject to the regulations and will abide by them. The Compliance Regulations summarise, in a single set of guidelines, central statutory provisions and the corresponding company policy, as these concern insider offences, conflicts of interest, conduct in the context of employees' own transactions and duties of information with regard to third parties.

Violations against the Compliance Regulations can result in the termination of the employment relationship. Observance of the regulations is monitored by the Compliance Officer. Within the framework of the fulfilment of its functions, the Compliance Department is independent and not bound by any instructions, and is directly subordinate to the general Executive Board.

The task of the Compliance Department is to identify conflicts of interest, to determine how the conflict of interest is to be avoided, and to monitor the observance of the specified measures. To this end, all conflicts of interest or potential conflicts of interest are reported to the Compliance Department. These conflicts of interest are entered in a special register and are dealt with in the appropriate manner.

The avoidance of conflicts of interest is achieved by means of a very wide variety of measures, for example:

- training sessions for employees;
- notification of the acceptance of external mandates;
- specification of when gifts may be accepted (Gift Policy)
- the setting up of information barriers, separation of responsibilities, spatial separation;
- automated processes.

As far as our products are concerned, we are convinced that they stand comparison with the products of any other suppliers. We therefore initially offer our own products if the product in question is suitable for the customer. We will gladly perform a comparison with other products for our customers, including products of companies in which we have an interest.

With this document, we would like to present to you our policy regarding conflicts of interest.

If you would like additional and more detailed information, our advisers will gladly make further information available to you.

J. Investment-related information

Preface

This paper describes various financial instruments and the associated risks and opportunities.

Risk means the possibility of failing to achieve the expected return on an investment and/or losing all or part of the invested capital. Such risk may be due to a variety of causes, depending on the specific structure of the product concerned. Such causes may be inherent in the product, the markets, or the issuer. Since risks are not always foreseeable, the following discussion must not be considered to be conclusive.

In any case, investors should pay particularly close attention to any risk related to the credit rating of the issuer of a product, which always depends on the individual case.

The description of the investment products is based on the most typical product characteristics. The decisive factor is always the specific structure of the product in question. For that reason, the following description is no substitute for a thorough examination of the specific product by the investor.

1. General investment risks

Currency risk

In the case of transactions in foreign currency, the return and performance of an investment depends not only on the local yield of the security in the foreign market, but also heavily on the exchange rate development of the respective foreign currency relative to the currency of the investor (e.g. euro). This means that exchange rate fluctuations may increase or decrease the return and value of the investment.

Transfer risk

Depending on the respective country involved, transnational transactions (e.g. foreign debtor) pose the additional risk that political or exchange control measures may complicate or even prevent the realisation of the investment. In addition, problems in connection with the settlement of an order may occur. In the case of foreign currency transactions, such measures may obstruct the free convertibility of the currency.

Country risk

The country risk is the creditworthiness of a given country. The political or economic risk posed by a country may have negative consequences for all counterparties residing in this country.

Liquidity risk

Tradability (liquidity) refers to the possibility of buying or selling a security or closing out a position at the current market price at any time whatsoever. A market can be considered to be liquid if an investor is able to trade securities and an average-sized order (measured by the usual trading volume) does not cause perceptible price fluctuations or cannot be settled at all or only at a substantially lower price.

Credit risk

Credit risk refers to the possibility of counterpart default, i.e. the inability of one party to a transaction to meet obligations such as dividend payments, interest payments, repayment of principal when due or to meet such obligations for full value. Also called repayment risk or issuer's risk. Such risks are graded by means of "ratings". A rating is a scale of evaluation used to grade an issuer's creditworthiness. The rating is prepared by rating agencies, notably on the basis of credit risk and country risk. The rating scale ranges from "AAA" (best credit rating) to "D" (worst credit rating).

Interest rate risk

The risk that losses will be incurred as a result of future interest rate movements in the market. A rise in interest rates on the market will lower the market price of a fixed-interest bond, whereas a fall in such interest rates will raise the market price of the bond.

Price risk

The risk of adverse movements in the value of individual investments. In the case of contingent liability transactions (forward exchange deals, futures, option writing, etc.), it is therefore necessary to provide collateral (margin requirement) or to put up further margin, which means tying up liquidity.

Risk of total loss

The risk that an investment may become completely worthless, e.g. due to its conception as a limited right. Total loss can occur, in particular, when the issuer of a security is no longer capable of meeting its payment obligations (insolvency), for economic or legal reasons.

Buying securities on credit

The purchase of securities on credit poses an increased risk. The credit raised must be repaid irrespective of the success of the investment. Furthermore, the credit costs reduce the return.

Placing orders

Buy or sell orders placed with the bank must at least indicate the designation of the investment, the quantity (number of securities/principal amount) to be purchased or sold, at what price the transaction should be carried out and over what period of time the order is valid.

Price limit

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

Important note: A stop market order will not be executed until the price formed on the stock reaches the selected stop limit. Once the order has been executed, it will enter into effect as an “at best” order, i.e. with no price limit. The price actually obtained may therefore differ significantly from the selected stop limit, especially in the case of securities on a tight market.

Time limit

You can set a time limit to determine the validity of orders. The period of validity of unlimited orders depends on the practices of the respective stock market.

Your investment adviser will inform you of further additions which can be made when placing an order.

Guaranty

The term “guaranty” may have a variety of meanings. The first meaning is the commitment made by a third party other than the issuer in order to ensure that the issuer will meet its liabilities. Another meaning is a commitment made by the issuer itself to perform a certain action regardless of the trend in certain indicators that would otherwise determine the amount of the issuer’s liability. Guaranties may also be related to a wide variety of other circumstances.

Capital guaranties 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 guaranty depends to a significant extent on the guarantor’s creditworthiness.

Tax considerations

Your investment adviser will provide you with information on the general fiscal aspects of the individual investment products. The impact of an investment on your personal tax bill must be evaluated together with a tax consultant.

Risks on stock markets, especially secondary markets (e.g. Eastern Europe, Latin America, etc.)

There is no direct line of communications with most of the stock exchanges on secondary markets, i.e. all the orders must be forwarded by telephone. This can lead to mistakes or time delays.

In certain secondary stock markets, limited buy and sell orders are generally not possible. This means that limited orders cannot be given until the request has been made by telephone with the local broker, which can lead to time delays. In certain cases, such limits cannot be executed at all.

In certain secondary markets it is difficult to receive the current prices on an ongoing basis, which makes it difficult to assess the customer’s existing position.

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.

2. Bonds/Debentures/Notes

Definition

Bonds (= debentures, notes) are securities that obligate the issuer (= debtor) to pay the bondholder (= creditor, buyer) 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 above-mentioned characteristics and the description given below. We refer the reader in particular to the debentures described in the “Structured Products” section. Especially in that area, it is not the designation as a bond or debenture that is decisive for the product-specific risks but rather the specific structure of the product.

Return

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

Consequently, the return can only be determined in advance if the bond is held until maturity. With variable interest rates, the return cannot be specified in advance. For the sake of comparison, an annual yield (based on the assumption of bullet repayment) is calculated in line with international standards. Bond yields which are significantly above the generally customary level should always be questioned, with an increased credit risk being a possible reason.

The price achieved when selling a bond prior to redemption is not known in advance. Consequently, the return may be higher or lower than the yield calculated initially. In addition, transaction costs, if any, must be deducted from the overall return

Credit risk

There is always the risk that the debtor is unable to pay all or part of his obligations, e.g. in the case of the debtor's insolvency. The credit standing of the debtor must therefore be considered in an investment decision.

Credit ratings (assessment of the creditworthiness of organisations) issued by independent rating agencies provide some guidance in this respect. The highest creditworthiness is “AAA” (e.g. for Austrian government bonds). In the case of low ratings (e.g. “B” or “C”), the risk of default (credit risk) is higher but by way of compensation the instruments generally pay a higher interest rate (risk premium). Investments with a rating comparable to BBB or higher are generally referred to as “investment grade”.

Price risk

If a bond is kept until maturity, the investor will receive the redemption price as stated in the bond terms. Please note the risk of early calling-in by the issuer, to the extent permitted by the terms and conditions of the issue.

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

A change in the issuer's creditworthiness may also affect the market price of a bond. In the case of variable-interest bonds whose interest rate is indexed to the capital market rates, the risk of the interest being or becoming flat is considerably higher than with bonds whose interest rate depends on the money market 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 bond's residual time to maturity. The bigger the duration, the greater the impact of changes of the general interest rate on the price, whether in a positive or negative direction.

Liquidity risk

The tradability of bonds depends on several factors, e.g. issuing volume, remaining time to maturity, stock market rules and market conditions. Bonds which are difficult to sell or cannot be sold at all must be held until maturity.

Bond trading

Bonds are traded on a stock exchange or over-the-counter. Your bank will quote buying and selling rates for certain bonds upon request. There is no entitlement to negotiability, however.

In the case of bonds that are also traded on the stock exchange, the prices formed on the exchange may differ considerably from the OTC prices. The risk of weak trading may be restricted by adding a limit on the order.

Some special bonds**Supplementary capital bonds**

These are special subordinated bonds issued by Austrian banks. Interest payment can only be made if the bank has posted sufficient net profit for the year (before movement of reserves). Repayment of the capital prior to liquidation is subject to prorated deduction of the net loss accruing throughout the term of the supplementary capital bond.

Subordinated capital bonds

In case of the debtor's liquidation or insolvency, the investor will receive money only after all other, non-subordinated liabilities of the bond debtor have been settled. It is not possible to offset the claims to repayment arising out of the capital bond against the bond debtor's claims.

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

3. Profit participation rights/profit participation certificates/profit sharing certificates**Definition**

One generally speaks of profit participation rights where a company, normally a joint stock company (Kapitalgesellschaft), accords a non shareholder pecuniary rights such as are typically envisaged in company law, for example participation in the profits of the company. "Profit participation certificate" or "profit sharing certificate" is the name given to the security which evidences a profit participation right. The terms profit participation right, profit participation certificate and profit sharing certificate are generally used synonymously. Since there is no statutory definition of the term "profit participation right", there is a relatively large amount of freedom in the structuring of the conditions for profit participation rights, and for this very reason particular attention should be paid to such conditions. Different regulations may apply in respect of different profit participation rights, affecting the level of participation and also repayment, as well as the term of the profit participation agreement in question and the possibilities for termination. However, since in all cases the rights in question are creditor rights and not shareholder rights, the holder of profit participation rights may only be accorded pecuniary rights, and never administrative or co-determination rights.

Return

The return from a profit participation right depends above all on the way in which the profit participation right conditions are structured. These conditions may envisage the paying out of a fixed or variable percentage of the nominal amount, or may link payouts to a condition, such as the achievement of a minimum amount of profit. The amount of the annual payout, depending on the profit participation right conditions in question, may be specified beforehand or decided anew every year. The agreed repayment also influences the income from the profit participation right. A distinction is to be made as to whether the profit participation right is taken back at the issue amount or whether the development of the value of the company is taken into account at the time of repayment, so that the holder of the profit participation right participates both in increases in value and in the losses of the company. Finally, income depends on whether the profit participation certificates in question are traded, in which case the income may also be influenced by price fluctuations.

Credit risk

Since the company that is according the profit participation rights becomes the debtor of the holder of the profit participation right, naturally (as with any debt relationship) there is a risk that the debtor will not be able to meet its obligations (for example as a result of insolvency), with the result that the investment becomes temporarily or permanently worthless.

Price risk

If profit participation certificates are traded, then in the nature of the situation they will be subject to price formation according to supply and demand, and are thus also subject to corresponding price rises and losses.

Liquidity risk

If the volume of trading is low with certain profit participation certificates, this may lead to them being more difficult or even impossible to sell.

Trading in profit participation certificates

Profit participation certificates and profit sharing certificates can be traded on a stock exchange or over-the-counter, if this has been agreed in the profit participation right conditions.

4. Shares

Definition

Shares are securities evidencing an interest held in an enterprise (public limited company). The principal rights of shareholders are participating in the company's profits as well as the right to vote in the shareholders' meeting. (exception: preferred stock)

Return

The yield on equity investments is composed of dividend payments as well as price gains or losses and cannot be predicted with certainty. The dividend is the distribution of earnings to shareholders as decided at the shareholders' meeting. The dividend amount is expressed either as an absolute amount per share or as a percentage of the nominal value of the stock. The yield obtained from the dividend in relation to the share price is called dividend yield. In general, it is considerably lower than the dividend indicated as a percentage of the nominal value.

The greater part of earnings from equity investments is usually achieved from the stock's performance/price trend (see price risk).

Price risk

Stocks are usually traded on a public exchange. As a rule, prices are established daily on the basis of supply and demand. Investments in stocks may lead to considerable losses.

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

Credit risk

As a shareholder, you hold an interest in a company. Consequently, your investments may be rendered worthless in particular by the company's insolvency.

Liquidity risk

Tradability may be limited in the case of shares with a narrow market (especially stocks quoted in the unregulated market or over-the-counter trade).

If a stock is quoted at several stock exchanges, that may lead to differences in its negotiability on different international stock exchanges (e.g. quotation of an American stock in Frankfurt).

Stock trading

Stocks are traded on a public exchange and sometimes over-the-counter. In the case of stock exchange trading, the relevant stock exchange rules (trading lots, order types, contract settlement, etc.) must be observed. If a share is quoted at different stock exchanges in different currencies (e.g. a US stock quoted in Euros at the Frankfurt Stock Exchange) the price risk also entails an exchange rate risk. Please contact your investment adviser for further details.

When purchasing a stock in a foreign exchange, please bear in mind that foreign exchanges always charge "third-party fees" that accrue in addition to the bank's usual fees. For the exact amount of such fees, contact your customer adviser.

5. Investment funds

5.1. Austrian investment funds

General

Certificates of participation in Austrian investment funds (investment fund certificates) are securities which evidence joint ownership in an investment fund. Investment funds invest the funds provided by investors in accordance with the principle of risk diversification. The three basic types of investment funds are bond funds, stock funds as well as mixed funds, investing both in bonds and stocks. Funds may invest in domestic and/or foreign securities.

The range of investment of domestic investment funds includes not only securities but also money market instruments, liquid financial investments, derivative products and investment fund shares. Investment funds may invest in foreign and domestic securities.

Moreover, funds are subdivided into investment funds (which pay dividends), growth funds (which do not pay dividends), and “funds of funds”. Unlike investment funds, growth funds do not pay out dividends but rather reinvest them in the fund. Funds of funds invest in other domestic and/or foreign funds. Guaranty funds are subject to a binding commitment by a guarantor commissioned by the fund with respect to distributions of dividends for a certain period, repayment of principal, or performance.

Return

The return on investment fund certificates is composed of the annual distributions (provided they are distributing and not accumulative funds) and the trend in the calculated value of the certificates. It cannot be established in advance. The trend in value depends on the investment policy specified in the fund terms as well as the market trends of the individual securities held by the fund. Depending on the composition of a fund’s portfolio, the relevant risk warning notices for bonds, stocks or warrants must be taken into account.

Price/Valuation risk

Investment fund certificates can normally be returned at any time at the repurchase price. Under exceptional circumstances, the repurchase of certificates can be temporarily suspended until the sale of fund assets and the receipt of sales proceeds. Your investment adviser will be pleased to inform you about any fees charged and the execution date of your buy and sell orders. The term of an investment fund depends on the fund conditions and is usually unlimited. Please keep in mind that investment fund certificates, unlike bonds, are not normally redeemed and, consequently, do not carry a fixed redemption price. The risk of investment fund certificates depends, as already mentioned under “Return”, on the fund’s stated investment objectives and the market trends. **A loss cannot be ruled out.** Although investment fund certificates can normally be returned at any time, they are instruments designed for investments over a prolonged period of time.

Like stocks, funds can be traded on exchanges. The prices that arise on the exchange in question may differ from the redemption price. In that regard please see the information on risks related to stocks.

Tax considerations

The fiscal treatment of investment fund distributions varies according to the type of investment fund.

5.2. Foreign investment companies

Foreign investment companies are governed by separate legal provisions, which may substantially differ from those applicable in Austria. In particular, stipulations on supervision are often less severe than in Austria.

Outside Austria, there are also closed-end funds and funds ruled by corporate law, whose prices are regulated by supply and demand rather than the intrinsic value of the fund, which is roughly comparable to the establishment of stock prices.

Regardless of their legal form, the dividends and the earnings equivalent to distribution payments by foreign investment companies (e.g. non-distributing funds), may be subject to other fiscal stipulations.

5.3. Exchange traded funds

Exchange traded funds (ETFs) are fund shares that are traded like equities on a stock exchange. An ETF generally forms a basket of securities (e.g. a basket of stocks) that reflects the composition of an index, i.e. that tracks the

index in one certificate by means of the securities contained in the index and their current weighting, so that ETFs are often referred to as “index stocks”.

Return

The return depends on the price trend of the underlying securities in the securities basket.

Risk

The risk depends on the underlying securities in the security basket.

6. Real estate funds

General

Austrian property funds are special funds owned by an investment trust that holds and manages the special fund in trust on behalf of the shareholders. The unit certificates represent a contractual claim to share in the profits of the special fund. Property funds invest the funds received from the shareholders according to the principle of risk diversification, especially in land, buildings, shares in property companies and similar property holdings as well as its own construction projects; they also hold liquid financial investments (investments in liquid assets), such as securities and bank deposits. The liquid investments serve to secure the property fund's outstanding payment obligations (e.g. due to purchase of real estate) and repurchase of unit certificates.

Return

The total return of property funds from the shareholder's point of view consists of the annual dividends (to the extent that the funds distribute dividends instead of reinvesting them) and the price trend of the calculated share value of the fund. The amount of return cannot be determined in advance. The property fund's performance depends on the investment policy established in the fund regulations, the market trend, the specific properties held by the fund and the other fund components (securities, bank balances). The historic performance of a property fund is not indicative of its future performance.

Property funds are exposed to the risk of reduced return due to vacancies in the buildings, among other things. Particularly in the case of the fund's own construction projects, there may be problems with initial rental. Vacancies may have a negative impact on the value of the property fund and lead to reduced dividends. Investing in property funds may also lead to a partial loss of the invested capital.

Property funds also invest liquid funds and cash in banks in other forms of investment, especially interest-bearing securities. That portion of the fund assets is therefore subject to specific risks applicable to the selected form of investment. When property funds invest in foreign projects outside the Euro Zone, the shareholder is also exposed to currency risks, since the market value and return from such foreign property are converted to Euros when calculating the price of issue or redemption of the unit certificates.

Price/Valuation risk

Unit certificates may usually be given back for the redemption price at any time. Please bear in mind that in the case of property funds, the redemption of unit certificates may be subject to restrictions. Under exceptional circumstances, redemption may be temporarily postponed until the underlying assets of the property fund have been sold and the proceeds from the sale have been received. In particular, the fund regulations may stipulate that following the restitution of a large number of unit certificates, redemption may be postponed for a lengthy period of up to two years. In such cases, the fund cannot disburse the redemption price during that period. Property funds are typically classified as long-term investment projects.

7. Warrants

Definition

Warrants are securities without interest and dividends attached, granting the owner the right to buy (call warrants) or sell (put warrants) a certain underlying asset (e.g. shares) at a previously fixed price (exercise price) on a fixed date or within a fixed period.

Return

The buyer of a call warrant has secured the purchase price of the underlying asset by buying the warrant. A return can be obtained if the market price of the underlying asset exceeds the stipulated exercise price to the paid by the investor. The warrant holder may then buy the underlying instrument at the strike price and sell it immediately at the ruling 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, between purchase and expiration of the warrant, the underlying asset develops differently than expected at the time of purchase. In the worst case, the entire capital invested may be lost.

The price of a warrant also depends on other factors, including the following key criteria:

- Volatility of the underlying asset (a measure of the fluctuation margin anticipated at the time of purchase and, simultaneously, the most important input for determining the appropriateness of the warrant price). High volatility generally implies a higher price for the warrant.
- Remaining time to maturity (the longer the maturity of a warrant, the higher the price).

A decrease of volatility or diminishing 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 against the purchase of warrants which are close to expiry. 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 increases the liquidity risk for investors. Because of this, individual warrants may be subject to particularly heavy price fluctuations.

Warrant trading

Warrants are mostly traded over-the-counter. There is normally a difference between the purchase price and the selling price, which is charged to your account. With respect to stock exchange trading, it is important to remember that the market has very low liquidity.

Warrant terms

Warrants do not have standardised terms. It is therefore imperative 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:** Delivery of the underlying asset or cash settlement?
- Expiry:** When does the option right expire? Please note that your bank will not exercise a warrant unless specifically instructed to do so!
- Last trading day:** This date is often a bit earlier than the expiry date, so that it cannot be taken for granted that the option can be sold at any time up to the expiry date.

8. Structured products

“Structured investment instruments” are investment instruments for which the return and/or repayment of capital are not generally fixed but rather depend on certain future events or developments. Moreover, such investment instruments may be structured in such a way that the issuer may call them in early if the product reaches the target value or they may even be called in automatically.

This section will describe the individual product types. We will use generic terms to refer to these product types, but those terms are not used uniformly on the market. Due to the many possibilities of linking, combining and disbursement related to such investment instruments, they have developed a wide variety of different structures whose selected names do not always follow the structures uniformly. For that reason, it is always necessary to examine the specific terms and conditions of the product. Your customer adviser will be happy to inform you of the various structures of such investment instruments.

Risks

- 1) When the terms provide for payments of interest and/or dividends, such payments may depend on future events or developments (indexes, baskets, individual stocks, certain prices, commodities, precious metals, etc.) and may therefore be reduced or even eliminated in the future.
- 2) Repayments of principal may depend on future events or developments (indexes, baskets, individual stocks, certain prices, commodities, precious metals, etc.) and may therefore be reduced or even eliminated in the future.
- 3) With respect to payments of interest and/or dividends as well as repayments of principal, it is necessary to take into account interest risk, currency risk, corporate risk, sector risk, country risk and credit risk (and possibly a lack of secured creditor rights and no claim for separation and recovery of assets not belonging to the bankrupt estate) as well as tax risks.
- 4) The risks defined by paragraphs 1) through 3) above may lead to strong price fluctuations (price losses) during the term of the instrument regardless of any guarantees of interest, earnings, or principal; such risks may also make it difficult or impossible to sell the instrument before it reaches maturity.

8.1. Cash-or-share bonds (reverse convertible bonds)

These consist of three components, whose risk is borne by the bond purchaser:

The investor purchases a bond (the bond component) whose interest rate includes an option premium. This structure therefore results in a higher interest rate than a comparable bond with the same maturity. The bond may be redeemed either in cash or in shares, depending on the price trend of the underlying stock (stock component).

The bond purchaser is therefore the writer of a put option (option component) that sells to a third party the right to sell shares to him; in so doing, the bond purchaser agrees to accept the consequences if the share price changes in a direction that is contrary to his interests. The bond purchaser therefore bears the risk of the price trend; in exchange, he receives a premium, the amount of which basically depends on the volatility of the underlying stock. If the bond is not held to maturity, that risk is compounded by interest rate risk. A change in the interest rate will affect the bond's price and thus the bond's net yield relative to its maturity.

Please also see the corresponding risk notification in the sections on credit risk, interest rate risk and price risk of shares.

8.2. Interest spread securities products (constant maturity swaps)

These products, which are structured like debt securities, initially feature a fixed coupon. After the fixed-interest phase, the products are converted to a variable interest rate. The coupon, which is generally annual, depends on the current interest situation (e.g. the interest curve). In addition, such products may involve a target interest rate variant; i.e. if a predetermined target interest rate is achieved, the product will be called in early.

Return

In the fixed-interest phase, the investor generally obtains a higher coupon than with conventional bonds on the market. In the variable-interest phase, investors have the opportunity of achieving higher coupons than from fixed-interest bonds.

Risk

Before maturity, market-related price fluctuations may occur. Such fluctuations may prove significant, depending on the interest rate trend.

8.3. Guaranty certificates

When guaranty certificates reach maturity, they pay out the initial face value or a certain percentage thereof regardless of the performance of the underlying security ("minimum redemption").

Return

The maximum return obtainable from the performance of the underlying security may be limited by a maximum redemption price or other restrictions on participation in the performance of the underlying security established in the terms and conditions of the certificate. The investor is not entitled to dividends and similar distributions on the underlying security.

Risk

The value of the certificate may fall below the agreed minimum redemption price before maturity. At maturity, the value will generally be at the level of the minimum redemption price, however. The minimum redemption price depends on the issuer's creditworthiness.

8.4. Discount certificates

In the case of discount certificates, the investor receives the underlying security (e.g. the underlying stock or index) at a discount off the current price (safety buffer) but in exchange his interest in the growth of the underlying security is limited to a certain ceiling (cap or reference price). At maturity, the issuer has the option of either redeeming the certificate at the maximum value (cap) or delivering stocks or, if an index is used as the underlying security, a cash settlement equal to the index value.

Return

The difference between the discounted purchase price of the underlying security and the price ceiling determined by the cap represents the possible return.

Risk

If the price of the underlying security falls sharply, shares will be delivered when the instrument reaches maturity (the equivalent value of the delivered shares will be below the purchase price at that time). Since allocation of shares is possible, it is necessary to take into account the risk notification for shares.

8.5. Bonus certificates

Bonus certificates are debt securities that, subject to certain requirements, pay out at maturity a bonus or appreciated price of an underlying security (individual shares or indexes) in addition to the nominal value. Bonus certificates have a fixed maturity. The terms and conditions of the certificate regularly stipulate the payment of cash or delivery of the underlying security at maturity. The type and price of redemption at maturity depend on the price performance of the underlying security.

Three levels are set for a bonus certificate: a starting level, a barrier underneath the starting level, and a bonus level above the starting level. If the underlying security falls down to the barrier or below, the bonus is forfeited and the certificate will be redeemed at the price of the underlying security. Otherwise, the minimum redemption price results from the bonus level. When the certificate reaches maturity, the bonus is paid out along with the amount initially paid for the face value of the certificate.

Return

With a bonus certificate, the investor acquires a money claim against the issuer for payment of an amount determined by the performance of the underlying security. The return depends on the performance of the underlying.

Risk

The risk depends on the underlying security. If the issuer goes bankrupt, the investor has no secured creditor rights or claim for separation and recovery of assets not belonging to the bankrupt estate with respect to the underlying security.

8.6. Index certificates

Index certificates are debt instruments (usually publicly quoted) that offer investors the possibility of acquiring an interest in a certain index without having to own the securities contained in the index. The underlying index is generally represented on a 1:1 basis; changes in the relevant index are taken into account.

Return

With an index certificate, the investor acquires a money claim against the issuer for payment of an amount that depends on the level of the underlying index. The return depends on the performance of the underlying index.

Risk

The risk depends on the securities underlying the index.

If the issuer goes bankrupt, the investor has no secured creditor rights or claim for separation and recovery of assets not belonging to the bankrupt estate with respect to the underlying security.

8.7. Basket certificates

Basket certificates are debt instruments that offer investors the opportunity to acquire an interest in the performance of a certain securities basket without having to own the securities contained in the basket. The composition of the underlying basket is up to the issuer. The various securities in the basket may be weighted equally or differently. The composition may be adjusted at specified times (e.g. annually).

8.8. Knock-out certificates (turbo certificates)

The term “knock-out certificate” means a certificate that evidences the right to buy or sell a certain underlying security at a certain price if the underlying security fails to reach the specified price threshold (knock-out threshold) before maturity. If it does reach the threshold level, the certificate will expire early and most of the investment will generally be lost. Depending on the price trend of the underlying security, 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).

When the price of the underlying security rises, the increase in the value of the turbo certificates will be disproportionately greater due to the lever (turbo) effect; the same effect occurs in the opposite direction when prices fall, however. Thus, high gains can be earned through small investments, but the risk of loss is increased, as well.

Return

A positive return can be earned if there is a favourable difference between the acquisition price or market price and the exercise price (making it possible to buy the underlying security at the lower exercise price or to 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 stock market quotation is to the exercise price, the stronger the leverage effect. At the same time, however, the risk increases that the price will fall below the knock-out threshold and either the certificate will become worthless or the estimated residual value will be paid out.

8.9. Spread certificates

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

Return

The return depends on the extent of sharing disproportionately in the performance of the underlying security.

Risk

If the final price established on the value date is below the starting point, the certificate will merely represent the price performance of the underlying security. If the price falls below the stopping point, the investor receives a fixed maximum redemption price at maturity with no right to share in the price increase.

8.10. Twin Win certificates

When Twin Win certificates reach maturity, the issuer pays out a redemption price that depends on the performance of the underlying instrument. The certificates have a barrier. If (as a general rule) the price does not reach or falls below the barrier of the Twin Win certificate before it matures, the investor shares in the absolute performance of the underlying instrument starting from the base price set by the issuer; this means that even price losses of the underlying instrument may translate into gains on the certificates. If the price reaches or falls below the barrier of the Twin Win certificate before maturity, the certificate will be redeemed at a price at least equal to the current price trend of the underlying instrument. The issuer may stipulate that disproportionate sharing in the performance of the underlying instrument is possible above the base price. There may be a limit on the maximum redemption price, however.

Return

If the price does not reach the barrier, the investor may also profit from the negative performance of the underlying instrument, since he shares in the absolute performance; price losses in the underlying instrument may therefore translate into gains. The certificate may react more or less strongly to the price fluctuations of the underlying instrument depending on various influencing factors (e.g. volatility of the underlying instrument, time to maturity, distance of the underlying instrument from the barrier).

Risk

Twin Win certificates are risky investment instruments. If the price of the securities underlying the Twin Win certificate changes unfavourably, all or much of the invested capital may be lost.

8.11. Express certificates

An express certificate lets the investor share in the performance of the underlying instrument with the option of early redemption. If on one of the determination dates the underlying instrument satisfies the trigger criterion specified by the issuer, the certificate expires early and will be automatically redeemed by the issuer at the redemption price applicable on the determination date in question. If the underlying instrument does not satisfy the specified trigger criterion even on the final determination date, the certificate will be redeemed at the closing price of the security underlying the certificate established at maturity/on the final determination date. In that case, if the issuer set a barrier at the start of the issue of the certificate and the price of the underlying instrument neither reaches nor breaks through the barrier during the observation period, the certificate will be redeemed at a price at least equal to the minimum redemption price defined by the issuer.

Return

Express certificates offer the possibility of early realisation of the positive performance of the underlying instruments. Even if the specified trigger criterion is not satisfied, there may be a payout of the minimum redemption price, if the barrier has not been reached or broken through.

The certificate may react more or less strongly to the price fluctuations of the underlying instrument depending on various influencing factors (e.g. volatility of the underlying instrument, time to maturity, distance of the underlying instrument from the barrier).

Risk

Express certificates are risky investment instruments. If the price of the securities underlying the express certificate changes unfavourably, all or much of the invested capital may be lost.

9. Hedge funds

(Hedge funds, hedge funds of funds, hedge fund index certificates and other products with hedge strategies as the underlying investment)

General information

Hedge funds are funds that are subject to few or no restrictions of a statutory or other nature with respect to the principles of investment. They endeavour to use all forms of investment to increase their capital through alternative, sometimes non-transparent investment strategies.

Examples of investment strategies:

- Long/Short:** Undervalued securities are bought and overvalued securities are simultaneously sold short.
- Event-Driven:** The objective is to take advantage of specific corporate events such as mergers, acquisitions, reorganisation or bankruptcy.
- Global Macro:** This style attempts to use macroeconomic analysis of major economic and political trends in order to identify and exploit market inefficiencies.

Hedge funds of funds are funds that invest in individual hedge funds. Hedge fund index certificates are debt securities whose price and performance trend depend on the average trend of several hedge funds that are combined into a single index to provide a basis of calculation. Hedge funds of funds and hedge fund index certificates offer investors the advantage of improved risk diversification.

Return and risk components

Hedge funds offer an opportunity for very high returns, but the risk of losing your invested capital is correspondingly high. The price trend of hedge fund products is especially influenced by the following factors, which generate opportunities and risks:

- Hedge funds trends tend to be independent from international stock and bond market trends; depending on the hedge fund strategy the general market trend may either be exaggerated or result in a pronounced trend in the opposite direction.
- Hedge fund trends are particularly influenced by their market share.
- Due to their components, hedge fund assets may be highly volatile, which means that the share prices may also be subject to significant upward and downward fluctuations within short periods of time. In extreme cases, unsecured hedge fund products may lead to a total loss.
- Concentrating on just one strategy or only a few exacerbates the risk – that risk may be reduced through diversification in the case of hedge funds of funds or hedge fund index certificates.
- The manager of the fund of funds selects the individual funds and their composition in keeping with the fund's desired risk/return profile or according to a system of distribution among various countries and sectors determined by an index committee.
- It is impossible for the underlying hedge funds to be transparent at all times to the fund of fund management/index committee.

Liquidity risk

Since hedge funds require complex strategies and are difficult to manage, it takes longer to determine the price of a hedge fund product than with traditional funds. Hedge fund products are therefore less liquid than traditional funds. The prices are generally determined on a monthly rather than daily basis, so that shares can frequently be redeemed only once a month. To be able to return the shares at the time, the investor must give an irrevocable declaration of intent to return his shares well in advance of the redemption date. The share price may change significantly between the time of the declaration of intent to return the shares and the time of redemption, but the investor does not have the chance to react to such price changes since his declaration of intent is irrevocable. The specific terms of redemption depend on the individual product. The limited liquidity of the individual funds and instruments can therefore decrease the negotiability of hedge fund products.

10. Money market instruments

Definition

Money market instruments include certificated money market investments and borrowings such as certificates of deposit (CDs), cash deposit certificates, global note facilities, commercial papers as well as all notes with a maturity of up to five years for the repayment of principal and fixed interest rates for up to one year. Money market transactions also include genuine repurchase transactions and agreements.

Return and risk components

The return and risk components of money market instruments are largely equivalent to those of bonds/debentures/notes. Differences relate mainly to the liquidity risk.

Liquidity risk

As a rule, there are no organised secondary markets for money market instruments. Consequently, it cannot be guaranteed that the instruments can be sold readily.

Liquidity risk becomes of secondary importance if the issuer guarantees repayment of the invested capital at any time and is sufficiently creditworthy to do so.

Money market instruments – explained easily:

Certificates of Deposit	Money market securities issued by banks, generally with a maturity of 30 to 360 days.
Medium-term notes	Money market securities issued by banks, generally with a maturity of up to 5 years.
Commercial Papers	Money market securities, short-term notes issued by major corporations, generally with a maturity of 5 to 270 days.
Global Note Facility	A variation on the commercial paper facility that enables the issuing of commercial paper simultaneously in the USA and on markets in Europe.
Notes	Short-term capital market instruments, generally with a maturity of 1 to 5 years.

11. Forward securities transactions on the stock exchange (options and futures contracts)

When trading in options and futures, the high chances of gain are counterbalanced by high chances of loss. As your bank, we believe it is our duty to inform you of the risks of options or futures contracts before you make such transactions.

Purchase of options

This means the purchase (opening = purchase for opening, long position) of calls (options to buy) or puts (options to sell), which entitles you to demand delivery or acceptance of the underlying security or, if that is impossible, as in the case of index options, you are entitled to demand payment of an amount of cash equal to the positive difference between the price of the underlying security at the time of purchase of the option and the market price at the time of exercise of the option. In the case of American-type options, the option may be exercised at any time before the agreed expiration date; in the case of European-type options, they can be exercised only on the agreed expiration date. In exchange for the grant of the option, you pay the option price (option premium). If the price changes in the opposite direction from what you hoped when you bought the option, your option may lose all its value by the expiration date. Your risk of loss is therefore the price you paid for the option.

Sale of options contracts and purchase or sale of futures contracts**Sale of calls**

This means the sale (opening = sale for opening, short position) of a call (option to buy), by which you assume the obligation of delivering the underlying security at a specified price at any time before the expiration date (in the case of American-type call options) or on the expiration date (in the case of European-type call options). In exchange for assuming that obligation, you receive the option price. If the price of the underlying security rises, you must accept the risk of delivering the underlying security at the agreed price even if the market price is significantly higher than that price. That price difference constitutes your risk of loss, which cannot be determined in advance and in principle is unlimited. If the underlying securities are not in your possession (**uncovered short position**), you will have to purchase them through a cash transaction (replacement transaction) and your **risk of loss** in that case **cannot be determined in advance**. If the underlying securities are in your possession, you are protected against replacement losses and will also be able to make timely delivery. Since such securities 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 refers to the sale (opening = sale for opening, short position) of a put (option to sell), by which you assume the obligation of purchasing the underlying security at a specified price at any time before the expiration date (in the case of American-type calls) or on the expiration date (in the case of European-type calls). In exchange for assuming that obligation, you receive the option price. If the price of the underlying security falls, you must accept the risk of buying the underlying security at the agreed price even if the market price is significantly

lower than that price. **That price difference, which is calculated on the basis of the exercise price minus the option premium, constitutes your risk of loss, which cannot be determined in advance and is in principle unlimited.** An immediate sale of the securities will be possible only at a loss. If you do not wish to sell the securities immediately, however, and want to retain possession of them, you will have to pay the amount necessary to do so.

Sale or purchase of futures contracts

This refers to the purchase or sale of futures, by which you assume the obligation to accept or deliver the underlying value at the specified price at the end of the agreed term. If prices rise, you must accept the risk of having to deliver the underlying securities at the agreed price, even if the market price is significantly higher than that price. If prices fall, you will have to accept the risk of purchasing the underlying securities at the agreed price even if the market price is considerably lower. That price difference constitutes your risk of loss. In the case of an obligation to purchase, you must have all the necessary cash available at maturity. If the underlying securities are not in your possession (**uncovered short position**), you will have to purchase them through a cash transaction (replacement transaction) and your **risk of loss** in that case **cannot be determined in advance**. If the underlying securities are in your possession, you are protected against replacement losses and will also be able to make timely delivery.

Cash settlement transactions

If delivery or acceptance of the underlying securities is not possible in a futures transaction (e.g. in the case of index options or index futures), you will be required to pay a cash amount (cash settlement) if the market did not move in the direction you anticipated. The cash amount can be calculated from the difference between the price of the underlying security at the time you signed the option or futures contract and the market price at the time of exercise or maturity. That constitutes **your risk of loss, which cannot be determined in advance and is in principle unlimited**. In that case, you must ensure that you have sufficient liquid assets to cover the transaction.

Posting of security (margins)

In the case of uncovered sale of options (opening = sale for opening, uncovered short position) or the purchase or sale of futures (future transactions), it is necessary to post security in the form of a "margin". You are required to post such security at the time of opening and whenever needed (if the price moves contrary to your expectations) at any time before the expiration of the option or futures contract. If you are not capable of posting the additional security that may be required, we will unfortunately be forced to close out your position immediately and use the hitherto posted security to cover the transaction (see section 5(1) of the "Special Terms and Conditions for Options and Futures Transactions traded on the Stock Exchange or Over-the-Counter").

Liquidation of positions

When trading in American-type options and futures contracts, you have the possibility of liquidating your position before the expiration date (closing). You cannot always be sure that that will be possible at any time, however. It always depends very strongly on the market situation; in a difficult market, you may have to perform trades at an unfavourable market price, so that losses may be incurred.

Other risks

Options entail both rights and obligations – futures contracts entail obligations only – with a short maturity and predetermined expiration or delivery dates. For those reasons, and because of the rapidity of such transactions, the following additional risks are created, in particular:

- Options that are not exercised in a timely manner will expire and become worthless.
- If you are unable to post the required additional security in a timely manner, we will liquidate your position and draw upon your previously posted security, without prejudice to your obligation to cover the outstanding balance.
- In the case of option transactions (short position), we will perform the necessary steps for you without prior information in the event of allotment. If there is insufficient cover, we will sell securities allotted on the basis of the exercise of a put.
- If you perform futures transactions in foreign currency, an unfavourable trend in the foreign exchange market may increase your risk of loss.

12. Forward exchange deals

Definition

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

Return

The return (profit/loss) achieved by speculative investors is the difference between the currency rates during or at the end of the maturity of the forward deal in line with the contract specifications.

The use of currency forwards for hedging purposes means locking in an exchange rate so that the costs of the hedged transaction as well as its return will neither increase nor decrease as a result of any exchange rate fluctuations.

Currency risk

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

Credit risk

The credit risk in connection with currency forwards derives from the possibility of counterparty default due to insolvency, i.e. one party's temporary or permanent inability to complete the forward exchange deal, making more expensive covering transactions in the market necessary.

Transfer risk

The transfer of some foreign currencies may be restricted, in particular as a result of exchange-control regulations in the country issuing that currency. The orderly execution of the forward exchange transaction would then be at risk.

13. Currency swaps

Definition

A transaction in which specified amounts of one currency are exchanged for another currency over a certain period of time. The interest rate differential between the two currencies is reflected in a premium/discount to the re-exchange price. Delivery/receipt of the counter currency is effected at the same value.

Return

The return (profit/loss) for anyone trading in currency swaps results from the positive/negative development of the interest rate differential and can be made in the case of a countertrade during the maturity of the currency swap.

Credit risk

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

Transfer risk

The transfer of some foreign currencies may be restricted, in particular as a result of exchange-control regulations in the country issuing that currency. The orderly execution of the currency swap would then be at risk.

14. Interest rate swaps (IRS)

Definition

An interest rate swap is an agreement between two parties to exchange interest obligations at different rates in respect of a notional principal amount. As a rule, fixed interest rates are exchanged for variable ones. This means that only interest payments are swapped, whereas no exchange of principal takes place.

Return

The buyer of an interest rate swap (pays fixed interest rates) benefits from a rise in market interest rates. The seller of an interest rate swap (receives fixed interest rates) benefits from a fall in interest rates. The return on an interest rate swap cannot be determined in advance.

Interest risk

The interest rate risk results from the uncertainty over future changes in market interest rates. The buyer/seller of an IRS is exposed to risk of loss if interest rates fall/rise.

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 features of IRS

Interest rate swaps do not have standardised terms. The processing details must be contractually agreed upon in advance. Interest rate swaps are tailor-made products. It is therefore imperative to obtain full information on the exact terms and conditions of interest rate swaps, in particular:

- nominal amount
- term
- interest rates agreed

14.1. Special form: constant maturity swap (CMS)**Definition**

A constant maturity swap is an exchange of different interest rates payable on a fixed nominal amount by two contracting parties. It is generally an exchange of a variable money market interest rate (e.g. the 3-month EURIBOR) against a capital market interest rate (e.g. the 10-year EUR-IRS). That capital market interest rate does not remain fixed for the life of the swap, however, but rather is periodically adjusted.

Return

The purchaser of the CMS (who pays the capital market interest rate) earns a return in the event that the interest curve levels out, e.g. if the capital market interest rates fall and the money market interest rates rise. The return from a CMS cannot be determined in advance.

Interest rate risk

Interest rate risk results from the uncertainty of future changes in the interest level of the capital market and money market. The buyer or seller of a CMS is exposed to a risk of loss if the interest curve becomes steeper or levels out, respectively.

14.2. Special form: CMS spread-linked swap**Definition**

In the case of a CMS spread-linked swap, different interest rates payable are swapped, as above. 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 life of the swap), on the one hand, and the difference between two CMSs (e.g. the 10-year EUR CMS minus the 2-year CMS), often increased by a certain multiple (e.g. x 2). The CMS spread is often provided with a fixed coupon for a certain initial period.

Return

The buyer of the CMS spread-linked swaps (who pays the difference between the CMSs) earns a return if the two capital market curves involved (e.g. the 10-year EUR IRS and 2-year EUR IRS) level out. The return from a CMS spread-linked swap cannot be determined in advance.

Interest rate risk

The interest rate risk results from the uncertainty of the future interest rate changes of the short-term capital market relative to the long-term capital market in relation to the money market interest rates (or the amount of the fixed interest rate).

15. Forward rate agreements (FRA)

Definition

Forward Rate Agreements are used to agree on interest rates to be paid at a specified time in the future. Since FRAs are dealt in on the interbank market and not on a stock exchange, they do not have standardised terms. Unlike the closely related futures FRAs are customised investment products in terms of principal amount, currency and interest period.

Return

Through buying/selling an FRA, the investor fixes the interest rate for the period in question. If the reference rate is higher than the agreed interest rate (FRA price) at the maturity date, the buyer of the FRA will be compensated for the movement in interest rates. If the reference rate is lower than the agreed interest rate (FRA price) at the maturity date, the seller of the FRA will receive a compensation payment.

Interest rate risk

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

Credit risk

The credit risk with FRAs derives from the possibility of counterparty default, causing the loss of positive cash values or making more expensive covering transactions at a less favourable price in the market necessary.

Special features of FRAs

FRAs do not have standardised terms, but are customised investment products. It is therefore imperative to obtain full information on the exact terms and conditions of the contract, in particular:

- nominal amount
- term
- interest rates agreed

16. 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. Consequently, the return on such an investment (interest rate or price) can be fixed in advance. Also with interest rate futures, unconditional commitments are made, which must be fulfilled once the risks below occur no matter how the futures develop.

Return

The gains or losses achieved by speculative users of interest futures result from the interest rate or price differential at the end of the future period subject to the terms of the contract.

The use of interest rate futures for hedging purposes reduces the financial risk of existing or future positions.

Interest rate risk

The value of an interest rate future depends primarily on the yield trend of the underlying instrument. The buyer's exposure is therefore comparable to that of a holder of the underlying instrument. The risk results from the uncertainty over future interest rate changes in the market. The interest rate risk encountered by the buyer/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 current interest rates is. The resulting potential of loss may be many times higher than the original capital invested (margin).

Liquidity risk

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

17. Over-the-counter (OTC) options

17.1. Standard option – plain vanilla option

The buyer of an option acquires the right, on or before a specified date, to buy (call option) or sell (put option) the underlying instrument (securities, foreign currency, etc.) at a fixed (strike) price or (e.g. in the case of interest rate options) to receive a compensation payment resulting from the positive difference between strike price and market value at the time the option is exercised. The option writer (seller) is obligated to fulfil the rights of the option buyer. Options may differ according to the style of exercise:

An **American option** is exercisable at any time up to the expiry date, whereas a **European option** may be exercised only at expiry.

17.2. Exotic options

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

17.3. Special form: barrier option

In addition to the exercise price, there is a threshold value (barrier). When that barrier is reached, the option is either activated (knock-in option) or deactivated (knock-out option).

17.4. Special form: digital (payout) option

Option with a specified payout, which the buyer of the option receives in exchange for paying a premium, if the price (interest rate) of the underlying security is below or above (depending on the option) the threshold value (barrier).

Return

The holder of an option will make a profit if the price of the underlying instrument rises above the strike price (in the case of a call option) or falls below the strike price (in the case of a put option). The option holder may either exercise the option or sell it (plain vanilla option, activate knock-in option, non-deactivated knock-out option). If a knock-in option is not activated or knock-out option is deactivated, the option expires and becomes worthless.

The holder of digital (payout) options receives a return if the threshold value is reached before maturity or at maturity, which means he receives the payout.

General risks

The value (price) of an option depends on the strike price, the performance and volatility of the underlying instrument, the option life, the level of interest rates and the market situation. In the worst case, therefore, the capital invested (option premium) may become completely worthless. If the price of the underlying instrument moves contrary to the expectation of the option seller, the potential loss will be virtually unlimited (plain vanilla option, barrier option) or in the amount of the agreed payout (digital option).

Please note, in particular, that options not exercised in a timely manner will expire on the expiration date and will therefore be erased from the accounts as worthless. Important: The bank will not exercise your option without your express instructions.

Special risks of OTC transactions

As a rule, OTC options do not have standardised terms, but are mainly customised investments. It is therefore imperative to obtain full information on the exact terms and conditions of an option (style of exercise, expiry, etc.).

The credit risk encountered by the buyer of an OTC option derives from the possibility of losing the premium already paid due to counterparty default, making more expensive covering transactions in the market necessary.

Being customised products, over-the-counter options are usually not traded on organised (secondary) markets. Consequently, the tradability of such options cannot be guaranteed at any time.

18. Currency options

Definition

The buyer of a currency option acquires the right, but not the obligation, to buy or sell a fixed quantity of 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 possibilities exist:

- The buyer of a 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 a call option guarantees to deliver/sell, at the option buyer'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 (expiry date).
- The seller of a put option guarantees to buy, at the option buyer's request, a defined 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 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 purchased in the expectation of falling currency rates.

Risks attached to the purchase of options

Risk of forfeited premium

The buyer of an currency option incurs the risk of losing the entire amount of the premium, which must be paid irrespective of whether the option is exercised or not.

Credit risk

The credit risk in connection with the purchase of currency options results from the possibility of counterparty default. This will lead to the loss of the premium already paid and make more expensive covering transactions in the market necessary.

Currency risk

The currency risk derives from the possibility of adverse moves in the value of the respective currency during the life of the option. In the worst case, the invested capital may be lost.

Risks attached to the sale of options

Currency risk

The currency risk results from the possibility of adverse moves in the value of the respective currency during the life of the option. The resulting risk of loss is virtually unlimited for option writers.

The pricing of a currency option depends on various factors:

- volatility of the underlying currency rate (measure of the expected fluctuation margin in the exchange rate)
- the selected strike price
- the amount of time remaining until expiration
- the current exchange rate
- the interest rate level in 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 orderly execution of the deal would then be at risk.

Liquidity risk

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

Special features of currency options

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

- Style of exercise:** Is the option exercisable at any time during its life (American option) or only at expiry (European option)?
- Expiry:** When does the option right expire? Please note that your bank will not exercise an option unless specifically instructed to do so.

19. Interest rate options**Definition**

Interest rate options are agreements on an upper or lower limit to interest rates or an option for interest rate swaps. They are used either

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

Interest rate options are either calls or puts. Common variants are caps, floors, swaptions, etc.

Through buying a cap, the buyer secures for himself an upper interest rate limit (= strike price) for future borrowings. In speculative trading, the value of a cap increases on rising interest rates.

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

Floor secure the buyer a certain minimum interest rate on a future investment. In speculative trading, the value of a floor increases on falling interest rates.

ad a) Hedging purposes

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

ad b) Speculative trading to realise a gain

The value of a cap increases as interest rates rise. In this case, however, the forward rates (future interest rates traded today) are more important than the current interest rates.

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

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

A distinction is made between two different types of performance with different risk profiles:

a) Swaption with swap settlement

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

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

b) 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 or current market interest rate.

Return

The holder of an interest rate option will realise a gain if on the exercise date the interest rate in the market is higher than the strike price of the cap or lower than the strike price of the floor. In the case of swaptions, a return can be achieved if on the exercise date the interest rate in the market is above the agreed strike price (with payers swaptions) or below the agreed strike price (with receivers swaptions). The option premium received stays with the seller, no matter whether the option is exercised or not.

Interest rate risk

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

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

- volatility of interest rates
- selected strike price
- the amount of time remaining until expiration
- level of interest rates in the market
- current financing cost
- liquidity

This means that the price of an option may remain unchanged or decrease even though investors' expectations as to the movement of interest rates have been met.

Credit risk

The credit risk encountered by the buyer of an interest rate option derives 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 forfeited premium

The maximum loss in the case of buying an interest rate option is the amount of the premium, which must be paid irrespective of whether the option is exercised or not.

Special features of interest rate options

Interest-rate options do not have standardised terms, but are customised investments. It is therefore imperative to obtain full information on the exact terms and conditions of such options, in particular:

- Style of exercise:** Is the option exercisable at any time during its life (American option) or only at expiry (European option)?
- Exercise:** Delivery of the underlying instrument or cash settlement?
- Expiry:** When does the option right expire? Please note that your bank will not exercise an option unless specifically instructed to do so!

20. Cross-currency swaps (CCS)**Definition**

A cross-currency swap is an exchange of differently defined interest rates payable and different currencies on a fixed nominal amount between two contracting parties. It generally is an exchange of fixed interest rates in two different currencies. Both interest payments may also be payable in variable interest rates. The flow of payments occurs in different currencies based on the same amount of capital, which is determined on the basis of the current spot rate on the trade date.

Besides the exchange or 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). Depending on the needs of the individual trading partners, the Initial Exchange may be omitted.

Return

The return from a CCS cannot be determined in advance.

In the case of a positive trend in the exchange rate and in the difference between the interest rates, a capital gain may be realised from early liquidation of the CCSs. If the CCS is concluded for an improvement of the difference in interest rates, a capital gain may be realised from the lower interest rates of another currency. That gain may be neutralised in turn by exchange losses, however. If the currency relationship develops in a positive manner, the capital gain may be increased further still.

Interest rate risk

The interest rate risk results from uncertainty concerning the future change in the market interest rate level. The buyer/seller of a CCS is exposed to a risk of loss if the market interest level rises/falls.

Currency risk

The currency risk results from uncertainty concerning the future changes in the relevant exchange relationship of the currencies involved. In the case of a CCS with Final Exchange, it is especially important to note that currency risk exists not only in the case of the default of a contracting partner but also for the life of the swap.

Credit risk

The credit risk in the case of buying/selling a CCS is the danger that the default of the transaction partner will result in an obligation to provide additional cover.

Special terms and conditions for CCSs

CCSs are not standardised. They are customised products. It is therefore especially important to get accurate information about them, especially with respect to:

- Nominal amount
- Term
- Definition of the interest rate
- Definition of the currency
- Definition of the exchange rate
- Initial Exchange (yes or no?)

21. 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 are involved, inter alia, in the instruments described below.

Basic information about the individual instruments

Commodity swaps:

A commodity swap is an agreement involving the exchange of a series of commodity price payments ("fixed amount") against variable commodity price payments ("market price") resulting exclusively in a cash settlement ("settlement amount").

The buyer of a commodity swap acquires the right to be paid a settlement amount if the market price rises above the fixed amount. In contrast, the buyer of a commodity swap is obligated to pay the settlement amount if the market price falls below the fixed amount.

The seller of a commodity swap acquires the right to be paid a settlement amount if the market price falls below the fixed amount. In contrast, the seller of a commodity swap is obligated to pay the settlement amount if the market price rises above the fixed amount.

Both streams of payment (fixed/variable) are in the same currency and based on the same nominal amount. Whereas the fixed side of the swap is of the nature of a benchmark, the variable side is related to the trading

price of the relevant commodities quoted on a stock exchange or otherwise published on the commodities futures market on the relevant fixing date or to a commodity price index.

Commodity options with cash settlement

The buyer of a commodity put option pays a premium for the right, on every exercise, to receive the difference between the strike price and the market price in relation to the nominal amount if the market price follows below the fixed amount.

The buyer of a Commodity Call Option pays a premium for the right to receive, on every exercise, the difference between the strike price and the market price if the market price rises about the fixed amount.

Risks – Details on the various instruments

Risk of commodity swaps and commodity options with cash settlement

If the trend does not live up to your expectations, you will have to pay the difference between the underlying price when you signed the agreement and the current market price when the transaction reaches maturity. That difference constitutes the loss. The maximum amount of loss cannot be determined in advance. It may possibly exceed the security posted.

Risk when buying commodity options – Price loss

A price change in the underlying asset (e.g. of a raw material) that underlies the option as the subject matter of the contract may reduce the value of the option. A loss of value may occur in the case of a call option in the event that the prices fall; in the case of a put option, loss of value may occur if the price of the asset underlying the contract rises.

A loss in the value of the options may occur even if the price of the underlying assets does not change because the value of the option is also influenced by other price formation factors (e.g. the term or frequency and intensity of the price fluctuations of the underlying asset).

Your risk when selling commodity options – Leverage effect

The risk in the case of selling commodity options is that the value of the underlying asset will not have moved in the direction originally anticipated by the seller by the time that the option expires. The resulting potential loss is unlimited for the options written.

Risks of commodity futures transactions in general

Price fluctuations

The amount of the payment obligation arising out of commodity futures transactions is determined by the prices on a certain commodity futures market.

Commodity futures markets may depend on strong price fluctuations. Many factors related to supply and demand for commodities may influence the prices. It is not easy to forecast or predict such pricing factors. Prices may be significantly influenced by unforeseen events, such as natural disasters, illnesses, epidemics, or orders given by the public authorities, as well as unpredictable developments, such as the effects of weather, variations in harvests, or transport and storage risks.

Currency risk

Commodity prices are often quoted in foreign currency. You will also be exposed to currency market risk if you enter into a commodity transaction in which your obligation or right to counter-performance is denominated in foreign currency or a foreign unit of account or the value of the subject matter of the contract is determined thereby.

Liquidation/Liquidity

Commodity futures markets are generally tighter than financial futures markets and may therefore be less liquid. You may be wholly or partially unable to liquidate a commodity futures position at the desired time because of insufficient market liquidity. Moreover, the spread between the bid and ask prices in a contract may be relatively wide. It may be difficult or impossible to liquidate positions under certain market conditions. Most commodity futures exchanges are authorised to set limits on price fluctuations, for example. Such limits prohibit asks or bids outside beyond certain limits during a certain period. This may make it difficult or impossible to liquidate certain positions.

Limit orders/stop orders

Limit orders or stop loss orders are instructions that limit trading losses in the event of certain market movements. Although such possibilities of limiting risk are permitted on most commodity futures markets, limit orders or stop loss orders cannot generally be set for OTC commodities.

Forward markets and spot markets

It is especially important to understand the relationship between forward contract prices and spot market prices. Although market forces may equalise the differences between the forward contract price and the spot market price of the commodities in question to such an extent that the price difference on the delivery date is practically zero, a variety of market factors, including supply and demand, may still result in differences between the contract price and spot market price of the commodities in question.

Determination of the market price

Market prices are quoted either on the commodity futures exchanges or according to the usual market practices. Due to system failures, system malfunctions on the exchange or other causes, it sometimes happens that no market price can be determined for the agreed fixing date. If no arrangement is made for a substitute method of price determination, the calculation agent is usually authorised to set the market price according to his own reasonably exercised discretion.

