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Provisions for specific OTC derivatives

Valid from 1 December 2018

Note: Although for purposes of readability the masculine gender form is used to reference persons in the relevant sections, this is, of course, always deemed to include members of both genders. The same applies to the plural form.

1. Special provisions for options

1.1 General rules on buying, selling and exercising

1.1.1 Buying options
When buying an option (call or put option), the Bank client pays the Bank an agreed options price.

1.1.2 Selling options
1.1.2.1 Covered call options
The Bank will only execute sell orders for covered call options if the Bank client has a corresponding number of underlying assets in their safe custody account. By issuing an order to the Bank, the Bank client instructs the Bank to undertake to deliver the underlying assets to its trading partner in the event of an option strike. The Bank client acknowledges and agrees that in addition to the separately agreed pledge under clause 5.3 of the Framework Agreement for OTC Derivatives (hereinafter referred to as the “Framework Agreement”), the Bank shall block the underlying assets required for the covered call options and the Bank client may no longer access them.

1.1.2.2 Put options and uncovered call options
The Bank executes sell orders for call options for which the Bank client has not deposited any underlying asset collateral in accordance with section 1.1.2.1 above (uncovered call option), or for put options, only if the Bank client indemnifies the Bank for its obligations arising from the sale for the entire duration of the transaction under clause 5 of the Framework Agreement.

1.1.3 Exercising options
1.1.3.1 A European option may be exercised only on the exercise date until the exercise cut-off time. An American option may be exercised on the exercise date until the exercise cut-off time and on any other bank working day during the exercise period until the normal close of trading of the reference exchange for underlying assets. Any exercise declarations received after the respective stock exchange's normal close of trading will be valid for the following bank working day. Unless agreed otherwise in the confirmation, the exercise period begins on the transaction trade date.

1.1.3.2 If no exercise cut-off time is specified in the confirmation, the time of the normal close of trading of the reference exchange for underlying assets applies. The appropriate rule for unlisted underlying assets will be agreed separately in the confirmation.

1.1.3.3 Although the Bank is under no obligation, it may, in the Bank client's interest, exercise any long position in options that is in the money at the exercise cut-off time on the exercise date, unless the Bank receives instructions to the contrary from the Bank client by 12 p. m. (CET) at the latest two bank working days before the exercise date.

1.1.3.4 The Bank will not exercise any long position in options that is at the money or out of the money at the exercise cut-off time on the exercise date, unless the Bank receives instructions to the contrary from the Bank client by 12 p. m. (CET) at the latest two bank working days before the exercise date.

1.1.3.5 It is the Bank client's responsibility to give the Bank instructions on time. The Bank client has no claims against the Bank arising from the exercising or non-exercising of an option under sections 1.1.3.3 and 1.1.3.4 above, except in cases where the Bank has failed to trade in accordance with the Bank client's instructions that were given in time. The provisions of clause 3 of the Framework Agreement apply to any potential liability on the part of the Bank.

1.1.3.6 As a general rule, physical underlying assets must be actually delivered when an option is exercised, unless the parties agree cash settlement. The underlying assets to be delivered when the option is exercised must be delivered to the contractual party entitled under the regulation applicable on the reference exchange for underlying assets. Cash settlement must be made to the contractual party entitled under the settlement regulation applicable on the reference exchange for underlying assets.

1.1.3.7 The Bank client shall ensure that they can meet their obligations at all times. If a call option is exercised and the Bank client does not have the necessary underlying assets in their custody account at the Bank, the Bank is entitled to buy the necessary underlying assets at best for the account of the Bank client.

1.1.3.8 In exercising the options right, the same taxes, fees and commissions are due as with a direct stock exchange transaction.

1.1.3.9 For options on underlying assets that are on a nominal basis, it is the buyer's responsibility to seek the agreement of the issuer of the underlying assets for entry in the relevant register. If this agreement is refused, the validity of exercising the option will not be affected.

1.2 Options on shares

1.2.1 Rights attached to underlying assets
The owner of the underlying assets is entitled to the rights attached to the underlying assets until the exercise date. The underlying assets acquired through exercising the options carry a claim to all dividends payable after the exercise date and any other rights associated with the underlying assets. If the exercise date and date of dividend payment are the same, the underlying asset will be delivered ex dividend. The same applies to the other rights that may be associated with the underlying asset (e. g. subscription rights or preferential subscription rights).

1.2.2 Adjustments
1.2.2.1 Suspension of trading
If trading in underlying assets on the reference exchange for underlying assets is temporarily or permanently suspended, the market price of the underlying asset will be determined on the following day. If it is not possible to determine the market price within eight bank working days, the Bank will determine the market price of the underlying asset in a financially expedient manner and in good faith. To do so, the Bank may follow relevant market practices and/or refer to the adjustments made in any hedging transaction concluded by the Bank.

1.2.2.2 Significant events
If an event occurs that in the Bank's estimation and judgement is or could potentially be significant for the valuation of the underlying asset or a transaction or for the possibility of the Bank concluding or maintaining a hedging transaction on one or several transactions (e. g. a dilution or increase in value due to a capital increase, capital restructuring or merger of the issuer, a split, consolidation or reclassification of the share in question, an extraordinary dividend payment, a change in the applicable law, levying of additional tax, or any other event concerning the issuer), the Bank may at its own discretion and in good faith adjust the provisions of the transaction in question to take appropriate account of the occurrence of such an event for the underlying asset or transaction in question (e. g. adjust the strike price, number of options, underlying asset per option, knock-out or knock-in price). To make the adjustments, the Bank may follow relevant market practices (particularly corresponding adjustments

of the reference exchange) or refer to the adjustments made in any hedging transaction it has concluded. If, in the Bank's judgement, it is not possible to make an adjustment with a financially appropriate or fair result, the transaction in question will be ended and the Bank will determine in good faith the payments owed by one party to the other.

1.2.2.3 Nationalisation and delisting
If:
- the Bank determines (at its own discretion) that the issuer of an underlying asset was nationalised (all or a significant part of the shares or assets of the issuer are nationalised, expropriated or otherwise transferred to government authorities, agencies or entities); or
- the reference exchange announces that under its rules, an underlying asset – for any reason whatsoever (apart from mergers and takeover offers) – is no longer listed, traded or publicly quoted and is not going to be immediately listed again, traded or accepted on another stock exchange or a price determination system in the same country as the reference exchange (or if the reference exchange is in the European Union, in a Member State of the European Union);
- the transaction in question will be ended and the Bank will determine, at its own discretion and in good faith, the time at which to end the transaction and the amount that one party has to pay the other. To do so, the Bank may follow relevant market practices and/or refer to the adjustments made in any hedging transaction it has concluded.

1.3 Options on indices

1.3.1 In cases where the index is calculated or published before the exercise cut-off date by a third party acceptable to the parties (hereinafter referred to as the “Third Party”) rather than on behalf of the original index sponsor, the Bank will calculate the cash settlement based on the daily closing rate on the exercise date calculated and published by the Third Party.

1.3.2 If, before the exercise date, the index's calculation formula or method, or the index, is otherwise changed by the original index sponsor or Third Party, the cash settlement will be determined by the Bank in a financially expedient manner and in good faith. To do so, the Bank may follow relevant market practices and/or refer to the adjustment made in any hedging transaction concluded by the Bank.

1.3.3 In cases where the original index sponsor or Third Party suspends the calculation or publication of the index (temporarily or permanently) and no successor index is provided, the rule on adjustments applicable on the reference exchange must be followed. If there is no such rule, the index will be calculated on the following bank working day. Should it not be possible to calculate the index within five bank working days, the Bank will make the index's corresponding calculations in good faith. To do so, the Bank will take account of the calculation formula and method applicable on the date of the interruption or suspension of the index calculation.

1.4 Options on interest rate instruments

1.4.1 Rights attached to underlying assets
The owner of the underlying assets is entitled to the rights attached to the underlying assets until the settlement date. The underlying assets acquired through exercising the options carry a claim to all interest payable after the settlement date and any other rights associated with the underlying assets. If the settlement date and interest maturity date are the same, the underlying assets will be delivered ex interest. The same applies to the other rights associated with the underlying asset.

1.4.2 Changes in the issuing conditions of the underlying assets
1.4.2.1 If the underlying assets are merged or exchanged as a result of debt restructuring, change of borrower, etc., the new underlying assets replace the previous ones, if necessary with an adjustment to the strike price. Any choices granted will be exercised at the discretion of the respective owner of the previous underlying assets. Any fractional amounts must be paid out in cash.

1.4.2.2 The same applies accordingly if binding changes occur for all creditors that affect the capital repayment, interest payments or maturity of these payments.

1.4.3 Early redemption
1.4.3.1 The party obligated to deliver if the option is exercised also remains obligated to actual delivery if individual underlying assets are redeemed, e.g. through random selection.

1.4.3.2 If all underlying assets are redeemed in a binding manner for all creditors, a European option can be exercised early with effect from the redemption due date. If an American or European option is exercised on this date, cash settlement applies based on the redemption price paid by the borrower.

1.4.4 Suspension of trading / significant events
If trading in underlying assets on the reference exchange for underlying assets is temporarily or permanently suspended or another event occurs that, in the Bank's view, is significant for an options transaction on interest rate instruments (e.g. a disturbance in exercising, valuation or settlement), the Bank may make adjustments, in a financially expedient manner and in good faith, that seem necessary in respect of the valuation procedure, valuation data, settlement data or other relevant data. To do so, the Bank may follow relevant market practices (particularly corresponding adjustments of the reference exchange) and/or refer to the adjustments made in any hedging transaction concluded by the Bank.

2. Special provisions for swaps and interest rate caps

2.1 Periodic payments

The periodic payments due on interest rate swaps, or interest rate and currency swap transactions, are determined as follows:

2.1.1 Fixed amounts
A fixed amount due for periodic payment is determined by multiplying the notional amount underlying the swap (for interest rate and currency swap transactions the amount initially paid in the relevant currency) by the agreed fixed interest rate. Under the agreed day count convention, the result is multiplied by the number of days between two payment dates and divided by 360 or 365 (or 366 in a leap year):

$$\frac{K \times Zf \times T}{N}$$

K = capital (initial amount for interest rate and currency swap)
Zf = fixed interest rate expressed as a decimal (example: 3 % = 0.03)
T = number of days
N = 360 or 365 (or 366 in a leap year) depending on the agreed day count convention

If the above formula produces a negative amount, the counterparty must pay the absolute value of this amount to the party that is obligated to pay the fixed amount, unless the parties agreed otherwise. This provision does not apply to interest rate caps.

2.1.2 Variable amounts

2.1.2.1 Variable amounts due for periodic payment are determined by multiplying the notional amount underlying the swap (for interest rate and currency swap transactions the amount initially paid in the relevant currency) by the applicable variable interest rate for the respective interest rate period. Under the agreed day count convention, the result is multiplied by the actual number of days of the applicable interest rate period (period between two payment dates of the variable payment amount, between the start date and first payment date of the variable payment amount or between the penultimate payment date and the end date) and divided by 360 or 365 (or 366 in a leap year):

$$\frac{K \times Zv \times T}{N}$$

K = capital (initial amount for interest rate and currency swap)
Zv = variable interest rate expressed as a decimal (example: 3 % = 0.03)
T = number of days
N = 360 or 365 (or 366 in a leap year) depending on the agreed day count convention

If the above formula produces a negative amount, the counterparty must pay the absolute value of this amount to the party that is obligated to pay the fixed amount, unless the parties agreed otherwise. This provision does not apply to interest rate caps.

2.1.2.2 Determining the variable interest rate
The variable interest rate is based on the reference rate specified in the confirmation. If this reference rate is for any reason not fixed and published on any day, the Bank will determine the interest rate in good faith. To do so, it may follow relevant market practices and/or refer to the terms in any hedging transaction it has concluded.

2.1.3 Variable rate for interest rate caps
For interest rate caps, the variable rate is defined as follows:

2.1.3.1 for payments by the party designated as the excess payer (or cap or FRA seller), the agreed basic rate less the rate specified in the confirmation as the cap rate, if this results in a positive value;

2.1.3.2 for payments by the party designated as the minimum amount payer (or floor or FRA buyer), the rate specified in the confirmation as the minimum rate (floor rate) less the agreed basic rate, if this results in a positive value.

2.2 Optional break clause

The parties may agree an optional break clause which gives one or both parties the right to end the corresponding transaction early after a specific period or if a particular condition occurs. If this right is exercised, the Bank must calculate the liquidation value to be settled between the parties based on standard market methods.

2.3 Swaptions

If the confirmation specifies that there must be cash settlement when the corresponding swaption is exercised, the swaption will be calculated in cash. The Bank calculates the cash settlement amount using standard market methods and communicates this to the counterparty. The seller must pay the buyer this amount on the settlement date given in the confirmation. If the confirmation specifies that there must be physical settlement when the corresponding swaption is exercised, the swap underlying the swaption comes into force.

3. Special provisions for currency and precious metal transactions

3.1 General

The special provisions for currency and precious metal transactions relate to spot and forward transactions, options and swaps on currencies and precious metals.

3.2 Exercising options on currencies and precious metals

3.2.1 Exercise cut-off times
A European option can only be exercised on the exercise date up to the specific time given in the confirmation (hereinafter referred to as the "Exercise Cut-Off Time"). An American option can be exercised on any bank working day; on the exercise date, however, only up to the specific time given in the confirmation (hereinafter referred to as the "Exercise Cut-Off Time").

3.2.2 Exercise by the Bank
If the Bank client's assets deposited with the Bank are sufficient, and if these assets can be used to instantly satisfy the Bank's requirements or the Bank can offset these assets, there is no need for the Bank to communicate with the Bank client about the exercise. The Bank client hereby authorises the Bank to use the deposited assets to satisfy its requirements or take over the corresponding underlying assets or exercise set-off rights and advise them retrospectively that the exercise has taken place.

3.2.3 Automatic exercising of options transactions
If the buyer of an option has not given an advance instruction and an options transaction is in the money at the Exercise Cut-Off Time on the exercise date, this will be regarded as exercised.

3.3 Cash settlement

The amount of cash settlement for currency and precious metal transactions is calculated as follows:

3.3.1 For currency and precious metal forward transactions
Reference rate for underlying assets less the forward rate on the forward transaction's trade date multiplied by the number or amount of affected underlying assets. If the figure thus calculated is positive, the buyer receives corresponding cash settlement; if it is negative, the corresponding cash settlement must be paid to the seller by the buyer of the forward transaction.

3.3.2 For call options
Reference rate for underlying assets less the exercise price multiplied by the number or amount of underlying assets affected by exercising the option.

3.3.3 For put options
Exercise price less the reference rate of the underlying asset multiplied by the number or amount of underlying assets affected by exercising the option.

3.4 Market disruptions

3.4.1 Conversion or redenomination
If, after a currency transaction has been concluded, a currency is converted into another currency or redenominated, the obligation to deliver in the original currency will be replaced by delivery of a corresponding amount in the new currency.

3.4.2 Inconvertibility
If, after a currency transaction has been concluded, a currency cannot be converted due to changed legal provisions, the obligation to deliver the currency in question will be replaced by the obligation to pay a cash settlement.

3.4.3 Reference rates

The reference rates for cash settlements and for specifying a barrier event (knock-in, knock-out) will be determined by the Bank. To do so, it shall follow relevant market practices and/or refer to the terms of any hedging transaction it has concluded.

4. Amendment of these provisions

The Bank retains the right to make any amendments to these provisions for specific OTC derivatives. These will be communicated to the Bank client in writing or in another appropriate manner and will be deemed to have been accepted by the Bank client unless an objection is made to them within a set period.