Risk Disclosure for FX Options (Plain Vanilla)

*Clients who trade or transact in **FX Option transactions** with or through Bangkok Bank Public Company Limited (the "**Bank**") should be aware of the risks which may be involved in such Transactions. The objective of this document is to explain to you, briefly, the nature of, and risks relating to, the Transactions prior to your undertaking of such Transactions. References to "you" and "your" are reference to the client.*

GENERAL PRODUCT DESCRIPTION

FX OPTION

FX Option is a derivative financial instrument that gives the buyer of an option the right but not the obligation to exchange money denominated in one currency into another currency at a pre-agreed exchange rate on or before a specified date.

There are two types of options as follows:

- **Put Option**

A Put Option gives the buyer the right to sell the underlying currency. The buyer of a Put Option therefore has the right to sell the underlying currency, while the seller of the Put Option has the obligation to buy the underlying currency if and when the buyer thereof exercises the right.

- **Call Option**

A Call Option gives the buyer the right to buy the underlying currency. The buyer of a Call Option therefore has the right to buy the underlying currency, while the seller of the Call Option has the obligation to sell the underlying currency if and when the buyer thereof exercises the right.

With regard to those two option types, there are two option styles as follows:

- **European style option**

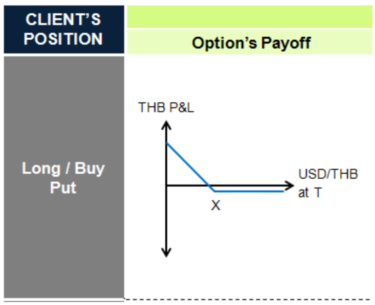
A European option may be exercised only at the expiration date, i.e., at a single pre-defined point in time.

- **American style option**

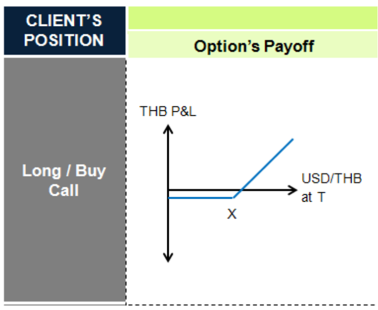
An American option may be exercised at any time on or before the expiration date.

Illustration of Payoff Diagram of Put/Call Option at expiration date

(i)



(ii)



For Put Option:

client pays a premium to buy a right from the Bank - to sell USD against THB to Bank at Strike (X) if USD/THB spot exchange rate is below X on or before the Expiration Date/Time;

For Call Option:

client pays a premium to buy a right from the Bank - to buy USD against THB with the Bank at Strike (X) if USD/THB spot exchange rate is above X on or before the Expiration Date/Time;

Potential Clients

Option Types	Client Buying Option
Call Option	Clients with foreign currency outflow (e.g. USD, EUR, JPY) underlying i.e., importers For example, a client has a payment in USD obligation that requires a purchase of USD against THB in the future and wants to be protected in the event that USD strengthens against THB while still enjoying lower THB cost in case USD depreciates. The cost of the protection is an option premium.
Put Option	Clients with foreign currency inflow (e.g. USD, EUR, JPY) underlying i.e., exporters. For example, a client has receivable in USD which needs to be converted to THB in the future and wants to be protected in the event that USD weakens against THB. The cost of the protection is an option premium.

Remark: all numbers and rates in the examples below are for illustrative purpose only.

Profit and Loss Analysis – Client Buying Call Option

Example 1: A client is Thai importer and has obligation to pay its supplier USD 100,000 for the material order in the next 3 months. The obligation exposes the client to foreign exchange risk, if the client does not hedge its exposure.

If the client chooses to hedge by buying at-the-money 3M USD/THB call option with European style, the client will have a right to buy USD/THB at the strike price of 32.00 for USD 100,000 on the expiration date. In exchange for the right, the client will have to pay the Bank for the premium at THB 50,000 upfront. Therefore, on the expiration date, the client has an option to either exercise or leave the option expired depending on the spot rate on that date.

For instance, if USD/THB spot rate on the expiration date increases by 20% to 38.40, the client will choose to exercise the call option and make a profit of THB 590,000 [(38.40 – 32.00) x $100,000] - 50,000]. However, if USD/THB spot rate moves below 32.00, the client will choose not to exercise the call option since the client will suffer a loss from exercising the call option at this spot rate.

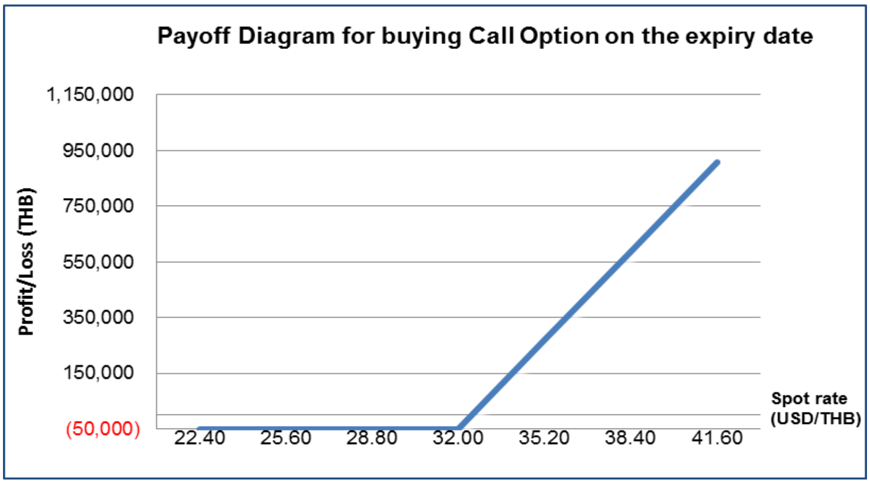
From the client's perspective, the maximum loss is limited to the premium paid upfront (THB 50,000) since the call option will not need to be exercised if the spot rate is lower than the strike price. In this case, the client better chooses to buy USD/THB at a more favorable market rate.

In summary, in case USD/THB spot rate is extremely volatile, <u>the maximum loss to the client is limited</u> to the premium paid, whereas <u>the maximum profit is unlimited</u> depending on how much USD/THB spot rate appreciates.

Table 1: Profit and Loss of Buying Call Option at Expiration Date

Notional (USD)	Premium (THB)	Strike Price (USD/THB)	Spot Rate Change (%)	Spot Rate (USD/THB)	Client's Profit/Loss (THB)
100,000	(50,000)	32.00	-30%	22.40	(50,000)
100,000	(50,000)	32.00	-20%	25.60	(50,000)
100,000	(50,000)	32.00	-10%	28.80	(50,000)
100,000	(50,000)	32.00	0%	32.00	(50,000)
100,000	(50,000)	32.00	10%	35.20	270,000
100,000	(50,000)	32.00	20%	38.40	590,000
100,000	(50,000)	32.00	30%	41.60	910,000

Figure 1: Payoff Diagram of Buying Call Option at Expiration Date



Profit and Loss Analysis – Client Buying Put Option

Example 2: A client is Thai exporter and will have revenue from its foreign customer USD 100,000 for the shipment of goods in the next 3 months. The future revenue in foreign currency exposes the client to foreign exchange risk, if the client does not hedge its exposure.

If the client chooses to hedge by buying at-the-money 3M USD/THB put option with European style, the client will have a right to sell USD/THB at the strike price of 32.00 for USD 100,000 on the expiration date. In exchange for the right, the client will have to pay the Bank for the premium at THB 50,000 upfront. Therefore, on the expiration date, the client has an option to either exercise or leave the option expired depending on the spot rate on that date.

For instance, if USD/THB spot rate on the expiration date decreases by 20% to 25.60, the client will choose to exercise the put option and make a profit of THB 590,000 [(32.00-25.60)* $100,000] -50,000]. However, if USD/THB spot rate moves above 32.00, the client will choose not to exercise the put option since the client will suffer a loss from exercising the put option at this spot rate.

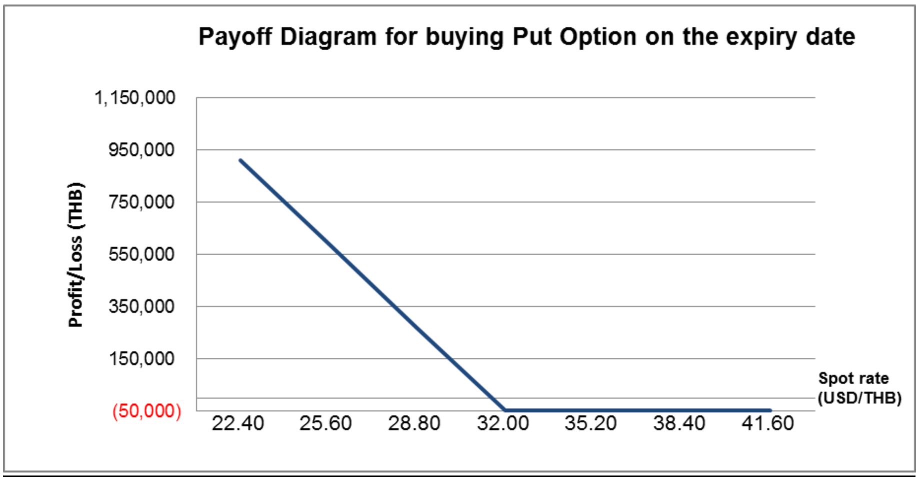
From the client's perspective, the maximum loss is limited to the premium paid upfront (THB 50,000) since the put option will not be exercised if the spot rate is higher than the strike price. In this case, the client better chooses to sell USD/THB at a more favorable market rate.

In summary, in case USD/THB spot rate is extremely volatile, <u>the maximum loss to the client is limited</u> to the premium paid, whereas <u>the maximum profit is unlimited</u> depending on how much USD/THB spot rate depreciates.

Table 2: Profit and Loss of Buying Put Option at Expiration Date

Notional (USD)	Premium (THB)	Strike Price (USD/THB)	Spot Rate Change (%)	Spot Rate (USD/THB)	Client's Profit/Loss (THB)
100,000	(50,000)	32.00	-30%	22.40	910,000
100,000	(50,000)	32.00	-20%	25.60	590,000
100,000	(50,000)	32.00	-10%	28.80	270,000
100,000	(50,000)	32.00	0%	32.00	(50,000)
100,000	(50,000)	32.00	10%	35.20	(50,000)
100,000	(50,000)	32.00	20%	38.40	(50,000)
100,000	(50,000)	32.00	30%	41.60	(50,000)

Figure 2: Payoff Diagram of Buying Put Option at Expiration Date



Transaction process

If the client would like to enter into an FX Option transaction with the Bank, the client is required to follow the steps below:

1. The client contacts the Relationship manager (RM) for credit line set-up.
2. The Bank will provide the client with the product risk disclosure statement and inform the FX option prices and send the indicative termsheet to the client.
3. After the client agrees with the FX option price, the client will receive initial confirmation via email and the client will need to **confirm the transaction by email**.
4. The client will then receive a formal confirmation, and will need to **sign and return the confirmation** back to the Bank with authorized signatures.
5. At the time of FX option expiration, in case the client is a buyer of the FX Option, if the FX Option is in-the-money and the client would like to exercise the FX option, the client will need to inform the Bank via email/telephone.

Required documents for transaction

- Know your customer form (KYC) and Client Suitability form
- Product risk disclosure with authorized signature from the clients
- Underlying documents (if required by related regulations)
- Initial confirmation
- Long form/ Short form confirmation with authorized signature from the client

Termination process, cost and associated risk(s)

In case the client informs the Bank to terminate any or all transactions, the Bank will thoroughly consider the justification provided by the client and related regulations. In such event, the client will bear the risk that the Bank may impose termination fees based on the market value on the termination date and associated costs. The changes in market conditions (including, but not limited to, FX rate and FX volatility) may adversely impact the termination cost paid by the client.

The Bank reserves the right to terminate any or all transactions, as the case maybe, where it is required under any applicable laws or regulations.

RISK DISCLOSURE STATEMENT

IMPORTANT NOTICE

THIS NOTICE DOES NOT PURPORT TO DISCLOSE OR DISCUSS ALL OF THE RISKS AND OTHER SIGNIFICANT ASPECTS OF ANY TRANSACTION. IT IS YOUR SOLE RESPONSIBILITY TO DETERMINE WHETHER ANY TRANSACTION IS SUITABLE FOR YOU AND THAT YOU SEEK YOUR OWN ADVICES TO REACH SUCH CONCLUSION IF NECESSARY.

1. CONTRACTUAL TERMS

The client has the responsibility to fully understand the terms and conditions of the Transactions to be undertaken, including, without limitation, (a) the terms as to price, term, expiration dates, restrictions on exercising an option and other terms material to the Transaction; (b) the circumstances under which the client may become obliged to make or take delivery of the underlying interest of a Transaction; and (c) the legal risks surrounding the Transaction, including, but not limited to, the circumstances under which the Transaction may be illegal, resulting in it being void and unenforceable.

2. SEVERAL INSTRUMENT TRANSACTIONS

Where a Transaction is made up of several instruments, the client should be aware that there is a risk associated with each instrument evaluated separately and a risk of the Transaction evaluated as a whole. As such Transactions are usually executed over-the-counter, the client should be aware that it may be difficult to liquidate an existing position, determine a fair price for, or assess your exposure to risks under, such Transactions. This uncertainty should be factored in by the client in the overall consideration of the potential impact of the client's investment in the Transactions.

3. MARKET RISKS

The client's payments or receipts under a Transaction will be linked to changes in the particular financial market or markets to which the Transaction is linked, and the client will be exposed to price, currency exchange, interest rate or other volatility in that market or markets. The client may sustain substantial losses on the contract, trade, product or financial investment if the market conditions move against the client's positions.

It is in the client's interest to fully understand the profit/loss impact of market movements and the extent of loss if the client has to liquidate a position if market conditions move against the client. The lack of market transparency, liquidity and efficiency may subject the Transactions and the parties involved to high volatility and large price differences.

4. LIQUIDITY RISKS

Under certain market conditions the client may find it difficult or impossible to liquidate a position, assess a fair price or assess risk exposure. This can happen, for example, where **the market for a Transaction is illiquid** or where there is a **failure in electronic or telecommunications systems**, or where there is the occurrence of an event commonly known as "force majeure" (which shall include without limitation, any form of restriction, moratorium or suspension on trading imposed by an exchange, market or other authority regulating trading of the Transactions).

5. RISKS ON OPTIONS TRADING

5.1 Options Transactions involve a high degree of risk. Such Transactions should be entered into only by persons who have read, understood and familiarised themselves with the type of options, style of exercise, the nature and extent of rights and obligations and the associated risks. The Bank would like to highlight to the client that exercising any option would result either in a cash settlement, or in the acquisition or delivery of the underlying contract.

5.2 The client should not purchase any option unless the client is able to sustain a total loss of the premium and transaction costs of purchasing the option. Under certain adverse market conditions when the market moves against an option position, the purchased option can worthlessly expire. In such circumstances, the customer would suffer a total loss of the investment which would consist of the option premium and the transaction costs.

The client who purchases an option should be aware that in order to realise any value from the option, it will be necessary either to offset the option position or to exercise the option. The purchaser of an option should be aware that some option contracts may provide only a limited period of time for exercise of the option, and some option contracts may provide for the exercise of the option on a specified or stipulated date.

5.3 The risks associated with selling ("writing" or "granting") an option may be generally greater than purchasing an option. It is important for the client to understand the risks that the client, as an options seller, would be exposed to if the purchaser exercises the option, and the client's obligations to either settle the option in cash, or acquire or deliver the underlying contract. If the option is "covered" by a corresponding position in the underlying contract or another option, the risk may be reduced. Conversely, if the option is not covered, the possible loss could be unlimited.

6. CURRENCY RISKS

The fluctuations in foreign currency rates have an impact on the profit/loss and the financial investment where the Transaction is denominated or settled in a different currency from the currency of ordinary business.

7. TAX RISKS

Before entering into any Transactions, the client should understand the tax implications of doing so, e.g., income tax. Different derivatives transactions may have different tax implications. The tax implications of Transactions are dependent upon the nature of the client's business activities and the Transactions in question. The client should, therefore, consult a tax adviser to understand the relevant tax considerations.

8. COUNTERPARTY RISKS AND CONFLICT OF INTEREST

The client must note that the Bank deals with the client at arms-length as a counterparty. The Bank is not your fiduciary. Any dealing, trading or engagement or Transaction with the Bank by you could result in a loss to the client and a gain to the Bank.

9. NON-TRANSFERABILITY AND NON-MARKETABILITY

Generally, a Transaction is not assignable or transferrable without a prior consent of the other party. The Bank is not obliged to repurchase a Transaction from you because Transactions are customised and not fungible. The client acknowledges that engaging in a Transaction with another dealer to offset a Transaction that the client has entered into with the Bank will not automatically close out those positions (as would be true in the case of equivalent exchange-traded futures and options) and will not necessarily function as a perfect hedge.

10. RISKS NOT COVERED IN THIS DOCUMENT

The following risks which are not strictly related to the Transactions are not covered in this document:

- ***Country risks.*** A country risk can arise if a country hinders currency trading by imposing economic sanctions or currency restrictions; and
- ***Economic risk.*** In particular, the impact of the global economy and the bigger nations on the world economic market which impact on interest and inflation rates.

*This document also does not deal with the issues of **taxation** or any other **legal consequences** pertaining to the Transactions (e.g. duties of disclosure) as these issues are very often dependent on the client's individual situation. The Bank recommends that our clients contact their tax specialist or lawyer.*