ABN·AMRO

ABN AMRO Options Conditions

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Glossary

Term	Definition
assigning options	The bank assigns a writer of an option to meet the obligations arising from this option. See also article 5.3 (*How does my written option end?*) of the Options Appendix.
buying options	If you buy an option, you buy a right to purchase (call option) or sell (put option) underlying assets. In this way, you obtain a long position. See also articles 3.2 (*What happens if I buy a call option?*) and 3.4. (*What happens if I buy a put option?*) of the Options Appendix.
closing options	You close your option by giving the bank an order for a closing purchase or closing sale. If the bank executes your order, this option will disappear from your investment account. See also articles 4.4. (*How should I give an order if I wish to close my purchased option?*) and 4.5 (*How should I give an order if I wish to close my written option?*) of the Options Appendix.
collateral value	The collateral value is the value that the bank attributes to your investment products for certain purposes. This value is relevant to the collateral that you are required by the bank to keep if you write certain options (*see also the term 'margin requirement'*).
delivery obligation	The delivery obligation is the obligation you incur with a written call option to sell the underlying assets at the exercise price.
exchange	Every exchange or place of trading where your orders are executed by the bank or by others on behalf of the bank. In these conditions, the term 'exchange' also means the place where the options clearing takes place. This is also referred to as a clearing organisation. You can read more about what a clearing organisation is in article 5.4 (What is a clearing organisation?) of the Options Appendix.
exercise limit	An exercise limit is the maximum number of options of an option series that you are allowed to exercise. This limit is determined by the options exchange.
exercise period	An exercise period is a fixed period within which you may exercise your purchased option. See also article 5.6 (*What is the style of an option?*) of the Options Appendix.
exercise price	An exercise price is the predetermined price at which you: - buy the underlying assets in the case of a purchased call option. - must sell the underlying assets in the case of a written call option. - sell the underlying assets in the case of a purchased put option. - must buy the underlying assets in the case of a written put option.
exercising options	You exercise your option when you make use of your right to buy (call option) or sell (put option) the underlying assets. See also article 5.2 (*How should I give an order if I wish to exercise my purchased option?*) of the Options Appendix.
expiration date	The expiration date is the last day on which you can buy an option or sell your option or exercise your option. See paragraph 5.5 (*What is the expiration date?*) of the Options Appendix.
exposure	Exposure indicates how your investment portfolio is impacted by changes in the market. The exposure value can be used as an indicator of risk for investment portfolio's holding options. See article 7.1 (*What is exposure?*) of the Options Appendix.
intrinsic value	The intrinsic value is the difference between the exercise price of the option and the price of the underlying asset (with a minimum of nil).
long position	You have a long position if you have bought a call or put option. This enables you to exercise the rights of the option.
margin	The margin is the security for the obligations that you assume for an uncovered (naked) written option. You can read more about what a uncovered written option is in article 3.11 (*What is uncovered writing?*) of the Options Appendix. You must keep this security as long as you have this uncovered written option in your investment account. The margin is expressed by the bank as an amount, and may vary from day to day.
margin requirement	A margin requirement is the obligation to maintain a margin.
opening options	You open an option by buying or writing an option.
option	An option is a standard contract. Under such a contract, you purchase a right or enter into an obligation: - to buy or sell a given quantity of an underlying asset - in a given period (the exercise period) - at a predetermined price (the exercise price).
option class	An option class consists of all options having the same underlying asset and contract size.

option series	An option series consists of a combination of option class, option type, exercise price and expiration date.
option type	call or put.
options exchange	An exchange or place of trading on which orders for options are executed.
Options Sub-Agreement	The ABN AMRO Options Sub-Agreement is the agreement that you have concluded with the bank to be able to invest in options with the bank. The ABN AMRO Options Conditions belong to this sub-agreement. This sub-agreement supplements the Investment Agreement and forms an integral part of this.
position limit	A position limit is the maximum number of options of an option series in which you may invest. This limit is determined by the options exchange.
premium	The premium is the price that: - You must pay if you buy an option or close your written option; and - You receive if you write an option or if you close your purchased option.
purchase obligation	The purchase obligation is the obligation you incur with a written put option to buy the underlying assets at the exercise price.
short position	You have a short position if you have written an option.
underlying asset	The underlying asset is the investment product (such as a share) or other asset (such as an index) that you can buy or sell with an option. Sometimes you do not obtain the underlying asset itself, but its value in cash. See also article 5.7 (*How can options be settled?*) of the Options Appendix.
volatility	The volatility is the extent of the movement of the price of an underlying asset.
writing options	If you write an option, you sell a right to buy (call option) or sell (put option) the underlying assets. In this way, you obtain a short position. You are then obliged to buy or sell, as the case may be, the underlying assets if a buyer of the option exercises this option. See also articles 3.6 (*What happens if I write a call option?*) and 3.11. (*What happens if I write a put option?*) of the Options Appendix.

Read this first

1. The Investment Appendix, especially article 2.11 (*What are the general characteristics and risks of derivatives?*) and article 2.12 (*What are the characteristics and risks of options?*); and
2. The Options Appendix. This is the appendix to the ABN AMRO Options Conditions. This contains an explanation of what options are and what terms are used when investing in options, such as:
    - Writing and buying options
    - Expiration date
    - Assigning of options
    - Exercising of options
    - ‘In-the-money’ and ‘at-the-money’

Options Conditions

This is a translation of the original Dutch text. This translation is furnished for the customer's convenience only. The original Dutch text will be binding and shall prevail in case of any variance between the Dutch text and the English translation.

1. Introduction

1.1. How should I read the ABN AMRO Options Conditions?

1. The bank has tried to make these conditions as understandable as possible. The conditions are in the form of questions that you might have about investing in options with the bank. The bank advises you to read these conditions carefully. If you still have questions, then the bank advises you to do one of the following:
   - See whether you can find the answer to your questions on its website, at abnamro.nl/beleggen;
   - Contact a bank employee; or
   - Contact your adviser.
2. The bank has explained important terms as clearly as possible. The bank has also included text blocks in the conditions. These will help you read and understand this information. The text blocks marked:
   - "Read this first" contain information that you must read first before reading the article;
   - "Please note" contain important information for you;
   - "Please also read" contain a reference to another section of the conditions about the same subject.

1.2. Why do these conditions contain examples?

1. The bank has included examples in these conditions to make the articles easier to understand. These examples are exclusively intended to clarify an article, and they are not exhaustive. Other situations can always occur.
   The examples do not cover all possible situations.
2. No rights can be derived from the examples. For instance, any returns on investments mentioned in the examples are indicative only. The returns in the examples may not correspond with the actual returns.

1.3. Which bank documents contain the rules that apply to investing in options with the bank?

The rules that govern investing in options with the bank are contained in the following:

1. *The ABN AMRO Investment Agreement*
   You must sign the Investment Agreement if you want to invest with the bank.
2. *The ABN AMRO Investment Conditions*
   The ABN AMRO Investment Conditions are part of the Investment Agreement and include the following parts:
   - General Investment Conditions
     These contain the general rules applicable to investing with the bank.
   - Investment Appendix
     This contains a description of the general risks of investing and the characteristics and risks of different types of investment products, including options.
   - ABN AMRO Order Execution Policy
     In this policy, you can read about the procedures and rules that the bank uses when executing orders for you.
3. *The ABN AMRO Options Sub-agreement*
   To invest in options with the bank, you must sign an Options Sub-Agreement. The Options Sub-Agreement is a separate agreement and supplements the Investment Agreement.
4. *The ABN AMRO Options Conditions*
   The ABN AMRO Options Conditions apply to the Options Sub-Agreement and consist of the following two parts:
   - Options Conditions
     These contain the rules applicable to investing in options with the bank. These rules are supplementary to the rules contained in the ABN AMRO Investment Conditions.
   - Options Appendix
     This describes the risks of investing in options and gives some examples. The appendix also contains information about several special issues concerning investing in options with the bank.
5. *The options exchange rules and regulations*
   These are the rules and regulations of options exchanges on which you can invest in options through the bank. Examples of subjects dealt with by the rules are changes to options, position limits and exercise limits.

6. *The Terms and Conditions Indirect Clearing Arrangements*
   This document describes the applicable rules in case you own foreign options for which the bank provides indirect third party clearing services to you.
   More information about the bank's clearing services can be found in the Indirect Clearing Risk Disclosure Document and on the bank's website.
7. *The General Conditions of ABN AMRO Bank N.V.*
   These contain the basic rules that apply to all services and products provided to you by the bank. You receive a copy of these conditions when you become a customer of the bank.
8. *Summary of ABN AMRO Policy on Conflicts of Interest*
   The bank has laid down policies for managing conflicts of interest. The Summary of the ABN AMRO Policy on Conflicts of Interest explains how the bank defines and deals with conflicts of interest.

1.4. What matters are covered by the ABN AMRO Options Conditions?

These conditions supplement the ABN AMRO Investment Conditions for investing in options with the bank.
Examples of the matters covered are:

- The rules for your order for an option (see section 2)
- The administration of your options (see section 3)
- What information about options you can obtain from the bank (see section 4)
- How the bank deals with collateral value (see section 5)
- How you can terminate investing in options (see section 8).

1.5. What happens if the bank amends the ABN AMRO Options Conditions?

The bank can change the ABN AMRO Options conditions at all times. The bank does this in the manner set out in articles 1.6 (*What happens if the bank amends the ABN AMRO Investment Conditions?*) and 1.7 (*What can I do if I disagree with a change in the ABN AMRO Investment Conditions?*) of the General Investment Conditions.

2. Orders

2.1. What rules apply if I give an order for an option to the bank?

1. The rules from section 4 (*Orders*) of the General Investment Conditions apply if you give an order for an option. These rules are supplemented by the following rules that apply to an order for an option.
2. You must take account of the trading times if you give an order to the bank for an option. These times can differ from option to option.
3. You can obtain information about the trading times from the bank or from the options exchange.
4. You accept the options exchange rules and regulations on position limits and exercise limits, even if they are changed by the options exchange. You also accept any changes made by the options exchange to options, for example, where there is a change in the underlying asset of an option.
5. You accept the measures taken by the options exchange and the bank in extraordinary situations. The bank is not liable for this.
6. The rules and measures may differ from one options exchange to another. You will usually find the rules and measures on the options exchange's website.
7. You cannot invest in all option series through the bank. The bank can also determine that you can no longer invest in certain option series. For instance, an option series with a non-standard contract size which has arisen after the underlying share was split. Or an option series with an exercise price that is 'deep in the money'. You can read what 'deep in the money' means in article 2.5 (W*hat is an 'in the money' option*?) of the Options Appendix.

2.2. How does the bank assess my order for an option?

If you give an order for an option to the bank, the bank will assess whether you have sufficient knowledge and experience to invest in options. Therefor, the bank will check your order against the knowledge and experience you have provided and an options knowledge exam. This is known as the appropriateness test. The bank also checks whether this option corresponds with your risk profile if you invest with the advice of the bank. This is known as the suitability check. The bank makes this assessment on the basis of the exposure value of options. See also article 7.1 (*What is exposure?*) of the Options Appendix.

Please also read:

- Article 3.2 (*What does investing with advice from the bank mean (advisory)*?) of the General Investment Conditions; and
- Article 3.3 (*What does investing independently with advice from the bank mean?*) of the General Investment Conditions.

2.3. Under which conditions does the bank approve my order for an option?

1. The rules from article 4.7 (*Under which conditions does the bank approve my order?*) of the General Investment Conditions apply in this case. In addition,

the following rules apply to written options.

2. Your spending limit must be sufficient for
   - The margin requirement belonging to your order;
   - Plus: the costs you pay if the bank executes your order;
   - Less: the premium you receive if the bank executes your order.

   The margin requirement of your options is deducted from your spending limit. You can read what the spending requirement is in article 4.8 (*What is my spending limit?*) of the General Investment Conditions.

Please note

If you give an order to the bank to write a call option, the bank will determine whether it can approve your order for this call option in the manner set out in article 2.3. (*Under which conditions does my bank approve my order for an option?*). This is always done taking account of the margin required for the order, irrespective of whether you hold the underlying assets of this call option in your investment account. This applies only at the time when the bank assesses whether your order can be approved. After your order has been executed, the bank does check whether you hold the underlying assets of the call option in your investment account for the determination of your margin requirement (see the example below).

An example

You have 100 XYZ shares in your investment account and want to write one XYZ call option. The price (premium) of this option is EUR 1.30. The margin on this option is EUR 850. For this order you need a spending limit of EUR 722.90, which is composed of:

- The margin (EUR 850);
- Plus: the transaction costs (for example, EUR 2.90);
- Less: the premium to be received (100 x EUR 1.30 = EUR 130).

The bank will approve your order if your spending limit is at least EUR 722.90.

What happens after your order has been executed? After the bank has executed your order, the bank checks whether you have the underlying asset as collateral for the written call option. In this example, you have 100 XYZ shares. As a result, the margin requirement for this option ceases to apply.

In determining your spending limit, the bank only takes account of the collateral value of the investments in your investment account if you have been granted credit based on your investments. Please note that the collateral value of your XYZ shares is reduced by the bank by the amount that you would be required to pay to repurchase your written option on your XYZ shares. For more information, see article 4.5 (*How should I give an order if I wish to close my written option?*) of the Options Appendix.

2.4. What does the margin requirement involve?

Read this first

Article 3.12 (*What is a margin?*) of the Options Appendix.
Article 3.13 (*How does the bank calculate the margin of an option?*) of the Options Appendix.

1. Once your order for an option has been approved, an option position arises in your investment account. If you have a written option in your investment account, you must keep security for this up to a given amount. This is known as the margin requirement. The margin is expressed in cash. You must maintain this margin as security for the risk that you run on a written option. The bank calculates your margin requirement at least once a day, and in any case before the exchange opens in the Netherlands. The margin requirement does not offer you 100% security. For instance, you are exposed to the risk that your purchase obligation in respect of your written put option is greater than your margin requirement.

2. You can meet your margin requirement by keeping collateral for a given amount in the form of:
   - The value of investment products in your investment account; in such a case, the bank takes the collateral value of your investment products as the basis for the amount that you must keep as security. You can read about what collateral value is in article 9.2 (*What is the collateral value of my investments?*) of the General Investment Conditions; or
   - A combination of investment products and money if you do not have sufficient investment products in your investment account; or
   - Money in your payment account; or
   - Credit on your payment account.
3. If you have the underlying asset of the written call option in your investment account, you need not keep a margin for this written call option up to a given amount.
4. The following investment products count as underlying assets in the case of a written call option:
   - The same underlying asset in the same number as that of the option (for example, 100 Philips shares in the case of one written Philips call option); or
   - A purchased call option if the following apply:
     - The purchased call option has the same underlying asset as the written call option;
     - The exercise price of the purchased call option does not exceed that of the written call option; and
     - The term of the purchased call option is at least as long as that of the written call option.

   If the option premium of the purchased call option is lower than the option premium of the sold call option, the margin you must maintain is equal to the difference between these option premiums.
5. In the case of a written put option, a purchased put option counts as underlying asset if the following apply:
   - The purchased put option has the same underlying value as the written put option;
   - The exercise price of the purchased put option is not lower than that of the written put option; and
   - The term of the purchased put option is at least as long as that of the written put option.

   If the option premium of the purchased put option is lower than the option premium of the sold put option, the margin you must maintain is equal to the difference between these option premiums.
6. The amount that you keep as security in the form of cash is deducted by the bank from your spending limit. You can read about what the spending limit is in article 4.8 (*What is my spending limit?*) of the General Investment Conditions.
7. A situation may occur in which you wish to sell an underlying asset that serves as security for a written option. By selling the underlying asset, your coverage disappears and a margin requirement arises. The bank will only approve your sale order if you have sufficient residual spending limit as cover for the margin requirement that arises as a result of the absence of the underlying asset itself, which you had in your investment account until that time. In calculating the spending limit, the bank takes into account the margin requirement that applies at that time. This is because you no longer have the underlying asset as collateral if you sell your investment products.

Please note

Do you have a written option in your investment account? If you invest on a large scale in only one or several uncovered written options – such as written put options – this can lead to an obligation to buy an extremely large number of the underlying asset if the price of the underlying asset suddenly falls. This occurs if your obligation to purchase the underlying assets far exceeds the margin you maintain with the bank. In extreme cases, this purchase obligation could even exceed the total assets held by you at the bank. The bank can then require you to limit the risks associated with your way of investing. The bank may, for instance, instruct you to close option positions. If you don't comply with this request, the bank can cancel the Options Sub-Agreement with you. For the cancellation of the Options Sub-Agreement and the consequences of this, please read article 8 (*Terminating investing in option*s) of the Options Conditions.

Please note

Do you have a written option in your investment account? In determining your margin requirement, the bank first checks whether you have security for a given amount in the form of the value of investment products in your investment account. Only if you have insufficient or no collateral value the bank will take into account the money or the credit in your payment account.

Please note

There are special rules for determining the collateral value of your investment products that serve as security for your written option. For more information, see article 5.2 (*What is the collateral value of my investment products that serve as security?*).

An example

You write a call option without having the underlying asset in your investment account. You receive money (the premium) and you pay transaction costs for your written call option. From that time, you have a margin requirement. As long as you have this written call option in your investment account, you must keep security for a given amount (margin) for this written call option.

You write a call option and the underlying assets in your investment account provide sufficient cover for this transaction. You receive money (the premium) and you pay transaction costs for your written call option. From that time, you have a margin requirement. However your margin requirement is covered by the underlying asset you have in your investment account, you do not have to keep security for a given amount for this written call option. This applies as long as you do not sell the underlying asset.

You write a put option. In the case of a written put option, you always have a margin requirement. You receive money (the premium) and you pay transaction costs for your written put option. As long as you have this written put option in your investment account, you must keep security for a given amount (margin) for this written put option. The only exception is if your written put option fulfils the conditions in point 5 of article 2.4 (*What does the margin requirement involve?*) under 5, And provided that you do not sell this written put option.

3. Administration of your options

3.1. What administrative services does the bank carry out in relation to my options?

The bank carries out certain administrative services in relation to your options. The rules from section 6 (*Administration of your investments*) of the General Investment Conditions apply in this case. In addition, the following rules apply to administrative services in relation to your options.

Please note

You should be aware that the most important proof of your option is the investment receipt you receive from the bank. You can read about what an investment receipt is in article 4.14 (*Do I receive confirmation from the bank once my order has been executed?*) of the General Investment Conditions. The bank therefore advises you to check these investment receipts carefully. You should report any objections to the bank as quickly as possible, and in any event within one week. For more information, see article 6.8 (*How does the bank send me information and what must I do if I disagree with the content thereof?*) of the General Investment Conditions.

3.2. May I transfer my options within the bank or to another bank?

1. The rules from article 6.2 *(Can I transfer my investments within the bank or to another bank?*) of the General Investment Conditions apply in this case. In addition, the following rules for options apply.
2. If you wish to transfer a written option to another bank, the bank will transfer this written option only if the other bank has informed the bank that you may transfer the written option.

3.3. How can I exercise my purchased options myself or how does the options exchange exercise my purchased options?

1. If you want to exercise your purchased option yourself during the term of the option, this is only possible with American-style options. See also article 5.6 (*What is the style of an option?*) of the Options Appendix. For options that can be exercised before expiration date, you can give the bank an order to exercise your option for you during the term of your option. This order is given in the same manner as a buy or sell order for the bank.
2. If you want to exercise your purchased options yourself on expiration date, this too is only possible with American-style options. You must give the bank your instruction no later than 5 minutes before the expiration time. If you place your order later, the bank may not be able to pass your order on to the options exchange. The expiration time is the time on the expiration date of your option after which you can no longer trade in this option. So you can no longer close or exercise your option after this time. The expiration time is usually at the end of the trading day of the options exchange on which the option is listed.
Index options are European-style options. You cannot exercise index options yourself, the options exchange

does this upon expiration. The expiration time for index options is generally before the end of the trading day. This expiration time can differ per options exchange or option series.

Please note
If you have not given your order to exercise your option on time and your option no longer has any intrinsic value, your purchased option will expire without value.

3. Can options exchanges exercise your purchased option?
   If you have not exercised or closed your option before the expiration time, the options exchange will always exercise your 'in the money' options upon expiration, no matter how small the 'in the money' amount is. Read article 2.5 of the Options Appendix (*What is an 'in the money' option?*) to find out what 'in the money' options are. Domestic and foreign options are treated differently here. Domestic options are options that are traded on the options exchange Euronext Liffe Amsterdam. Foreign options are options traded on all other options exchanges.
4. How does a domestic options exchange deal with your purchased 'in the money' options upon expiration? 'In the money' index options are settled in cash. We call this 'cash settlement'. You can read how cash settlement takes place in article 5.7 (*How can options be settled?*) of the Options Appendix.
   The rule for all other options such as share options is that the options exchange exercises all options that are 'in the money' upon expiration. In the case of purchased options that are less than 2% 'in the money', however, the bank instructs the options exchange, not to exercise these options. You can read more about this 2% rule in the box below.

What is the 2% rule for purchased options?
If you have not closed or exercised your purchased option on a domestic options exchange in time, the bank will instruct the options exchange to do this, but only if the value of your share option is more than 2% 'in the money' on expiration day after the close of trading.
- With a purchased call option, you buy the underlying assets and the bank sells these underlying assets for you on the next stock exchange day; or
- With a purchased put option, you sell the underlying assets and the bank buys these underlying assets for you on the next stock exchange day.

If this buy and sell transaction, minus the costs, leads to a positive balance, the bank credits this amount to your account. If the balance is negative, the bank bears the loss and you need not pay anything.
The bank charges costs for the exercise upon expiration. These costs are higher than the usual costs for purchase or sale transactions. See also article 3.6 (*Do I have to pay costs for exercise on expiration?*).
If you do not want your options exercised upon expiration – for instance because you do not wish to pay higher costs due to the 2% rule – then you must close your option before the expiration time. In this case, you only pay the usual option-closing costs.

5. How does a foreign options exchange deal with your purchased 'in the money' options upon expiration? 'In the money' index options are settled in cash. We call this 'cash settlement'. You can read how cash settlement takes place in article 5.7 (*How can options be settled?*) of the Options Appendix.
   The rule for all other options such as share options is that the foreign options exchange exercises all purchased options that are 'in the money' upon expiration, no matter how small the 'in the money' amount (e.g.1 cent).This means that upon expiration, you:
   - Must buy the underlying assets of a purchased call option at the exercise price;
   - Must sell the underlying assets of a purchased put option at the exercise price.

   The costs for an exercised or assigned option upon expiration on a foreign options exchange are generally higher than for options on a domestic options exchange. One reason for this is that you incur extra costs to exchange the foreign currency amount into euro or vice versa.
   - Upon the exercise of your purchased call option by a foreign options exchange, you often receive a

number of underlying assets in your portfolio. And the higher the amount of the underlying assets, the higher the costs. If you do not want these underlying assets, you will want to sell them immediately. This is not possible until the next stock exchange day. You then run the risk that you can only sell these assets on the stock exchange at a price that is lower than the original purchase price; or

- Upon the exercise of your purchased put option by a foreign option exchange, you may sell the underlying assets without having the underlying assets in your investment portfolio. In this case, you must buy these underlying assets the next trading day on the stock exchange. You then run the risk that you can only buy these assets at a higher price than the original selling price.

Because of the high costs, the bank may sometimes, but need not always, try to close option positions before the foreign options exchange exercises your purchased option upon expiration. In this case the bank may close your option on a foreign options exchange earlier on the expiration date. The bank will only do this if:

- your purchased option on the foreign options exchange is 'in the money' or expected to come 'into the money' during the last trading day; and
- with a purchased call option, you do not have sufficient money to purchase the underlying assets; or
- with a purchased put option, you are unable to deliver sufficient underlying assets.

In this case, the bank will close your option after 4pm Dutch time. If you have already placed an order for a closing purchase or a closing sale for an option on a foreign options exchange, but this order has not yet been executed and is not certain to be executed, the bank will take the order back from the options exchange and place a new order that is certain to be executed.

The bank can also ensure that you cannot place an order on expiration date for an opening purchase or an opening sale for an option on a foreign options exchange. In this case you can only give orders for a closing purchase or a closing sale.

3.4. What does the bank do if my written option has been assigned or if my written option is 'in the money' upon expiration?

1. If the bank receives an assignment from the options exchange, it will itself assign an option of a customer. To make this assignment for options on a domestic options exchange, the bank uses the 'at random' method. This means that the bank assigns at random an option of one of its customers who has such an option. Every other options exchange may use a different method. If the bank uses a different method, this too must be fair, objective and reasonable.
2. If your written option has been assigned, the bank cannot inform you about this until the first business day after the date on which the option is exercised.
3. Upon expiration of a written option, the options exchange will assign you to meet your obligation. This means that upon expiration of options that are in the money, you:
    - must sell (deliver) the underlying assets of a written call option at the exercise price;
    - must buy (purchase) the underlying assets of a written put option at the exercise price.
4. With written index options that are 'in the money', cash settlement will take place. You can read how the settlement takes place in article 5.7 (*How can options be settled?*) of the Options Appendix.
5. If your written call option has been assigned, you must sell (deliver) the underlying assets to the buyer of your option. If you do not have the underlying assets, you will have a debit position in assets. However, you are not allowed to have a debit position in your investment account with the bank. The bank will therefore buy the assets to clear your debit position. If you have delivered shares with dividend in the case of stock options and the bank has purchased ex-dividend shares, you will still be required to pay this dividend.

3.5. What may the bank do with my options?

When trading in options, the bank may do the following:

- Take measures for your options to ensure that the position limits, exercise limits and other options exchange rules are observed;
- Exercise and close your option or take some other form of action if you do not comply with a rule under these conditions or any options exchange rules and regulations; and
- Provide information about your options or other information to the options exchange or another authority. The bank is obliged to provide this information if the options exchange or authority concerned wishes or needs to have this information,

for example, in order to detect or prevent infringements or abuse. This rule is supplementary to article 11.3 (*How does the bank deal with my personal data?*) of the General Investment Conditions.

3.6. Do I have to pay costs for exercise upon expiration?

If your 'in the money' options have been exercised for you on a domestic options exchange upon expiration according to the 2% rule, the bank will charge costs for this. These charges are higher than the ususal costs for exercising your option yourself. In the brochure about investment charges, you can read what charges you are required to pay. If a foreign options exchange has exercised your options upon expiration, the charges may be higher – for instance, because of the extra costs incurred for exchange the foreign currency amount into euro or vice versa. You can read more about the exercise of options by options exchanges in article 3.3 (*How can I exercise my purchased options myself or how does the options exchange exercise my purchased options?*).

4. Investor information

4.1. What investor information about options can I obtain from the bank?

1. The rules from section 7 (*Investor information*) of the General Investment Conditions apply in this case. In addition, the following rules apply to investing in options.
2. You can always ask the bank for up-to-date information about the following:
    - The position limits of the options exchange;
    - The exercise limits of the options exchange; and
    - The current volatility percentages. See also article 3.12 (What is margin) of the Options Appendix;
3. You may also ask the bank for up-to-date information about your margin requirement if you give an order with the bank for an option. You can also check your margin requirement yourself on Internet Banking.

5. Collateral value and unarranged overdraft

Read this first:
Article 9.2 (*What is the collateral value of my investments?*) of the General Investment Conditions and.
Article 9.3 (*What is a collateral deficit?*) of the General Investment Conditions.

5.1. What happens if I have a collateral deficit as a result of my margin requirement?

1. If you have a collateral deficit as a result of your margin requirement, the rules of the five-day procedure apply. For more information, see article 9.4 (*What does the five-day procedure involve?*) of the General Investment Conditions. In addition, the following rules apply.
2. It is in your interest not to give any further opening orders for options during the five-day procedure. If you nonetheless give an opening order, the bank will treat your opening order in accordance with the standard rules. This means that the bank will execute your opening order if your spending limit is sufficient at that precise moment. See also article 2.3 (*Under which conditions does the bank approve my order for an option?*). If a new collateral deficit arises during the five-day procedure, the bank will not give you any warning. During this procedure, it is only important whether or not you have a collateral deficit on the fourth and fifth business day.

5.2. What is the collateral value of my investment products that serve as security?

1. The rules from article 9.2 (*What is the collateral value of my investments?*) of the General Investment Conditions apply in this case. In addition, the following rule applies to investing in options.
2. If certain investment products held by you serve as security for your written call option, the bank will not count the full value of these investment products when calculating your collateral value. The bank will deduct from the collateral value the amount you must pay (the premium) if you were to repurchase your written call option.

5.3. What happens if an unarranged overdraft arises on my payment account as a result of my investments?

1. Your payment account is allowed to be overdrawn due to your investments if:
    - The bank has granted you credit for this purpose; and
    - The product conditions state that your payment account is allowed to be overdrawn.
2. Without this credit, your payment account is not allowed to be overdrawn due to your investments – not even if the value of your investment products in your investment account is large enough to cover the overdrawn amount on your payment account. If your payment account is overdrawn due to your investments without this credit or if the overdrawn amount is larger than the agreed credit amount, then there is an unarranged overdraft on your payment account.

3. The bank will deal with an unarranged overdraft in the same way as with a collateral deficit. You can read what a collateral deficit is in article 9.3 (*What is a collateral deficit?*) of the General Investment Conditions. This means that the 5-days procedure is also applicable to an unarranged overdraft that has arisen due to your investments. If you have not cleared your overdrawn position yourself within the five days, the bank can take measures to clear your overdraft. You can read what the 5-days procedure is in article 9.4 (*What is the 5-days procedure?*) of the General Investment Conditions.
4. An unarranged overdraft can arise on your payment account because:
   - You or the bank have/has taken measures to clear a collateral deficit resulting from your margin requirement
   - Your written put option has been assigned and you do not have sufficient money in your payment account to buy the underlying assets.
5. If there is an unarranged overdraft on your payment account due to your investments, the bank may take the following measures to clear your unarranged overdrawn position. The bank can, for instance:
   - First of all, close all or some of the other written options in your investment portfolio for you; and then
   - Sell all or some investment products in your investment portfolio for you.

   To the extent necessary to clear the unarranged overdrawn amount.

6. Complaints procedure

6.1. What should I do if I have a complaint about an investment in options?

1. The rules from section 10 (*Complaints procedure*) of the General Investment Conditions apply in this case. In addition, the following rules apply to investing in options.
2. You must mitigate your potential loss by closing the option to which your complaint relates.

7. Other issues

7.1. If the bank has a right of pledge on my investment products, how does this affect my ability to invest in options?

If you write options, you have a margin requirement in relation to the bank. The bank will use the pledge for your margin requirement.

Please also read:
- Article 11.4 (*What does it mean that the bank has a right of pledge on my investments?*) of the General Investment Conditions; and
- Article 24 (*Right of Pledge*) of the General Banking Conditions and the explanatory notes to these conditions.

8. Terminating investing in options

8.1. What must I do if I no longer wish to invest in options with the bank?

You may cancel the Options Sub-Agreement at any time if you no longer wish to invest in options with the bank. You must send a letter to the bank for this purpose. After the bank receives your letter, this sub-agreement will end.

8.2. Can the bank terminate the Options Sub-Agreement with me?

The bank can terminate the Options Sub-Agreement in the manner described in article 12.3 (*Can the bank terminate the Investment Agreement?*) of the General Investment Conditions.

8.3. What are the consequences if the Options Sub-Agreement ends?

1. The consequences are the same as if the Investment Agreement ends. For more information, see article 12.4 (*What are the consequences if the Investment Agreement ends?*) of the General Investment Conditions. In addition, the following rules apply to investing in options.
2. The only orders that you can still give with the bank are for the closure of options.

ABN AMRO Bank N.V.
Amsterdam, 1 March 2023

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Amsterdam CoC Trade Register no. 34334259.

Options Appendix

1. Introduction

1.1. What information can I find in this appendix?

This appendix to the ABN AMRO Options Conditions explains the following:

- The characteristics of options (see section 2);
- How options work and what risks they involve (see section 3);
- How you can give orders for options (see section 4);
- How options end and how you can exercise your options (see section 5);
- The purposes of investing in options (see section 6); and
- The exposure of options (see section 7).

The bank has carefully drafted this appendix. However, it is possible that some information may no longer be correct at the time you read this appendix. For example, because of recent developments concerning investing or options. The bank reserves the right to change this appendix. We will keep you informed of major changes as far as possible. See also article 1.5 (*What happens if the bank amends the ABN AMRO Options Conditions?*) of the Options Conditions.

The rules that govern investing in options include:

- The rules and regulations of the options exchange on which your order for an option is executed;
- The rules of the clearing organisation where the clearing of your order for an option takes place. You can read more about what a clearing organisation is in article 5.4 (*What is a clearing organisation?*); and
- The rules of the bank, including the ABN AMRO Options Conditions.

2. Characteristics of options

2.1. What is an option?

An option is a standard contract. By taking an option, you purchase a right or enter into an obligation. There are two types of options: call options and put options:

- A call option entitles you to buy, or obliges you to sell, a fixed quantity of an underlying asset at an agreed price during a fixed period.
- A put option entitles you to sell, or obliges you to purchase, a fixed quantity of an underlying asset at an agreed price during a fixed period.

Options are traded on a options exchange.

2.2. What does the premium of an option consist of?

An option premium is the price of the option. The premium consists of two parts:

- The time and expectation value: this part of the premium indicates how the market expects the price of the underlying asset to move. The market takes into account the time left until the expiration date. At the time of expiration, the time and expectation value is virtually nil.
- The intrinsic value. An option has intrinsic value when the price of the underlying asset exceeds the exercise price of a call option, or when the price of the underlying asset is lower than the exercise price of a put option. The intrinsic value is the difference between the exercise price and the price of the underlying asset.

2.3. How is the premium of an option determined?

The premium is determined by the supply and demand from investors in options. The behaviour of these investors is generally based on the price and volatility of the underlying asset and on the options term. The investors also take into account any dividend payment on the underlying asset and the market interest rate.

If the price of the underlying asset rises:

- The premium of a call option on the underlying asset will also generally rise; and
- The premium of a put option on the underlying asset will generally fall.

If the price of the underlying asset falls:

- The premium of a call option on the underlying asset will also generally fall; and
- The premium of a put option on the underlying asset will generally rise.

Overview of the relationship between the option premium and the price of the underlying asset

	Call option premium
The price of the underlying asset rises	up
The price of the underlying asset falls	down

	Put option premium
The price of the underlying asset rises	up
The price of the underlying asset falls	down

Please note

The standard contract size in the case of a share option on Euronext Liffe Amsterdam is 100 shares. The premium is based on one share. This means that, if you buy a share option with a EUR 3 premium at a given point in time, you must pay 100 times EUR 3 = EUR 300 for this option.

With an index option, the contract size is usually 100 times the value of the index.

2.4. What is the leverage of options?

A characteristic of options is that they have leverage. See also article 2.11 (*What are the general characteristics and risks of derivatives?*) of the Investment Appendix. Leverage means that the profit you can make is higher than the profit you could make if you were to invest directly in the underlying asset. This is because you need to invest only a small amount, but your chances of profit are the same. However, your loss may also exceed the loss that you could incur if you were to invest directly in the underlying asset.

An example

The price of an underlying asset is EUR 100.

The price of a *call option* on this underlying asset, with an exercise price of EUR 100, is EUR 4.50 (time and expectation value). If the price of the underlying asset rises to EUR 103.50, the price of the call option will rise to, for example, EUR 6.40 (intrinsic value of EUR 3.50 plus time and expectation value of EUR 2.90). The price of the underlying asset will have risen by 3.5% (from EUR 100 to EUR 103.50) while the price of the call option will have gone up by 42% (from EUR 4.50 to EUR 6.40).

The price of an underlying asset is EUR 100.

The price of a *put option* on this underlying asset, with an exercise price of EUR 100, is EUR 3.00 (time and expectation value). If the price of the underlying asset rises to EUR 103.50, the intrinsic value will remain nil but the time and expectation value will fall, for example, to EUR 2.30. The price of the underlying asset will have risen by 3.5% however the price of the put option will have fallen by 23%.

2.5. What is an 'in-the-money' option?

If the price of the underlying asset exceeds the exercise price of a call option or is lower than the exercise price of a put option, the option is said to be 'in the money'. An 'in-the-money' option has intrinsic value and a time and expectation value. An option with a high intrinsic value is called a 'deep in the money' option.

2.6. What is an 'at-the-money' option?

If the exercise price of an option is approximately the same as the price of the underlying asset, the option is said to be 'at the money'. The premium consists mainly of time and expectation value.

2.7. What is an 'out-of-the-money' option?

If the price of the underlying asset is lower than the exercise price of a call option or exceeds the exercise price of a put option, the option is said to be 'out of the money'.
If both prices diverge widely, this is called a 'far out of the money' option. An '(far) out-of-the-money' option has no intrinsic value. The premium consists entirely of time and expectation value.

2.8. What are the contract characteristics of options?

An option is a standard contract with fixed and variable characteristics. These are known as contract characteristics. The fixed contract characteristics do not change throughout the entire term of the option, except in special circumstances. See also article 2.11 (*May the options exchange alter the contract characteristics of an option?*).

The fixed contract characteristics include the following:

- The underlying asset;
- The contract size; this is the fixed quantity of the underlying asset of an option (usually 100);
- The term;
- The expiration date;
- The exercise price; and
- The style (American or European).

An example

You can see the main contract characteristics from the way in which an option is listed on the exchange. An option on Euronext Liffe Amsterdam has, for example, the following listing: *RD Call Dec25 30*. This means that the contract characteristics of the option are as follows:

- *RD: this is an option whose underlying asset is (Royal Dutch) Shell stock*
- *Call:* it is a call option
- *Dec25:* the expiration date of this option is on the third Friday in december 2025
- *30:* the exercise price is EUR 30.

2.9. Who determines the contract characteristics?

The options exchange determines the contract characteristics of an option. For example, the exchange determines:

- The underlying assets for which options are available. The underlying asset is the investment product (such as a share) or other security (such as an index) which you can buy or sell by means of an option. The options exchange chooses, wherever possible, underlying assets that are actively traded, usually on official exchanges. An option always has only one type of underlying asset.
- The term for an option. There are various times to expiration, varying from one month to five years. There are also week options.
- The exercise price of an option series. Options can have multiple exercise prices. Initially, not all option series with different exercise prices will be available in an option class. However during the term of an option class, the options exchange may introduce new options series with different exercise prices. For example, because the price of the underlying asset has risen or fallen substantially.

2.10. What is the currency of an option?

The options exchange also determines the currency of an option. If the options exchange chooses a new option class, it determines at the same time the principal market for the underlying asset of this option. Usually this is the home market, in other words, the country of origin of the underlying asset. The currency of the country of origin of the underlying asset is therefore usually also the currency in which the options on the underlying asset are listed.

2.11. May the options exchange alter the contract characteristics of an option?

The options exchange may alter the contract characteristics of an option. It may do so, for example, in the event of:

- A merger or acquisition
- A split-up
- A rights issue
- A bonus issue.

The options exchange may replace the underlying asset and also change the exercise price, contract size and number of options. The exchange alters the number of options if, for example, it changes one of your options into two options. The options exchange will not alter your option upon payment of normal dividends. It makes no difference in this respect whether these dividends are paid in cash, in shares or as a cash/stock dividend.

2.12. May the options exchange intervene in the trade in options?

The options exchange may intervene in the trade in options by taking certain measures. This may mean that you cannot realise your profit or limit your loss at the particular time you desire. In exceptional situations, and where necessary to ensure that the market operates in a fair and orderly manner, the exchange may:

- Limit the trade in options;
- Impose extra conditions for the trade in options;
- Suspend the trade in options;
- Stop the trade in options; the options exchange may decide to remove an option class from the listing, for example if the underlying asset can no longer be delivered. In such a case, the options exchange will settle in cash the value that your option still has; or
- Cancel executed orders; this means that all orders executed in a given period are reversed by the options exchange.

The options exchange will do everything possible to ensure that the trade in options continues without interruption. Sometimes this will prove to be impossible, for example because the options exchange is affected by a breakdown in the lines of communication or computer systems. This may disrupt the trade and cause losses to you or the bank. Also read article 4.16 (*Who is liable for the investment services of the bank?*) of the General Investment Conditions.

The options exchange supervises the trade in options, but does not provide a guarantee that no irregularities may occur. If an options exchange operates in a country that is

a member of the European Economic Area (EEA), the regulatory authority of that country supervises the options exchange. This is regulated in accordance with the EU directives.

2.13. What happens to my option if trading in the underlying asset is temporarily suspended?

If the trade in an underlying asset is disrupted or interrupted, trading in the options on the underlying asset is often suspended or terminated. In the case of index options, the options exchange will usually suspend or terminate the trade if:

- All or part of the trade in the underlying assets of that index is disrupted or terminated; or
- The options exchange can no longer access the calculated index value at all times without disruption and without interruption.

3. Operation and risks of options

3.1. How does an option work?

You can buy an option. You are then the buyer and thus have a right. During the term of the option you personally determine whether you exercise that right. But you can also sell an option which you do not have. You are then the seller (writer) and this results in an obligation on your part. If the buyer exercises the option, you must fulfil your obligations. See also article 5.3 (*How does my written option end?*). Sometimes the options exchange can also exercise your purchased options for you. You can read more about this in article 3.3 (*How can I exercise my options myself or how does the options exchange exercise my purchased options?*) of the Options Conditions.

3.2. What happens if I buy a call option?

If you buy a call option:

- You buy the right to purchase the underlying assets at the exercise price during the exercise period;
- You pay the premium and costs for this call option;
- The bank credits your purchased call option to your investment account; and
- You obtain a purchased (or long) position in this call option in your investment account.

3.3. When would I buy a call option?

You would buy a call option if you expect the price of the underlying asset to rise. You will make a profit if, at a given point in time, the price of the underlying asset exceeds the exercise price of your option. However, to calculate the profit, you must deduct the premium and costs you have paid for your option.

If you have a call option on shares, it may be advantageous to exercise the call option before the date on which dividend is paid on the shares. As you then receive the dividend payment on the shares. The date on which a share pays dividend is called the ex-dividend date. If you do not exercise your call option, the value of your option diminishes on the ex-dividend date.
Please also read article 5.9 (*What is dividend stripping?*).
The risk you run with a purchased call option is that your expectations are not met and the price of the underlying asset falls. In such a case, your maximum loss is the premium that you have paid, plus the costs.

3.4. What happens if I buy a put option?

If you buy a put option, then:

- You buy the right to sell the underlying assets at the exercise price during the exercise period;
- You pay the premium and costs for this put option;
- The bank credits your purchased put option to your investment account; and
- You obtain a purchased (or long) position in this put option in your investment account.

3.5. When would I buy a put option?

You would buy a put option if you expect the price of the underlying asset to fall. You will make a profit if, at a given point in time, the price of the underlying asset is lower than the exercise price of your option. However, to calculate the profit, you must deduct the premium and costs that you have paid for your option. The risk you run with a purchased put option is that your expectations are not met and the price of the underlying asset rises. In such a case, your maximum loss is the premium that you have paid, plus the costs.

You can also buy a put option to protect your assets.

An example:
You have 100 XYZ shares with a price of EUR 100. You buy 1 put option with an exercise price of EUR 95 and you pay EUR 200 for this. Suppose your shares fall to a price of EUR 50. Then you can exercise your option and sell your shares for EUR 95 each. Thanks to your put option, your loss on your shares is limited to EUR 500. In addition, you have paid a premium of EUR 200 for your put option. Your total loss is thus EUR 700. If you had not purchased a put option, you would have lost EUR 5,000 on your shares in this example.
In this example, the costs for the stocks and the put option you have to pay, are not taken into account.

Please note

Buying options involves risks. You should not buy options if you cannot afford to lose your investment. Your investment is the premium and the costs that you must pay for your option.

3.6. What happens if I write a call option?

If you write a call option, then:

- You sell the right to the buyer to purchase the underlying assets from you at the exercise price during the exercise period;
- You receive the premium for this call option;
- You pay costs;
- You have not a right but an obligation to sell;
- The bank credits your written call option (negative number) to your investment account; and
- You obtain a sold (or short) position in this call option in your investment account.

3.7. When would I write a call option?

You would write a call option if you expect the price of the underlying asset to fall or remain the same. You will make a profit if, at a given point in time, the price of the underlying asset is lower than the exercise price of your option. Your maximum profit is the premium that you have obtained for your option, less the costs. No matter how much the price of the underlying asset rises, you will never receive more than the exercise price. The risk you run with a written call option is that your expectations are not met and the price of the underlying asset rises. In such a case, the buyer may exercise his or her option and the bank may assign you to sell the underlying asset at the exercise price.

If you do not wish to be assigned, you must repurchase your written call option in good time. You can read more about this in article 4.5 (*How should I give an order if I wish to close my written option?*). Your maximum loss on a written call option depends on whether you have the underlying assets in your investment account. See also articles 3.10 (What is covered writing?) and 3.11 (*What is uncovered writing?*).

3.8. What happens if I write a put option?

If you write a put option, then:

- You sell the right to the buyer to sell you the underlying assets at the exercise price during the exercise period;
- You receive the premium for this put option;
- You pay costs;
- You have not a right but an obligation to buy;
- The bank credits your written put option (negative number) to your investment account; and
- You obtain a sold (or short) position in this put option in your investment account.

3.9. When would I write a put option?

You would write a put option if you expect the price of the underlying asset to rise or remain the same. You will make a profit if, at a given point in time, the price of the underlying asset is higher than the exercise price of your option. Your maximum profit is the premium that you have obtained for your option, less the costs. The risk you run with a written put option is that your expectations are not met and the price of the underlying asset falls.

In such a case, the buyer may exercise his or her option and the bank may assign you to buy the underlying asset at the exercise price. If you do not wish to be assigned, you must repurchase your written put option in good time. Your maximum loss on a written put option is limited to the exercise price plus the costs paid less the premium received. See also article 3.11 (*What is uncovered writing?*).

Please note

You run more risk with a written option than a purchased option. In the case of a purchased option, your maximum loss is your investment (the premium plus the costs). In the case of a written option, you may even be left with a debt. This is why you should write options only if you are an experienced investor and you can bear the financial risks.

Overview of call and put options

Call option	
Buy	Right of purchase
Write (sell)	Delivery obligation (obligation to sell)
Put option	
Buy	Right of sale
Write (sell)	Purchase obligation (obligation to buy)

3.10. What is covered writing?

If you write a call option and you have the underlying assets in your investment account, this is known as a covered written option. The profit in your option is limited to the premium you have received minus the costs. Your underlying assets can also produce a profit or loss. If, for instance, you have been assigned to sell the underlying assets, the profit or loss in the underlying assets is the

difference between the price at the time of writing and the exercise price for which you ultimately sell the underlying assets.

Example 1 – option with intrinsic value at the time of writing

Start situation 1:
You have 100 XYZ shares with a price of EUR 100. You write 1 call option with an exercise price of EUR 95, for which you receive a premium of EUR 600.

End situation 1a:
At expiration, the price of the share has risen to EUR 105. You must then sell the shares for EUR 95. Your profit on your option is EUR 600. This is the premium you have received. However, you must sell the shares for EUR 95 each. As the shares were EUR 100 at the time of writing, you make a loss of EUR 500 on your shares. Your total profit is thus EUR 100. If in this situation you had not written a call option, you would have made a profit of EUR 500 on your shares.

End situation 1b:
At expiration, the price of the share has fallen to EUR 90. You will then not need to sell the shares. Your profit on your option is EUR 600.This is the premium you have received. As the shares were EUR 100 each at the time of writing, you make a loss of EUR 1,000 on your shares. Your total loss is thus EUR 400. If you had not written a call option in this situation, you would have made a loss of EUR 1,000 on your shares.

Example 2 – option without intrinsic value at the time of writing

Start situation 2:
You have 100 XYZ shares with a price of EUR 100. You write 1 call option with an exercise price of EUR 105, for which you receive a premium of EUR 100.

End situation 2a:
At expiration, the price of the share has risen to EUR 110. You must then sell the shares for EUR 105. Your profit on your option is EUR 100. This is the premium you received. However, you must sell the shares for EUR 105 each. As the shares were EUR 100 each at the time of writing, you make a profit of EUR 500 on your shares. Your total profit is thus EUR 600. If you had not written a call option in this situation, you would have made a profit of EUR 1,000 on your shares.

End situation 2b:
At expiration, the price of the share has increased to EUR 103. You will then not need to sell the shares. Your profit on your option is EUR 100.This is the premium you received. As the shares were EUR 100 each at the time of writing, you make a profit of EUR 300 on your shares. Your total profit is thus EUR 400. If you had not written a call option in this situation, you would have made a profit of EUR 300 on your shares.
In these examples, the costs for the stocks and the call option you have to pay, are not taken into account.

3.11. What is uncovered writing?

If you write a call option without having the underlying assets in your investment account, this is known as an uncovered written call option or 'going short'. You run a great deal of risk if you write an uncovered call option. If the price of the underlying asset rises and the bank assigns you to sell the underlying asset, you must first buy the underlying asset on the stock exchange, often at a much higher price than the exercise price at which you must sell. If you write an uncovered call option, you should therefore realise that your loss can be unlimited. Please also note the risk of dividend stripping. You can read about this risk in article 5.9 (*What is dividend stripping?*).

Written put options are always uncovered. If the bank assigns you, you must buy the underlying assets. The risk you run in this connection is that you have to buy the underlying assets at the exercise price which is often much higher than the actual price. You therefore immediately incur a loss when the underlying assets are added to your investment portfolio. Your risk is limited to a maximum of the purchase price of the underlying asset plus the costs less the premium that you have received for the written put option. The purchase price is the exercise price.

Overview of the chances of making a profit on call options and put options

Activity	Maximum profit (excluding costs)
Buy call option	Unlimited
Buy put option	Limited to exercise price less premium paid
Sell call option (covered)	Limited to premium received plus or minus the difference between the exercise price of the option and the price of the underlying asset at the time of writing *)
Sell call option (uncovered)	Limited to premium received
Sell put option	Limited to premium paid

*) see situations 1a and 2a in the examples in article 3.10 *(What is covered writing?)*

Overview of the chances of making a loss on call options and put options

Activity	Maximum loss (excluding costs)
Buy call option	Limited to premium paid
Buy put option	Limited to premium paid
Buy put option (underlying assets in your investment account)	Limited to premium paid plus or minus the difference between the exercise price of the option and the price of the underlying assets at the time of purchase **)
Sell call option (covered)	Limited to the loss in value of the underlying assets minus the premium received ***)
Sell put option (uncovered)	Unlimited
Sell put option	The exercise price minus the received premium

**) see example in article 3.5 *(When would I buy a put option?)*

***) see situation 1b in the example in article 3.10 *(What is covered writing?)*

3.12. What is a margin?

Written positions involve risks. If you write an option, you have an obligation to buy or sell a given quantity of the underlying assets. To be certain that you can meet this obligation, the bank requires you to keep security. You must hold this security as long as you have the written option in your investment account. This is known as the margin requirement. Please also read article 2.4 (*What does the margin requirement involve?*) of the Options Conditions. The margin depends on, among other things, the option premium of your written option and the price and volatility of the underlying asset. As a result, your margin requirement changes almost daily. The volatility of the underlying asset is expressed as a percentage. This volatility percentage is purchased by the bank from an independent party. The volatility percentage is not a fixed percentage, but can change from day to day due to market circumstances. The standard method is to calculate the volatility percentage based on the price movements of the underlying asset over the past 125 days. You can request the current volatility percentage from the bank. For non-domestic options the bank applies a fixed volatility percentage of 30%.

3.13. How does the bank calculate the margin of an option?

The bank calculates the margin for each options contract using the following data:

- The premium
- The contract size (standard size is 100)
- The volatility percentage of the underlying asset. You can read what the volatility percentage is in article 3.12 (*What is margin?*)
- The price of the underlying asset
- The exercise price

The margin calculation for call options is different from that of put options.

Margin calculation for call options

Margin = 2 x {premium + volatility percentage x (2 x price of underlying asset – exercise price)} x contract size.

- Where (2 x price of underlying asset – exercise price) cannot be lower than the price of underlying asset.
- If (2 x price of underlying asset – exercise price) is lower than the price of underlying asset, the bank uses the price of underlying asset to calculate the margin

An example

Suppose you write 1 call option XYZ Dec 400 for EUR 5 with a price of the underlying asset XYZ of 380. And the applicable volatility percentage for XYZ is 10%. Then the calculation of the margin is as follows:

Margin = 2 x {5 + 10% x (2 x 380 – 400)} x 100 =

2 x {5 + 10% x (760 - 400) x 100 =

2 x {5 + 10% x (360)} x 100.

As 360 is lower than 380, outcome isn't 360 but 380. Margin calculation will be:

2 x {5 + 10% x (380)} x 100 =

2 x {5 + 38} x 100 = 2 x 43 x 100 = EUR 8,600 per options contract.

Margin calculation for put options

Margin = 2 x {premium + volatility percentage x (2 x exercise price – price of underlying asset)} x contract size.

- Where (2 x exercise price – price of underlying asset) cannot be lower than the exercise price.
- If (2 x exercise price – price of underlying asset) is lower than the exercise price, the bank uses the exercise price.
- The maximum margin for put options is equal to the purchase obligation. The purchase obligation is the exercise price multiplied by the contract size.

An example:

Suppose you write 1 put option XYZ Dec 240 for EUR 5 with a price of the underlying asset XYZ of 300. And the applicable volatility percentage for XYZ is 10%. Then the calculation of the margin is as follows:

Margin = 2 x {5 + 10% x (2 x 240 – 300)} x 100 =

2 x {5 + 10% x (480 - 300)} x 100 =

= 2 x {5 + 10% x (180)} x 100. As 180 is lower than 240, outcome isn't 180 but 240. Margin calculation will be:

2 x {5 + 10% x (240)} x 100 =

2 x {5 + 24} x 100 =

2 x 29 x 100 = EUR 5,800 per options contract.

If you have more option positions with a margin requirement in your investment account, the bank will add up these margins. The resulting total is then the margin requirement applicable to your investment account.

4. Orders

4.1. How should I give an order for an option?

If you wish to give an order for an option with the bank, you should specify the characteristics of the option series. These characteristics are:

- The option class, for example, PHI stock (PHI=Philips);
- The option type (call or put option);
- The term; and
- The exercise price.

You should also indicate:

- How many options you wish to buy or sell;
- Whether it is an opening purchase or sale or a closing purchase or sale;
- What price limit you wish to give on your order; and
- What time limit you wish to give on your order.

Finally, you personally should take into account the position limit of an option series. The options exchange determines the position limit for an option series. See also article 2.1 (*What rules apply if I give an order for an option with the bank?*) of the Options Conditions.

4.2. How should I give an order if I wish to buy an option?

If you wish to buy an option, you should give an order with the bank for a so called opening purchase. If the options exchange executes your order, you will obtain a long position in your investment account for this option.

4.3. How should I give an order if I wish to write an option?

If you wish to write an option, you should give an order with the bank for a so called opening sale. If the options exchange executes your order, you will obtain a short position in your investment account for this option.

4.4. How should I give an order if I wish to close my purchased option?

If you wish to close your purchased option, you should give an order with the bank for a so called closing sale. If the options exchange executes your order, it will close your long position. This option will then disappear from your investment account.

4.5. How should I give an order if I wish to close my written option?

If you wish to close your written option, you should give an order with the bank for a so called closing purchase. If the options exchange executes your order, it will close your short position. This option will then disappear from your investment account.

4.6. Is it possible that I might not be able to close my option?

Sometimes it is not possible to close an option. The options exchange cannot guarantee that the market for each option series will always be large enough to enable your option to be closed.

5. Terminating and exercising options

5.1. I have bought an option. How will my option end?

If you have bought an option, there are four ways in which it can end:

- You can exercise your purchased option during the exercise period. This means that you exercise your right to buy (in the case of a call option) or sell (in the

case of a put option) the underlying assets at the exercise price. In the case of an American-style option, you can exercise the option throughout the entire term. You can read about what an American-style option is in article 5.6 (*What is the style of an option?*). You must personally take account of the exercise limit of an option series. The options exchange determines the exercise limits for all option series. See also article 2.1 (*What rules apply if I give an order for an option with the bank?*) of the Options Conditions.

- You can sell your purchased option during the term. This is known as closing the option. You end your purchased option with a closing sale. See article 4.4 (H*ow should I give an order if I wish to close my purchased option?*).
- Your option may also end without value after the term. This happens if your option is 'out of the money'. After the expiration date, your option no longer exists. If you have not exercised or sold your option in time, your option will end automatically after the expiration date. You can read about what the expiration is in article 5.5 (*What is the expiration date?*).
- If your option is 'in the money' upon expiration, your option is exercised by the options exchange even if you yourself do nothing. See article 3.3. (*How can I exercise my purchased options myself or how does the options exchange exercise my purchased options?*) of the Options Conditions.

5.2. How should I give an order if I wish to exercise my purchased option?

If you wish to exercise your purchased option, you should give an order with the bank for this purpose. With a put option, you can only exercise the option if you hold the underlying assets. Once you have given the order with the bank, you can no longer withdraw it. If the clearing organisation has received the bank's order, you are obliged to:

- Buy the underlying asset at the exercise price in the case of a call option;
- Sell the underlying asset at the exercise price in the case of a put option.

You can read about what a clearing organisation is in article 5.4 (*What is a clearing organisation?*).

5.3. How does my written option end?

If you have written an option, it can end in three ways:

- You can be assigned during the exercise period or upon expiration if the option is 'in the money'. The buyer then exercises his or her option. In consideration of the exercise price, you must then:
  - Sell the underlying asset in the case of a call option;
  - Buy the underlying asset in the case of a put option.
- You may repurchase your written option during the term. This is known as closing the option. You end your written option with a closing purchase. See also article 4.5 (*How should I give an order if I wish to close my written option?*).
- Your 'out of the money' option may also end after the term. After the expiration date, your option no longer exists. Your option will end automatically after the expiration date. You can read about what the expiration is in paragraph 5.5 (*What is the expiration date?*).

Please note

If you have written a call option on shares that pay a dividend on a given date, you should take into account the dividend payment date. It is very likely that your written call option will be assigned on the day before the dividend is paid. See also article 5.9 (*What is dividend stripping?*).

5.4. What is a clearing organisation?

If you give an order with the bank to buy, write or exercise an option, the bank in turn instructs a clearing organisation. The clearing organisation arranges for the settlement of options. It keeps a record of all long and short positions resulting from the trade in options. In legal terms, the clearing organisation acts as an intermediary between the banks. The banks act on behalf of their customers who are investing in options. If, for example, you are the buyer of an option, you do not conclude a contract with the seller (the writer) even though you might be under that impression. Because the clearing organisation acts as the counterparty of both your bank and the writer's bank. As such, the clearing organisation is known as the central counterparty.

5.5. What is the expiration date?

For options on a domestic options exchange, the expiration date is the third Friday of the month of exercise, except in the case of options with an exercise period shorter than one month, such as day options and week options. If the third Friday is not a trading day, the expiration date will be the trading day before this third Friday of the month. On foreign options exchanges, the expiration date may be a different day.

The trade in the expiring option series stops on the expiration date at the end of the exchange day. After this you can no longer exercise your option. The trade in index options often ends earlier on the day of trading.

5.6. What is the style of an option?

There are two different styles of options: American and European-style options. If you have bought an American-style option, you may exercise your option at any point during the term. Share options on Euronext Liffe Amsterdam are American-style options. In the case of a European-style option, you may exercise your option only on the exercise date. Naturally, you may close a European-style option early by means of a closing sale or closing purchase, as the case may be. Index options on Euronext Liffe Amsterdam are European-style options.

5.7. How can options be settled?

Options can be settled in two ways:

- By buying or selling the underlying asset, such as for share options; or
- By paying for the option in cash, as in the case of index options.

The manner in which the option is settled depends on the type of option.

Where payment is made in cash, this is known as cash settlement. It occurs on the basis of the exercise price and the settlement price. The settlement price is the price of the underlying asset on which options are settled on the expiration date.
The options exchange determines the settlement price for an index option on the expiration date. The settlement price does not lead to any changes in the margin: this continues to be based on the price and applies the entire day (see also article 3.13 (*How does the bank calculate the margin of an option?*).

If an option is settled in cash:

- The buyer of a call option receives the difference between the exercise price and the settlement price, but only if the exercise price is the lower of the two; and
- The buyer of a put option receives the difference between the exercise price and the settlement price, but only if the exercise price is the higher of the two.
- The seller of a call option must pay the difference between the exercise price and the settlement price, but only if the exercise price is the lower of the two; and
- The seller of a put option must pay the difference between the exercise price and the settlement price, but only if the exercise price is the higher of the two.

5.8. How is the underlying asset of an option delivered and paid for?

Where shares are delivered following the exercise of a share option, shares that are listed as including dividend (that is, as cum-dividend) on the exercise date must be delivered inclusive of the dividend. See also 5.9 (*What is dividend stripping?*).
An options exchange reserves the right to decide in special circumstances that exercised options will be settled not by delivery but in cash. This happens on the basis of settlement prices to be determined by the options exchange.

5.9. What is dividend stripping?

Dividend can be paid out on shares. The issuing institution makes the so-called ex-dividend date known for this purpose. The day before that date you must hold the investment product to be eligible to receive the dividend. Suppose you have a written call option on XYZ shares. And your call option is assigned on the day before the ex-dividend date, then you are informed about this by the bank on the next business day. See for this article 3.4 (*What does the bank do if my written option has been assigned or if my written option is 'in the money' upon expiration?*) of the Options Conditions. In this case you must deliver the XYZ shares with dividend, so you are no longer be entitled to receive the dividend on these shares as you will have to give it to the buyer of your option. The buyer of the option who exercises his right the day before the ex-dividend date thus buys the shares cum-dividend. This is known as dividend stripping. If you do not have the shares but instead have a purchased call option as cover for your written call option, then after the ex-dividend date you can only exercise your purchased call option for the shares without dividend. Whereas, due to your assigned call option, you have to deliver the shares cum-dividend. You will therefore always have a shortfall for the amount of the dividend. You must still pay this amount. The bank will deduct this amount from your payment account.
If you have a written call option on shares, but do not hold the actual shares and you do not wish to run the risk of having to deliver the shares cum-dividend, you must close your written call option before the ex-dividend date.

5.10. What is an option roll over?

If you have an option, you can close this option and, at the same time, buy or write a new option. However, the new option must then have the same underlying asset. The expiration date of the new option will be further in the future than the expiration date of your initial option. The exercise price of the new option may also differ from that of the initial option.

6. Purposes of Options

6.1. For what purposes can I invest in options?

You can invest in options for various purposes. For example, you may invest in options because you wish to:

- Make a profit on the investment
- (see article 6.2 *How should I invest in options in order to make a profit?*);
- Receive extra income from your shares (see article 6.3 *How should I invest in options in order to receive extra income from my shares?*);
- Protect your investment portfolio against price falls (see article 6.4 *How should I invest in options in order to protect my investment portfolio against price falls?*);
- Fix the price at which you will buy or sell the underlying asset (see article 6.5 *How should I invest in options in order to fix the price at which I will buy or sell the underlying asset?*).

6.2. How should I invest in options in order to make a profit?

If you buy an option, you expect a change in the price of the underlying asset. If you buy a call option, you expect the price to rise. If you buy a put option, you expect the price to fall. In either case, you can achieve a larger profit from an option than from investing the same amount in the underlying asset itself. This is because of the leverage effect. See article 2.4 (*What is the leverage of options?*). Where the price of the underlying asset rises, the premium of the call option will also generally rise. And where the price of the underlying asset falls, the premium of a put option will rise. In this way, you can make a profit on your option.

6.3. How should I invest in options in order to receive extra income from my shares?

If you wish to receive extra income from your shares, you should write call options on your shares. You do this if you have the underlying asset in your security investment portfolio. In this way, the premium that you receive constitutes extra return on the shares in your investment portfolio, provided that you are not assigned. If you are assigned, you must sell the shares at the exercise price. In that case, the exercise price is usually lower than the actual price. This means that you will miss part of the profit that you could have received if you had sold the shares at the time of expiration.

6.4. How should I invest in options in order to protect my investment portfolio against price falls?

If you wish to protect your investment portfolio against price falls, you should buy a put option. The exercise price you choose determines to what extent you protect your investment portfolio. If the price does not fall, your maximum loss is the premium that you have paid for your put option.
Some investors write a covered call option in order to protect their investment portfolio. This too is possible, but it works only if the price falls just slightly, that is, up to the amount of the premium for which you have obtained your written call option. If the price falls further, you cease to have any protection.

6.5. How should I invest in options in order to fix the price at which I will buy or sell the underlying asset?

If you wish to buy your underlying asset at a given price in the future, you can purchase a call option. Your assumption is that the price of the underlying asset will rise. If the price of the underlying asset does not rise, your maximum loss is the premium that you have paid for your call option. However, if you still intend to buy the underlying asset, you may then be able to buy it at a much lower price.
If you wish to sell an underlying asset at a given price in the future, you can purchase a put option. Your assumption is that the price of the underlying asset will fall. If the price of the underlying asset does not fall, your maximum loss is the premium that you have paid for your put option. However, if you still intend to sell the underlying asset, you may then be able to sell it at a much higher price.

7. Exposure

7.1. What is exposure?

The exposure value is used to assess the risk of the investment portfolio. It expresses the sensitivity of your portfolio to changes in the market as a result of investing in options. The bank calculates the exposure value for your investment portfolio. That is the value for your current investment portfolio in the market at that time, for example, on a stock exchange, plus or less the exposure of your options.

Options can change the composition and risk of your investment portfolio. This is because of the leverage effect of options. See article 2.4 (*What is the leverage of options?*). Usually, the risk of your investment portfolio is higher if you invest in options. To determine the exposure value, the bank assigns your options to one of the asset classes. Do you invest with advice from the bank? In that case, the bank will take your options into account when checking whether your investments still corresponds with your risk profile.

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