J. SAFRA SARASIN
Sustainable Swiss Private Banking since 1841

# Investment Product Guide- FX Barrier Option

I have read the Investment Product Guide of the above product,

and I acknowledge that I understand its features and risks.

Signature: ______________

Print Name: ______________

Date: _______________

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# Overview

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Derivatives, such as options, are commonly used in Structured Products.

**What is an Option?**

- A contract that provides the buyer the right, but not the obligation, to buy or sell a pre-defined amount and at a pre-determined price of a specific security within a predetermined time period.
- Conversely, the seller is obliged to buy or sell a pre-defined amount and at a pre-determined price of a specific security within a predetermined time period.

**Types of Options Commonly Used in Structured Products**

- Asian – With averaging.  Options whose payoffs depend on the average value over a period of time.
- Quanto – Option currency different to underlying currency.  Payout is in different currency to the underlying option.
- Cliquet – Payoff depends on periodic reset feature.
- Knock-in, Knock-out – Option's existence depends on certain level being reached.
- Callable – Investment can be called by Issuer.
- Auto-Callable – Investment must be called by Issuer if certain condition being met.
- Spread – Payoff linked to relative performance of one underlying versus another.

# FX Barrier Option

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## European Knock In Knock Out Option (EKIKO)

**Product Features:**

- This is a normal FX option with Barriers
- Barrier definitions
  - EKI = European Knock In = Knock In barrier only triggered on expiry.
  - KO= Knock Out = Option terminates when the barrier rate is triggered.
- Hence EKIKO option as the name suggest is an option with a European Knock In barrier and a American Knock Out barrier.
- The EKI provides a small insurance between the strike and the EKI level such that should spot on expiry ends between the strike and EKI barrier, the option will not be exercised. The option will only be exercised if Knock In event occurs.

**Suitability:**

- Suitable for investors who expect the underlying currencies to trade sideways and target to buy the alternate currency at a discounted price and receive a predefined yield.

**Worst-case scenario:**

- When the alternative currency depreciates below the strike price, investors are obliged to buy the alternate currency at the strike price and will incur a loss which may be substantial.

**Risk Factors:**

- Product is NOT principal protected.
- Investors are exposed to the full downside risk of the alternative currency.
- Investors are subject to the credit risk of the Bank.
- Liquidity risk as Bank is not obliged to make secondary market
- If unwind before maturity, the unwind price is subject to a number of parameters including but not limited to the movement of FX volatility and level of the underlying currencies.

**Risk Level →** 4 (1 to 5, with 5 being the highest).

**Margin →** 10% (subject to changes)

# FX Barrier Option

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European Knock In Knock Out Option (EKIKO)
- Scenario Analysis

| Option | Spot | Strike | KO | EKI | Tenor | Premium |
|---|---|---|---|---|---|---|
| USD PUT JPY CALL | 106 | 105 | 107 | 98 | 1 year | 0.78% |

Client receives premium of 0.78% of the notional by selling the option above. Premium is received upfront two (2) business days later.

Scenario analysis:

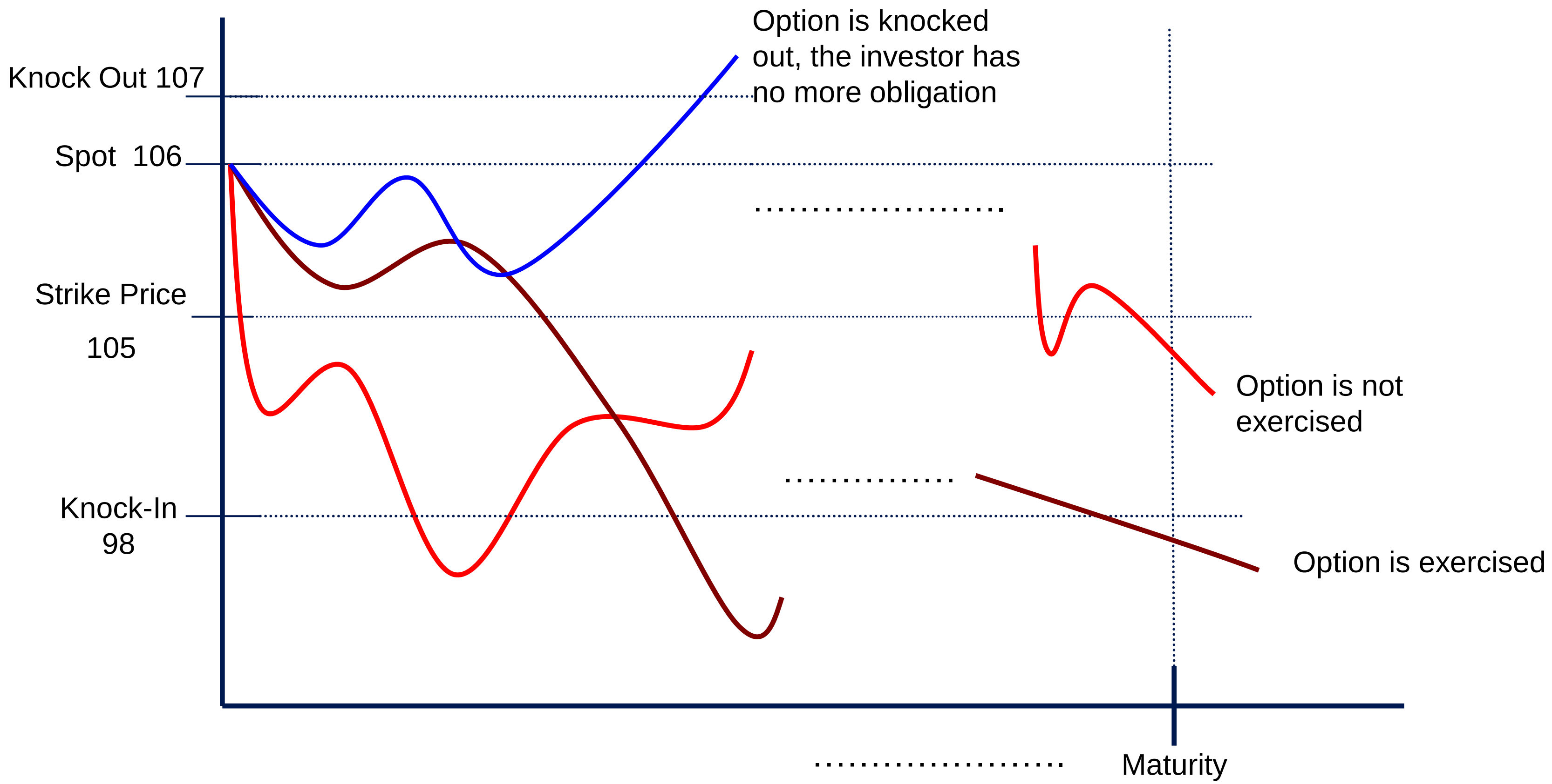
➢If KO at 107 is triggered anytime during the 1 year period, option terminates. The investor will have no more obligation.

➢If the KO at 107 is not triggered during the life of the option:

- On expiry if the spot USDJPY is at 100 which is above the KI barrier, meaning the EKI is not triggered, the option expires and the investor will have no more obligation.
- On expiry if USDJPY is at 97, meaning the EKI barrier is triggered, the option will be exercised and the investor is obligated to buy USDJPY at strike of 105 even though spot USDJPY is at 97.

# FX Barrier Option

## European Knock-In Knock Out Option (EKIKO)



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