OPTIONS MANUAL OF KEYTRADE BANK

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This manual applies only to the services of the regular option platform of Keytrade Bank, Belgian branch of Arkéa Direct Bank SA (France) , Boulevard du Souverain 100, 1170 Brussels Belgium. All calculations and examples in this manual are exclusive of (transaction) costs and taxes.

INTRODUCTION

Do you want to invest in options on shares and indices through Keytrade Bank? On Euronext, with the key American option markets and Eurex, you can. At Keytrade Bank, trading in options is easy, fast and transparent.

Options allow you to respond to the rise and fall of prices and thus make substantial profits. You can also use options to protect your portfolio. Investing in options does, however, carry major risks. When buying options this risk is in principle limited to the premium and transaction costs paid by you, but as a writer of options your loss can be much greater than the premium received.

Options are complex financial instruments. Therefore, you must provide additional information about your knowledge of and experience with options by completing the Knowledge and Experience Test before you can perform transactions in options. This test is available on the Transaction Site of Keytrade Bank. This test will not tell you whether or not a specific investment is suitable for you as it is only a general suitability test. We do not recommend trading in options without having knowledge of and experience with options.

This manual for options trading at Keytrade Bank contains various warnings which can be recognised by an exclamation mark. We recommend that you read these warnings carefully. We will also clarify sections of the text with examples. These are fictitious, and you cannot derive any rights from these examples. It may be that after reading this manual you will still have questions, so please do not hesitate to contact our Contact center on +32 (0)2 679 90 00 (each working day from 9 a.m. until 10 p.m.) before investing in options.

Summary

Chapter A describes what options are, how you can invest in options and what the associated risks are.

Chapter B describes the specific points of attention of trading in options at Keytrade Bank: how to place an order, how to exercise your options and what the expiry procedure entails. This chapter also discusses the margin obligation, negative available cash and the shortfall procedure, in the case of short option trading. The appendix to this manual contains a list of terms.

! Depending on your financial position, trading in options carries extra risks when compared to a standard investment in the underlying security. If your available cash balance is negative at the end of a trading day, the shortfall procedure is initiated, and you will be obliged to clear the shortfall within five trading days.

PART A: INVESTING IN OPTIONS, GENERALLY

1. WHAT ARE OPTIONS?

An option is the right to buy or sell something (a house, a car, securities, etc.). For any option, a term and a price are always agreed. If the term expires, the option is no longer valid. The house, the car or the securities, etc. form the underlying security of the option. This manual discusses investment products as an underlying security, and for simplicity's sake, we will assume that these are shares, but that does not mean that shares are the only type of underlying security available.

1.1. Terminology

Call option and put option

There are two types of options: call options and put options. As a buyer of a call option you have the right to buy a particular underlying security at a predetermined price during a particular period. When buying a put option you have the right to sell a particular amount of underlying security at a predetermined price during a particular period. To acquire this right – either a call or a put option – you will pay a premium (see 1.3).

Buyers and writers

For each buyer of an option, there is also a seller, the so-called writer. The seller is paid the premium by the buyer. For a put option, you, as a writer, have an obligation (and not, like the buyer, a right) to buy the underlying security. For a call option, you must deliver the underlying security. There is no need to own the underlying security when writing a call option. In that case we talk about writing an uncovered (or naked) call option. This type of option carries substantial risks. If you are the owner of the underlying security, it is called a covered call.

Long and short

The terms 'long' and 'short' are also often used where it concerns bought or written positions. The buyer of a call or put option creates a long position with this call or put option. The writer has the short position.

	CALL OPTION	PUT OPTION
BUYER (LONG)	**- Gives the right to buy** **- Buyer pays the premium** Gives the buyer the right to **buy** a fixed amount of shares at an agreed price during a set period.	**- Gives the right to sell** **- Buyer pays the premium** Gives the buyer the right to **sell** a fixed amount of shares at an agreed price during a set period.
WRITER (SHORT)	**- Gives the obligation to deliver** **- Writer receives the premium** Obligates the writer, if assigned, to **sell** a fixed amount of shares at the agreed price for each option.	**- Gives the obligation to buy** **- Writer receives the premium** Obligates the writer, if assigned, to **buy** a fixed amount of shares at the agreed price for each option.

Closing options
You can also close bought and written options during their term because, for example, your opinion of the market has changed or the price movement expected by you has been completed. When closing a bought option you receive an option premium and when closing a written position you pay a premium.

Exercise, assignment and expiry
Aside from closing your position, there are other reasons for an option to expire. This may be because, for instance, you have to fulfil your obligations as a writer (assignment), you exercise the right the option has given you or the option term has expired.

1.2. Standardisation

The options you can trade through Keytrade Bank are standardised investment products. For each option, at least the following relevant characteristics are known:

- *the underlying security of the option*
  Options on, for instance, shares, indices and currencies are traded on the options markets.

- *the exercise price of the option*
  The exercise prices of the options open to trade are set by the market. At Keytrade Bank we call the exercise price the 'strike price'.

- *the term of the option*
  Every option has a term. This is the period during which the right applies. A term can vary from one day to five years. After the end date (the expiry date) the option loses its value.

- *the style of the option*
  For American style options a buyer can exercise his right at any time during the term. For European style options this is possible only on the actual expiry date. You can, however, open and close positions during the entire term for both styles. The difference between European and American style options is therefore only the moment when you, as an option buyer, can exercise your right or, as an option writer, can be confronted with an assignment. Interim exercising of American style options is not possible at Keytrade Bank.

- *the contract size*
  Each option has its own amount of underlying security, and the premium is the price per underlying security (for instance, per share). This is the contract size. Therefore, for a contract of 100 shares, you will pay 100 times the premium for one option contract. If, for instance, the premium for an option is €0.70 you must pay 100 x €0.70 = €70.00 for the option contract. In general, share options on the option markets offered by Keytrade Bank relate to 100 shares.

The characteristics are set out in the contract specification of each option. The exact specification can be found on the website of the option market concerned.

! A contract specification can be amended during its term due to, for instance, a merger or demerger. Each option market is entitled to amend the contract specification following corporate actions (such as mergers, demergers and claim emissions). The underlying security may be replaced, but also the trading unit, strike price, the contract size and the number of options can be changed.

1.3. Option premium

The option premium is the price of an option. It consists of intrinsic value and time value.

Intrinsic value
The intrinsic value is the positive difference between the strike price of the option and the actual market price of shares. A call option has an intrinsic value when the actual price is higher than the strike price. A put option has an intrinsic value when the actual price of the shares is higher than the strike price.

Example: The strike price of call option A is € 25. The actual price of the underlying share is € 26.75. The option premium is €2.60. This means that the intrinsic value of option A is € 1.75 (€ 26.75 - € 25.00).

The relationship between the intrinsic value and the price of the underlying security can be expressed in three ways:

- In-the-money. The option has intrinsic value. The actual price of the underlying security for a call option is higher and for a put option lower than the strike price. (If the difference is substantial, the option is deep-in-the-money).
- At-the-money. The market price is exactly the same as the strike price of a call or put option.
- Out-of-the-money. The option has no intrinsic value. The actual price of the underlying security for a call option is lower and, for a put option, higher than the strike price.

Time value

The option premium is often higher than the intrinsic value. The difference is called the time value. It is influenced by, for instance:

- the volatility of the underlying security – the expected value is higher when the price greatly fluctuates;
- the strike price in comparison to the market price – the further apart, the lower the expected value; and
- the remaining term – the longer the remaining term, the greater the time value.

You can calculate the time value by deducting the intrinsic value from the option premium.

Example: The same data is used as in the previous example. The time value will be: € 2.60 - € 1.75 = € 0.85 (option premium – intrinsic value).

2. WHY INVEST IN OPTIONS?

There are various reasons to invest in options. A number of these are discussed in this chapter. We will also provide a few examples and points requiring extra attention. All examples are exclusive of costs and taxes.

Protecting your securities against a fall in prices

Suppose you are not sure about a number of securities in your portfolio. You could choose to protect their value against a fall in price. By buying a put option you 'insure' yourself against a possible fall in price to less than the exercise price. If the prices fall, you exercise your option and sell your securities at the agreed strike price. Bear in mind, however, that you have paid a premium to do so.

Example 1. You have 100 shares of company A in your portfolio. The current price of a share of company A is € 60. Because you would like to protect yourself against a possible fall in the price of these shares of company A, you buy a put option with the strike price set at the same €60. You will be charged a premium of € 3.
On the expiry date the price of a share of company A is €50. Normally you would lose 100 x € 10 (€ 60 - €5 0) = € 1,000. However, you have the right to sell these shares of company A at a price of € 60. If you exercise your right to sell, you will receive € 6,000 (100 x € 60) for your 100 shares of company A, but you did pay a premium of € 300 (100 x € 3). So by buying the put option, you have avoided a loss of € 700, but you no longer own the shares.

You can also decide not to exercise your right to sell your shares on the expiry date but to sell your option (and not your shares). This may be because you are still confident about the further price development of shares of company A.

Example 2, with the same figures as used previously. The premium (price) of the put option will be around € 10 near the expiry date. If you close the option you will receive € 1,000. The result of the option transaction will amount to € 700 (€ 1,000 - € 300). The total result would be identical to exercising the put option but in this case you would still own the shares

Realising a price gain

If you would like to profit from a price rise or fall, but do not wish to invest the full amount in the underlying security, you can buy an option. As a buyer of a call option, you respond to a rise in the price of the underlying security. If you buy a put option, you respond to a fall in the price. In both cases you may achieve a relatively high return from a small amount (the option premium) as compared to investing the same amount in the actual shares concerned. When share prices rise, in general, the price of a call option also rises, whereas a fall in the share price results in a price rise of the put option.

Example 3.
Situation A. You buy 100 shares of company B for € 80 each: you invest € 8,000. At a later date you sell the shares of company B at a price of € 100 (in total € 10,000), so your result is € 2,000. Proportionally, your result is 25% of the investment (€ 2,000 of an investment of € 8,000).
Situation B. Suppose you buy one call option with the same underlying security (i.e., 100 shares of company B as the underlying security with an exercise price of € 80). You pay a premium of € 10 for this option. In this situation you invest € 1,000. At a later date, when the price of a share of company B is € 100, you sell the call option at a price of € 22 (in total € 2,200). In this situation your profit is € 1,200, so for an investment of € 1,000 the proportional result is 120%.

In case the expected price movement does not take place, or even moves in the opposite direction, you will lose the full amount of the invested premium.

Earn income

You can write options because you wish to receive the premium. You count on not being assigned to deliver (in the case of a call option) or buy (in the case of a put option) the shares, or you are satisfied with the price for the shares plus the option premium received. Your extra return is the option premium received.

Example 4. You have 100 shares in company C in your portfolio and expect a stable price development. You wish to receive an additional return by writing one call option. The option premium amounts to € 2.50 (€ 250 per contract). If your expectations are met and you do not have to deliver your shares, you have achieved an additional return of € 250 with your option transaction. If the price falls, the premium received compensates for the decrease in value of your shares of company C. If the price rises, you are obliged to deliver your 100 shares of company C at the agreed price. In this case you will not benefit from any price rise above the strike price, but as a result of the call option you have written, you have achieved an additional return of € 250.

3. WHAT ARE THE RISKS OF INVESTING IN OPTIONS?

Investing in options carries risks. When writing uncovered calls, in particular, your losses can add up substantially. So you should be very aware of the risks before starting to trade in options. This certainly applies to special options strategies such as spreads, straddles and strangles (see Chapter 8.2 of this manual and the document 'Overview of the principal characteristics and risks of financial instruments').

Risks when buying options

When buying a call or put option, you run the risk of losing all or a part of the invested amount – the premium you paid. Your maximum loss is the option premium plus the transaction costs. Since 1/1/2017, an American withholding tax may be levied on the dividend paid out by an underlying US stock of the option, if the delta of the option is one or more at the time of purchase of the option[1].

If you don't have the full amount in cash (call option) or underlying value (put option) available at the maturity date, strong price movements of the underlying value can result in excessive losses that exceed the premium amount in case of an (automated) exercise of long options.

Risks when writing options

If you write a call option on shares that you own, you run the risk that you will not make any profit from a rise in the price of the underlying security above the strike price, as you are obliged to sell the shares at the predetermined (lower) strike price.

If you write an uncovered call option for shares you do not own, the risks are even greater. You may be forced to buy the shares on the exchange at a higher price, in order to supply them to the option holder at a (much) lower price. Your risk here, in theory, is unlimited. You can close your position and prevent a possible assignment. Your loss would then be the difference between the premium received at the start, and the premium paid when closing, plus all the transaction costs.

As the writer of a put option, your maximum risk is the strike price of the option. The underlying securities may have become worthless while, at the same time, you may be required to buy them at a higher price. You can prevent an assignment by closing your position before assignment. You would limit your loss to the difference between the premium paid and received, and all of the transaction costs.

! If you hold a (partially) uncovered option position, you are obliged to hold (additional) assets: the margin obligation (see Chapter 8 of this manual). This does not mean that your financial risks are limited to the extent of this margin obligation, as it may be that the losses resulting from your positions exceed the value of the margin obligation. There is also the risk that price movements have an accelerated effect on your margin obligation and that your available cash balance quickly decreases or even becomes negative. If your available cash balance is negative at the end of a trading day, the shortfall procedure is initiated, and you will be obliged to clear the shortfall within five trading days.

! Buying and writing options is currently exempt from stock exchange taxes[2] . When exercising or assigning delivery contracts, stock exchange taxes will be due because, in this case, the underlying security must be bought/sold.

Risk of force majeure and technical problems

Technical problems can cause great damage when trading in options. Because you are responsible for reporting any anomalies in the status of your orders, it is very important that you closely monitor their status.

If your order is refused by the market, you should immediately ask our Contact center about the reason. You should report any technical problem, transmission problem and error you encounter when using the Internet site, or any other service we offer as soon as possible. Insofar as required and without prejudice to the right of Keytrade Bank to invoke force majeure and without prejudice to the fact that Keytrade Bank, as well as most external parties, only commit to perform to the best of their ability, Keytrade Bank cannot be held liable for damage resulting from a technical error (including transmission problems) outside of the reasonable control of Keytrade Bank. Any resulting damage will be at your expense.

[1]For more information, see https://www.keytradebank.be/en/support/transaction-rules/ under Options > « US withholding tax on options »
[2] See the 'Taxes' summary that can be found in the Document Centre on the Transaction Site or in the Documents section on www.keytradebank.be. .

PART B: INVESTING IN OPTIONS WITH KEYTRADE BANK

4. OPTION AGREEMENT

To be able to trade in options at Keytrade Bank, you must sign the Addendum to the General Terms and Conditions of Keytrade Bank regarding the Trade in Options (hereafter referred to as the 'Option Agreement').

You can activate the Option Agreement on the Transaction Site under 'Preferences' > 'Site preferences' > 'Contracts'. You will enter the Option Agreement for an indefinite period and for all option markets included in the online offer of Keytrade Bank. Keytrade Bank does not distinguish between option positions with or without a margin obligation.

Keytrade Bank offers real-time prices for Euronext, the American option markets and Eurex, for a fee. Please go to www.keytradebank.be for the costs, terms and conditions.

5. HOW DO YOU PLACE OPTION ORDERS?

This chapter describes the trade in options through the options platform of Keytrade Bank.

5.1. Options markets

At Keytrade Bank you can invest in options at the following options markets:

Market	Type of position
Euronext:- Brussels - Paris - Amsterdam	Long and short
American options markets	Long and short
Eurex	Long only

Detailed contract specifications can be found on the website of the options market concerned. On these sites you will also find the opening times, order types and market rules. A summary of the transaction rules applied by Keytrade Bank can be found on www.keytradebank.be under 'Transaction Rules'.

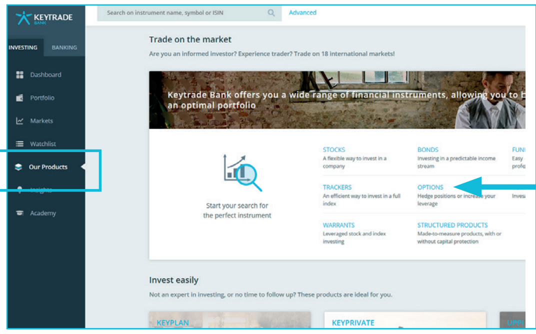
5.2. Option series search and options matrix

The options matrix of the Keytrade Bank website offers help when selecting options. You can reach the option matrix [3]:

1° Through the underlying security

After selecting this you click on the 'Options' button, which will take you directly to the options matrix.

2° By selecting 'Investments



By selecting 'Investments'> 'Investing' > 'Options' in the menu on the left. You then choose the 'Market'[3] and the underlying symbol

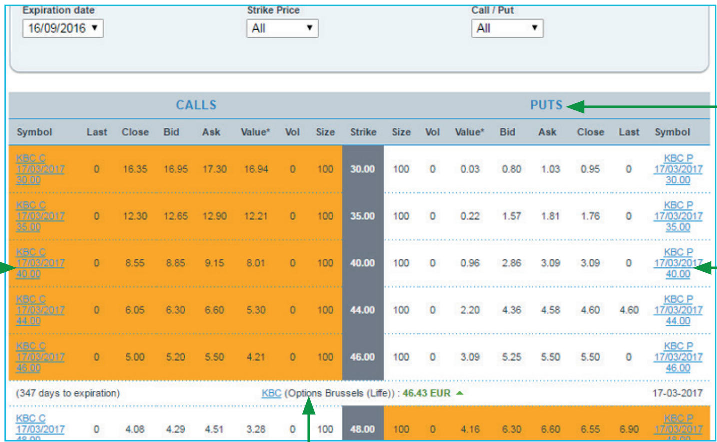
You can use the options matrix in different ways

1.

2.

in the money

out of the money



Expiration date 16/09/2016 | Strike Price All | Call / Put All

CALLS									PUTS							
Symbol	Last	Close	Bid	Ask	Value*	Vol	Size	Strike	Size	Vol	Value*	Bid	Ask	Close	Last	Symbol
KBC C 17/03/2017 30.00	0	16.35	16.95	17.30	16.94	0	100	30.00	100	0	0.03	0.80	1.03	0.95	0	KBC P 17/03/2017 30.00
KBC C 17/03/2017 35.00	0	12.30	12.65	12.90	12.21	0	100	35.00	100	0	0.22	1.57	1.81	1.76	0	KBC P 17/03/2017 35.00
KBC C 17/03/2017 40.00	0	8.55	8.85	9.15	8.01	0	100	40.00	100	0	0.96	2.86	3.09	3.09	0	KBC P 17/03/2017 40.00
KBC C 17/03/2017 44.00	0	6.05	6.30	6.60	5.30	0	100	44.00	100	0	2.20	4.36	4.58	4.60	4.60	KBC P 17/03/2017 44.00
KBC C 17/03/2017 46.00	0	5.00	5.20	5.50	4.21	0	100	46.00	100	0	3.09	5.25	5.50	5.50	0	KBC P 17/03/2017 46.00
(347 days to expiration)						KBC (Options Brussels (Liffe)) : 46.43 EUR										17-03-2017
KBC C 17/03/2017 48.00	0	4.08	4.29	4.51	3.28	0	100	48.00	100	0	4.16	6.30	6.60	6.55	6.90	KBC P 17/03/2017 48.00

3.

The Keytrade Bank options matrix will show you all open series for each expiry month at a glance.

1. There are various tabs and each tab shows a particular expiry period.
2. To the left of the strike price you can see the call options and to the right the put options.
3. The most up-to-date price of the underlying security divides the overview horizontally.

This creates four quadrants: the series in-the-money are orange, the series out-of-the-money are white.

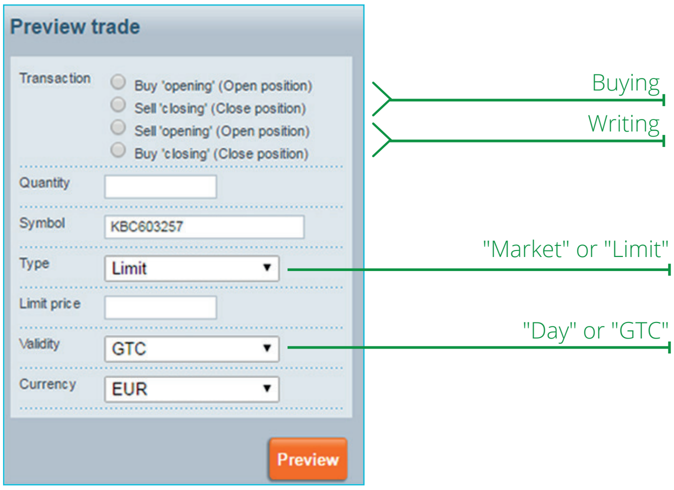
3 - This is a possibility at Euronext and Eurex. The matrix for options on American markets can be requested only through the symbol or the underlying security (alternative no. 1).

5.3. Placing an order

By clicking on the symbol in the options matrix you select the option series concerned and you can place your order. Make sure that you select the correct transaction type.

Keytrade Bank supports the following transactions:

- **Buy 'opening'** (open a position)
  - buying an option (long position).
  - paying a premium
- **Sell 'closing'** (close a position)
  - closing a bought (long) option.
  - receiving a premium
- **Sell 'opening'**[4] (open a position)
  - writing an option (short position).
  - receiving a premium
- **Achat 'closing'** (close a position)
  - closing a written (short) option
  - paying a premium.



Day order or Good 'Til Cancelled' (GTC)

At Keytrade Bank you can chose between a day order or a Good 'Til Cancelled' (GTC) order.

A day order not exercised on the same trading day expires. If you place a day order after the close of trading, this order will remain valid until the end of the next trading day.

At Keytrade Bank, Good 'Til Cancelled orders remain active for a maximum of 365 calendar days. If the option expires before then, the expiry date will be seen as the last day, after which the GTC order expires. The specific transaction rules applied by Keytrade Bank for each market can be found on our website.

! GTC orders carry extra risks. It is, for example, possible that the order is exercised at the very last moment of a trading day without you noticing. A GTC order also automatically deactivates the auto-sell function (see Chapter 7 of this manual), which Keytrade Bank has activated for your security as standard on the last trading day. This means that you run the risk that a GTC order is exercised at the last moment without you noticing, and the option ending null and void because the auto-sell function is not activated.

Limit or market order

A limit order is an option order with a price limit. You can indicate the maximum price you want to pay or the minimum price you want to receive for your option. However, a limit order does not guarantee that your order is actually exercised. When placing a market order you do not indicate a limit and you allow the securities to be bought or sold immediately at any price as long as there is a counterparty for the required amount. A market order can only be placed when the market is actually open so that you can verify what the current price is.

No combination orders

For a combination order, several option orders for an underlying security are sent to the market as one combination. This is not possible at Keytrade Bank. If you wish to build a position for several series, you have to place separate option orders.

[4] *Not possible at EUREX*

5.4. Approval

The Keytrade Bank system first verifies that your order is correct, whether or not the option series exists, for example. It also calculates your available cash and the effect of the order on your available cash. For an order to be approved there must be sufficient available cash.

Approval of long position

If your available cash balance is sufficient when opening a long position (Buy 'opening'), the order will be approved and immediately incorporated in your available cash. When closing a bought option (Sell 'closing'), the Keytrade Bank system will first verify whether or not you have the options in a position. Only when the sell order has been executed will the value be incorporated in your available cash.

Approval when opening short positions

If you take on short positions in options, the approval process is more complex due to the related margin obligation. A Sell 'opening' is immediately incorporated into your available cash at the moment of placing the order. When closing a sold (written) option, the system will verify whether or not you have the options in a position. If you close a position, the possible margin effect is included in the approval. A negative impact on the available cash will be incorporated directly at the moment of placing the order, and a positive impact only after execution of the order.

5.5. Order confirmation

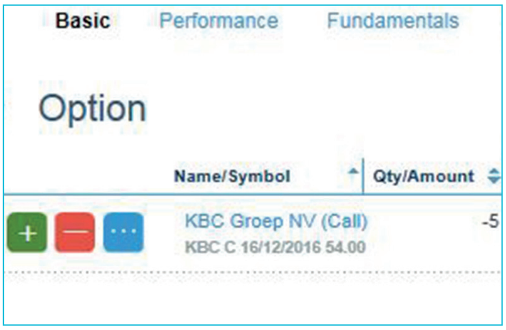
As soon as you have placed your order, you can follow its status through the Transaction Site.
You may also receive a confirmation of the executions of your order by e-mail or (as a paying service) by text message. These methods can be activated on the Transaction Site, under "Preferences" > "Personal Preferences" > "Communication".

As soon as the option order is executed, the Keytrade Bank system will update your portfolio and the available cash balance of your trading account. Your transaction is not yet settled, as this only takes place at night. The value date of the transaction depends on the market, so please take this into account when making a transfer from your trading account after an order execution. It may create an unexpected negative balance in your trading account over which you must pay interest.

! a completed order will be confirmed, subject to reservation. This is because the markets are entitled to change the status of your order; for instance, if an incorrect price was reported or if it appears that your order was not exercised

If you have any questions or comments about your orders, you should always contact our Contact center. You can also send an email to: info@keytradebank.be

5.6. Options in your portfolio



You can decide which characteristics of the option position you want to see in your portfolio. The internal name given to the option by Keytrade Bank is shown under 'Name/Symbol'. It shows the option symbol, call or put, expiry month and strike price (for instance: KBC C 16/12/2016 54.00). A positive amount ('Quantity/amount') indicates the number of long options and a negative position the number of short options.

5.7. Tariffs

Keytrade Bank has very attractive tariffs for option transactions. The transaction costs are calculated per contract and differ per option market. Exercises, assignments and cash settlements each have their own tariff structure. A summary of all tariffs can be found at www.keytradebank.be

6. HOW DO YOU EXERCISE AN OPTION AND WHAT IS AN ASSIGNMENT?

If, as a holder of an option, you wish to exercise your right to buy (call option) or sell (put option) the underlying security you can 'exercise' your option. For a European style option, you can do this only on the actual expiry date, and for an American style option, it is possible on any trading day. In practice, a holder of a long option at Keytrade Bank can only exercise on the expiry date (this also applies to American style options). However, there must be someone who will supply or buy the underlying security. This holder of a short position is assigned according to a predetermined method.

Option contracts can be completed in two ways: by payment in cash or by actual delivery. The first way is called a cash settlement and applies to index options. The second way, the delivery, applies to most share options.

6.1. Exercise

At Keytrade Bank it is not possible to exercise option rights during the term of an option. Exercise is only possible on the expiry date. Chapter 7 of this manual explains the process of exercises on expiry dates.

6.2. Assignment

If you have written options and therefore hold a short position in options, you may be assigned. A notification from the clearing organisations of the number of contracts assigned can be received each day. Our system randomly assigns option writers obliged to deliver (for call options) or buy (for put options) the underlying security. In other words, all open contracts have the same chance of being assigned.

Assignment of short call options

When your written call options are assigned, Keytrade Bank will draw up a sell transaction (including the specific costs for an assignment and taxes) for the underlying security against the strike price. If you have a shortfall in the underlying security, our system will buy the exact amount needed to cover your shortfall as soon as possible by following the assignment through a market order on your behalf and at your risk.

Suppose that aside from the short call option, you also have a long position. Despite you having a purchase right, Keytrade Bank will never exercise a long call during the term (before the expiry date) without receiving an order from you to do so. Any pending sell orders for the underlying security for which you have written a short call option will also be cancelled by us in case this short call option is assigned.

Example
You have a GTC order for 500 Q shares with a sales limit of € 10. You also have three short call contracts with the underlying security Q. The three short call contracts are assigned, meaning that you have to deliver 300 Q shares. At that point, Keytrade Bank cancels the complete GTC order of 500 shares and subsequently delivers the 300 shares, meaning that there are no active sales orders on completion of the delivery. If you wish to sell the remaining 200 Q shares in your portfolio, you will have to place a new order.

Assignment of short put options

When a put option is assigned, you are obliged to buy the underlying security against the strike price. When you are assigned, Keytrade Bank will draw up a buy transaction (including the specific costs for an assignment including costs and taxes) for the underlying security against the strike price. In most cases, the price exceeds the margin reservation. If an assignment of written put options results in a (cash) shortfall of the available cash in your trading account, the Keytrade Bank system will sell the exact amount to cover the shortfall as soon as possible by following the assignment through a market order on your behalf and at your risk.

If the underlying security is not listed in euros, it will always be bought in the local currency when the option is assigned. More information about the financial settlement of transactions in currencies other than euros can be found in paragraph 11.1 of this manual.

7. THE EXPIRY PROCEDURE

When options have not been exercised or closed during their term, they become null and void on the expiry date. After this date the options no longer have any value. The expiry date is usually the third Friday of the month or the previous day if the markets are not open on this day. Exceptions are day and week options, as these expire every day and every week. This chapter explains the expiry process. A distinction is made between the expiry of cash settlement contracts and the expiry of delivery contracts.

7.1. Expiry of cash settlement contracts

Cash settlement contracts are usually index options. For an in-the-money call or put option, a writer (short position) pays the difference between the settlement and the strike price, and a buyer (long position) receives this difference. If the gross amount to be received is less than the payable transaction costs, you receive nothing.

The auto-sell function (see below), as applicable to delivery contracts in the Keytrade Bank system, is never used for long positions for cash settlement contracts. This is because these contracts are settled automatically on the expiry date, and no delivery takes place.

7.2. Expiry of delivery contracts

Expiry of long positions

To protect you as much as possible against options becoming null and void, Keytrade Bank uses a fixed expiry procedure for long positions of delivery contracts for all markets. There are some specific points of attention for each market for which we refer to the overview in 7.3 of this manual.

In the case of long options, you have several possibilities on the expiry date: selling the option yourself, selling through the auto-sell function or exercising in accordance with the market rules.

The process on expiry of delivery contracts is as follows:

1. Approximately one week before the expiry date of your option, you are notified by email. In addition, the Transaction Site shows your expiring positions. You can close expiring long options yourself.

2. If you have not closed the expiring long options, the auto-sell function is initiated on the expiry date. It automatically activates closing transactions for all of your open long positions, irrespective whether these positions are in-the-money, at-the-money or out-of-the-money. Order creation will take place at a predetermined time depending on the market and against market price. You can deactivate the auto-sell function for each option series on the Transaction Site until the actual auto-sell time.

   When the gross premium of any long options closed with the auto-sell function is less than the payable transaction costs you will receive nothing.

   It may also be that not all of your long options are closed on the last trading day. This can be due to the following:
   - there was no counterparty to close the long position through the auto-sell market order;
   - you held a long position for which you had registered a closing transaction prior to the auto-sell (a pending order automatically deactivates the auto-sell function);
   - you have deactivated the auto-sell function and did not close the position yourself; and
   - you opened a long position on the last trading day after the auto-sell time.

3. If there are still in-the-money long options open when the option market concerned closes, Keytrade Bank will exercise these on your behalf and at your risk in accordance with the applicable market rules.

The automatic exercise only applies to in-the-money options, even when this is for only one euro cent (share options) [5] . You can find the transaction rules on our website. At Keytrade Bank it is not possible to keep in-the-money options out of the automatic exercise. At-the-money options or out-of-the-money options will not be exercised. You are responsible for maintaining sufficient liquidity (for a call option) or underlying security (for a put option) in your trading account.

5 - An exception to this rule are some contracts at Eurex. The specifications of these contracts are available under the option transaction rules shown on our website

If an exercise results in:

- a shortfall in the underlying security, our system will buy the exact amount to cover your shortfall as soon as possible following the exercise through a market order on your behalf and at your risk;
- a cash shortfall in your trading account, the Keytrade Bank system will sell the exact amount to cover the cash shortfall as soon as possible following an exercise through a market order on your behalf and at your risk. An exercise may result in the initiation of the shortfall procedure . More information on exercise and the shortfall procedure can be found in chapter 10 of this manual.

You are hereby made aware of the fact that, depending on the market conditions, you run the risk of a substantial potential loss if the options are exercised in accordance with the market rules.

! WARNING: In case you don't have the full amount in cash available to exercise a long call option, or insufficient underlying value in your portfolio in case of the exercise of a long put option, there is a potential risk of excessive losses. Excessive losses could occur in case of strong price movements on the underlying value between the moment of the automatic exercise and the moment of the market order on your behalf and at your risk by Keytrade Bank to cover the shortfall the next trading day. Despite any action taken by Keytrade Bank on your behalf and at your risk, you remain at all times responsible for your position. The choice between selling or exercising options may be influenced by tax considerations. Please also be aware that the costs of an exercise differ from the standard transaction costs.

Expiry of short positions

If your expiring short option is in-the-money on the expiry date, there is a real chance that you will be assigned to fulfil your obligation. The procedure for short positions (call as well as put options) is the same as when assigned during the term: see 6.2of this manual.

7.3. Expiry on the various option markets

So far, we have described the general expiry procedure. In this paragraph we will focus on key factors for each market. For more detailed information regarding opening times and order types of the various markets as they regularly change, we refer you to the 'Transaction Rules' on www.keytradebank.be

Working method regarding the expiry date on the various option markets

	Euronext (Brussels, Paris et Amsterdam)	US Markets	Eurex
Auto-sell function *activated as standard*	*Yes, all long positions of delivery contracts*	*Yes, all long positions of delivery contracts*	*Yes, all long positions of delivery contracts*
Possibility to deactivate the auto-sell function	*Yes, until 2pm CET per series through the website*	*Yes, until 5pm CET per series through the website*	*Yes, until 2pm CET per series through the website*
Exercise *Standard exercise long positions*	*Yes, all in-the-money positions*	*Yes, all in-the-money positions*	*Yes, all in-the-money positions.*
Exercise can be deactivated	*No*	*No*	*No*
Negative securities position *Will Keytrade Bank place an order to buy securities if a negative securities position occurs after the expiry date?*	*Yes, a market (purchase) order will be placed as soon as possible after the expiry date. The exact number of securities is bought on behalf and at the risk of the customer to clear the security shortfall.*		
Debit balance (overdraft)/ negative available cash balance: *Will Keytrade Bank place a sell order if a debit balance (overdraft) or negative available cash balance occurs after the expiry date?*	*Yes, a market (sales) order will be placed as soon as possible after the expiry date. The exact number is sold on behalf and at the risk of the customer to clear the cash shortfall.* *In the event of a negative available cash balance at the end of a trading day the shortfall procedure will be initiated. You have to clear the shortfall within 5 trading days.*		

8. WHAT IS A MARGIN OBLIGATION?

If you have a position in uncovered or partially covered written options (short position), you are obliged to maintain a certain balance in your trading account to cover that position. This so-called margin obligation will be deducted from the available cash in your trading account. Chapter 9 of this manual explains the process.

! Calculation of the margin obligation takes place in real time and fluctuates during the trading day, meaning that your available cash balance also continuously fluctuates. If your available cash balance is negative at the end of a trading day, the shortfall procedure will be initiated. You must clear the shortfall within five trading days.

8.1. Margin obligation calculation

Keytrade Bank uses an option valuation model to estimate the risk of option positions in your portfolio. This model valuates the option price in case of 16 different scenarios. Each of these 16 scenarios will represent a specific price movement and change of the volatility of the underlying value; two important aspects to evaluate the price of an option. Because of the wide variety of market movements simulated, this approach includes always at least one scenario that will have a negative impact on the call or put option.
For each underlying value, the scenario in which the total investment to liquidate the position is the highest is selected. This amount must be kept as a minimum margin. An advantage of using this model is that not only specific option strategies can be included, but the total position with long and short options per underlying asset is also included.

! The margin is an amount in euros that must be held available in cash in order to enable closing short options in the short-term. The margin represents an indication of the short-term investment to liquidate positions, but is certainly not a guarantee that the required investment to liquidate positions on short-term will not be higher. The margin does not reflect the maximum loss in the event of a negative development, but is an initial buffer in the event of heavy losses on the short-term. Your losses can be clearly higher than the calculated margin amount.

As indicated, the model takes long and short positions on the same underlying value into account. This is an advantage, but also has a downside in case of (forced) liquidation of positions. In case the negative scenario occurs or even a worse scenario, long positions will have to be closed in case there is also insufficient cash to generate cash.

8.2. (Partial) covered call

A fully covered call is a short call for which you own the underlying security. There is no margin obligation as long as you maintain the underlying security in your trading account. If your short call is not fully covered by the underlying security, the margin obligation relates to the uncovered part only.

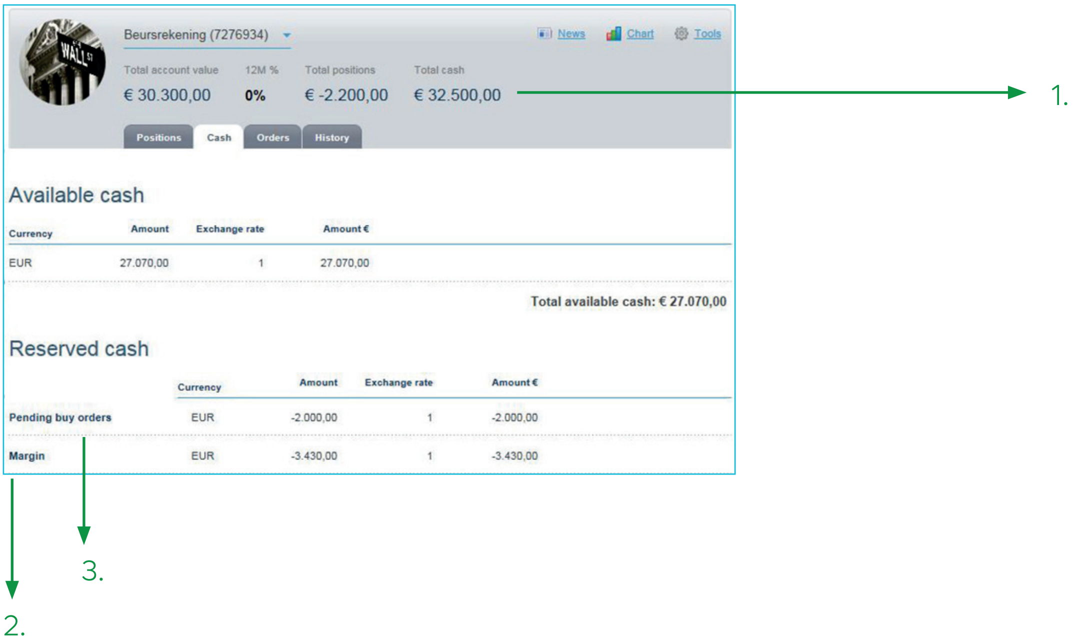
9. WHAT IS THE EFFECT OF OPTIONS ON YOUR AVAILABLE CASH?

If you have options with a margin obligation in your assets, you must maintain a certain coverage (margin obligation) in your trading account. This amount is deducted from the available cash.

In this chapter we will show you what the effect is of uncovered or partially covered written options on your available cash with a few calculation examples.

9.1. AVAILABLE CASH COMPONENTS

Your available cash consists of the balance of your assets and liabilities.



The 'Total available cash' (€27,070 in the example on the screen) is real-time calculated at the latest known (price) information. This means that your available cash fluctuates continuously and is always shown as a snapshot.

1. Balance of your trading account
The balance of your trading account at Keytrade Bank includes the latest known data. Orders exercised (even partially) and payment instructions are almost immediately incorporated into the cash balance. Cash in foreign currencies is Cash converted into euros.

2. Pending (not yet exercised) orders, costs and taxes
If a pending, not yet exercised, order leads to a reduction of the available cash, the available cash amount will be immediately adjusted. A new order will be accepted only if your available cash balance allows this.

3. Margin obligation
The margin obligation is the required amount which must be held to cover short option positions. The amount is reserved and is no longer part of your available cash. The margin obligation is calculated continuously and available at any time on the website.

9.2. Calculating the available cash

Below are two examples of calculating the available cash: one example without and one example with a margin obligation.

Example 1. No options with a margin obligation.
Your situation at Keytrade Bank is as follows:
- *the credit balance of your trading account is €10,000.*

Your trading portfolio contains:
- *a pending purchase order for 1,000 Z shares with a limit of €5.00.*

The calculation for your available cash is as follows:

Balance of your trading account	*€ 10, 000*
Pending purchase order for Z shares	*€- 5 ,000*
Margin obligation	*N/A*
Available cash	*€ 5, 000*

In the following example you do have options with a margin obligation.

Example 2. You are in the same situation as the previous example but you also have options with a margin obligation:
- *the credit balance of your trading account is € 10,000.*

Your trading portfolio contains:
- *a pending purchase order for 1,000 Z shares with a limit of € 5.00.*
- *margin obligation for call option A (short position) amounts to €4,000*

The calculation for your available cash is as follows:

Balance of your trading account	*€ 10,000*
Pending purchase order for Z shares	*- € 5,000*
Margin obligation	*- € 4,000*
Available cash	*€ 1 000*

9.3. Price changes and the effect of the margin obligation on your available cash

An important risk of options with a margin obligation is that price changes of the option, but also of the underlying value of the option, have a direct effect on the extent of your available cash.

Example 3.
As a result of the price changes in the portfolio of example 2, the margin obligation has increased (during the day) from €4,000 to €5,200, creating the following situation:
- *the credit balance of your trading account is € 10,000.*

Your trading portfolio contains:
- *pending purchase order for 1,000 Z shares with a limit of € 5.00*
- *margin obligation for call option A (short position) amounts to €5,200*

The calculation for your available cash is as follows:

Balance of your trading account	*€ 10,000*
Pending purchase order for Z shares	*- € 5,000*
Margin obligation	*- € 5,200*
Available cash	*- € 200 (negative/shortfall)*

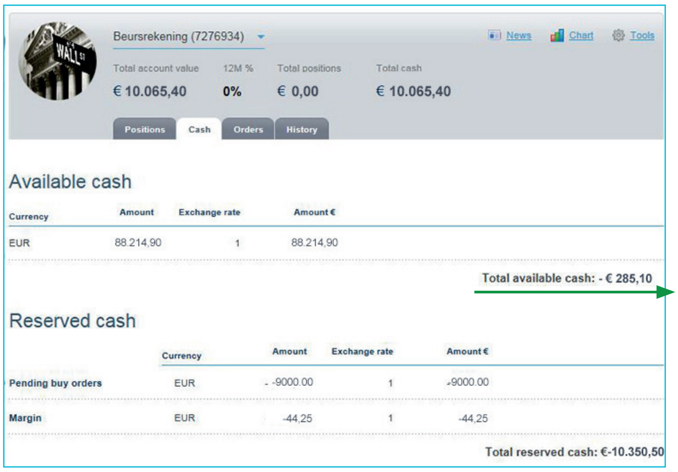
Your available cash has not only reduced due to the price changes, it has even become negative. In case this happens during trading hours, you will be blocked for opening new positions until up to the moment the available cash is positive again. If the available cash is negative at the end of the trading day, the shortfall procedure will be initiated. You can find more information on this in Chapter 10 of this manual.

! Depending on your financial position, trading in options carries extra risks. Price movements may lead to your available cash quickly decreasing or even becoming negative. In that case the shortfall procedure is initiated, and you will be obliged to clear the shortfall within five trading days.

10. THE SHORTFALL PROCEDURE IN CASE OF A NEGATIVE AVAILABLE CASH BALANCE

If you have a margin obligation and price developments result in a negative available cash balance at the end of the trading day, or a negative total account value, Keytrade Bank will send you a so-called 'Margin Call'. You must clear the shortfall within five trading days. This chapter explains the steps of the shortfall procedure.

10.1. Negative available cash balance



A negative available cash balance (€285.10 in the example on the screen) means that a shortfall has occurred due to the total of liabilities (€ 10,350.50 in the example) in your trading account exceeding the assets (€10,065.40). Obligations may result from, for example, a change in the cash balance, pending orders or margin obligation of short option positions.
A negative available cash balance may also occur due to the payment of interest, costs or changes in exchange rates.
Prevent a negative available cash balance and the shortfall procedure (paragraph 10.2). Please ensure that you have sufficient cash available and take measures to prevent a shortfall.

10.2. Shortfall procedure

In the event of a negative available cash balance or total account value, you must clear the shortfall within five trading days from the date on which this has occurred. Each trading day, as of 5PM, Keytrade Bank verifies the available cash balance based and account value on the (closing) rates. If the balance is negative, Keytrade Bank will send you a Margin Call by e-mail and text message to the e-mail address and mobile telephone number in our system. This is why you should always ensure that your contact details at Keytrade Bank are up-to-date.

The Margin Call informs you of the latest date by which you have to clear the shortfall before 3 p.m. (the time is always the same). If you still have a shortfall at 3 p.m. on this date, Keytrade Bank will start to close or sell positions on your behalf and at your risk to clear the shortfall (see 10.4). Keytrade Bank will charge you an extra €15 per transaction on top of the regular online transaction cost for these transactions.

! Keytrade Bank recommends that you stay up-to-date on your available cash balance so that you can take appropriate measures in case of a potential shortfall.

10.3. Ways to clear the shortfall

The possibilities are as follows:

- Transfer money to your trading account (please note that a transfer from another bank may take time); or
- Cancel the pending purchase orders; or
- Close the short option positions. Be aware that positions can only be closed via our Transaction Site if they result in an increase of available cash

! If your trading account has a negative available cash balance, you will not be able to buy securities or expand option positions. This is to prevent an increase of your negative available cash and therefore an increase of your risk. You will also not be able to take covered positions or roll over options.

10.4. Closing positions

If you have not cleared the shortfall within five trading days as from the date on which the shortfall is triggered, Keytrade Bank will start to close positions. This can be done in various ways.

If the negative available cash balance is caused by the margin obligation of written options, Keytrade Bank will clear the shortfall by closing written option positions by way of a market order. Keytrade Bank decides which positions to close. If there is still a negative available cash balance after positions with a margin obligation are closed, Keytrade Bank will also close other positions to clear the shortfall. All transactions performed to clear the shortfall will be on your behalf and at your risk. Keytrade Bank cannot be held liable for any financial damage which you may incur due to the closure of positions on your trading account.

These transactions do not offer any guarantee that this will clear the total shortfall and prevent a debit balance (and debit interest). In the event of a debit balance, Keytrade Bank will start a procedure to recover from you the amount you owe.

10.5. Termination of the shortfall procedure

If, during the shortfall procedure, the available cash balance// total account value has become positive after closing time of Euronext Brussels, Keytrade Bank will inform you of this by e-mail. If you find that the available cash balance has become positive after the closing time of Euronext Brussels and we have not yet informed you, you should contact our Contact center by telephone. Keytrade Bank will terminate the shortfall procedure once it has verified this.

The shortfall procedure remains fully in force even if, for whatever reason, you have not received the Margin Call messages. It is therefore important that you provide us with the correct e-mail address and mobile telephone number and inform us of any changes.

10.6. Exceptions – close positions before 5th trading day

Keytrade Bank is entitled, but not obliged, to (substantially) shorten the period of five trading days, as mentioned above, in the event of exceptional market conditions, such as very fast and/or serious price fluctuations on the financial markets, and even to immediately intervene in case waiting for the due liquidation date would lead to unacceptable risks for you and Keytrade Bank.

11. OTHER MATTERS REGARDING OPTIONS AT KEYTRADE BANK

11.1. Options and foreign currency

In addition to a cash amount in euros on your trading account, you can also hold cash in other currencies. Standard buy and sells transactions will be settled in the currency of the investment product concerned. When placing an order you can change the settlement currency into euros. If our system finds a negative balance in a foreign currency after settlement of an order, an automatic exchange is activated to clear this negative balance in foreign currency.
Corporate actions, exercises and assignments are always settled in the currency in which the investment product is listed. You cannot choose to settle these in euros.

11.2. Options and security transfers

Because you are running a (substantial) price risk during the transfer period, without being able to intervene, Keytrade Bank does not allow the transfer of option positions.

11.3. Options and dividend payments

Keytrade Bank does not support exercising American style options by a holder of an option before the maturity date. It is, however, possible that as a writer of short options at Keytrade Bank, you are assigned to fulfil your obligation.

If, as a writer of a call option, you are assigned on the ex-date (the date on which the share is traded excluding dividend for the first time) to fulfil your obligations, you deliver these shares ex-dividend. If the exercise order is given on the cum-date, you receive the dividend but have to pay this received dividend back separately. This amount is deducted from your trading account. If you do not have the shares to be delivered in your portfolio, these are purchased on the market through a market order (without a limit). The purchase amount plus the transaction costs are deducted from your trading account. In such a situation you are also obliged to pay the dividend amount to the investor exercising his call option on the cum-date. This amount is also deducted from

11.4. Corporate actions, US options and margin calculation

For US options The OCC defines per corporate action the new contract specifications of impacted options. The new contract specifications are published and available as ‘information memos’ on the website of The OCC (www.theocc.com) in the menu ‘Information memos’. Please take notice of these new contract specifications. Option positions impacted by a corporate action can only be closed. Because of this market rule, the liquidity of these options series decreases drastically, while spreads increase. In other words, it could be hard to find a counterparty in case you would like to close your position in the future. This risk increases over time. To avoid this risk, it is common practice by investors to close impacted option positions and open a comparable position in the newly issued standard options series.

Due to changed contract specifications and illiquidity, the margin calculation for short positions can be impacted and will show large fluctuations. Make sure that you have sufficient additional (cash) collateral on top of the minimum required margin to avoid a start of the shortfall procedure.
An exercise (long position) or assignment (short position) will result in a delivery or receipt according to the new contract specifications by The OCC.

APPENDIX 1 GLOSSARY

American style
American style options can also be exercised before the expiry date, such as the share options on Euronext Brussels. Keytrade Bank does not offer the opportunity to exercise American style options before the expiry date.

Ask price
This is the price the market wishes to receive for the sale of a particular investment product.

Assignment
A writer of an option is assigned to deliver or buy the underlying security. This is possible on the actual expiry date but, depending on the style of the option, also during the term of the option.

At-the-money
An option is at-the-money when the market price of the underlying security is equal to the strike price. At that time the option has no intrinsic value.

Available cash
The available cash consists of the balance of your trading account, any credit available, the margin obligations and obligations resulting from pending orders.

Bid price
This is the price the market is prepared to pay for the purchase of a particular investment product.

Call option (purchase)
The buyer of a call option is entitled to purchase the underlying security during a particular period at a predetermined price.

Call option (writing)
The writer (seller) of a call option assumes the obligation to deliver the underlying security during a particular period at a predetermined price if he is assigned. In exchange for this he will receive an option premium.

Cash settlement
This is the cash payment for index options on the expiry date.

Contract size
The amount of underlying security related to one option contract: for example, 100 shares or ten times the BEL20 index.

Cum-date
The cum-date is the last market day on which a share is traded, including dividend.

Debit balance (overdraft)
This occurs when the balance of your trading account has become negative (as the case may be after exceeding the limit of any granted credits). In accordance with the General Terms and Conditions of Keytrade Bank, any debit balance of an account shall accrue interest, in full and without formal notice, in favour of Keytrade Bank at the debit rate applied by the Keytrade Bank for the currency concerned for the period for which the account shows a debit balance, as indicated in the ‘Interests’ document.

European style
European style options for delivery contracts can be exercised only on the actual expiry date. In general, index options are also European style but as cash settlement instead of delivery contracts.

Ex-date
The ex-date is the market day on which the share is traded excluding dividend for the first time.

Expiry date
This is the last trading day of an option. The expiry date for most options on Euronext is the third Friday of the expiry month. If this is not a trading day, the expiry date will be the previous day.

Index option
This type of option has an index as underlying security. Index options can only be exercised on the actual expiry date and require a cash settlement.

In-the-money
A call option is in-the-money (has intrinsic value) when the strike price is lower than the market price of the underlying security. A put option is in-the-money when the strike price is higher than the market price of the underlying security.

Intrinsic value
The intrinsic value of an option is the positive difference between the strike price of the option and the actual market price of the underlying security.

Margin Call
The message sent by Keytrade Bank on initiation of the shortfall procedure. The Margin Call states that a shortfall in assets has occurred and that additional cash is required within five trading days. This can be achieved by closing or selling positions in the portfolio or by transferring an additional sum of money to the trading account.

Negative available cash (balance)
This is the shortfall which has occurred because the total of liabilities in your trading account is greater than your balance allows and leads to the shortfall procedure being initiated.

Option
An option entitles the holder (buyer) to buy (call option) or sell (put option) a fixed amount of the underlying security at a predetermined price during a set period. The counterparty of a holder is a writer. A writer is obliged to sell (call option) or buy (put option) the underlying security at a predetermined price as soon as the holder exercises his right.

Option class
All call and put options related to the same underlying security form an option class, the KBC option class, for example.

Option premium
This is the price of an option and consists of (possibly) an intrinsic value, and a time and expected value. The height of the premium is determined by the supply and demand of the sellers and buyers.

Option series
An option series is a group of all call or put options of the same option class with the same exercise price and the same expiry date.

Out-of-the-money
A call option is out-of-the-money (has no intrinsic value) when the strike price is higher than the market price of the underlying security. A put option is out-of-the-money when the strike price is lower than the market price of the underlying security.

Put option (purchase)
The buyer of a put option is entitled to sell the underlying security during a particular period at a predetermined price.

Put option (writing)
The writer (seller) of a put option assumes the obligation to buy the underlying security during a particular period at the strike price if he is assigned. In exchange for this he will receive an option premium.

Share option
A share option has a share as underlying security. Share options can be American as well as European style.

Shortfall procedure
The procedure automatically initiated in case of a negative available cash balance and short options in portfolio. You must clear the shortfall within five trading days.

Spreads
An option strategy whereby options are bought and options from the same class but in another series are written.

Straddles
An option strategy whereby an investor buys (long) or writes (short) a call and put option. These options have the same expiry month, strike price and underlying security.

Strangles
An option strategy whereby an investor buys (long) or writes (short) a call and put option. These options have the same expiry month but different strike prices. The strike price of the call option is higher than that of the put option.

Strike price
This is the price at which the holder (seller) of an option may sell or buy the underlying security when exercising the option.

Trading day
Days on which Euronext Brussels is open for business.

Underlying security
This is the share or index related to the option.

Writer
The investor who has assumed the obligation to sell (call option) or buy (put option) shares during a particular period if assigned to do so. In exchange for this he receives an option premium.

Writing a covered call option
The writer of a call option owns the underlying security of the written call option, meaning that he does not need to buy the underlying security on the market if he is assigned.

Writing an uncovered call option
The writer of a call option does not own the underlying security of the written call option, meaning that he needs to buy the underlying security on the market if he is assigned.