

Introduction to Foreign Exchange Spot/Forwards/ Derivatives/Structured Products

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An illustration of the applicable risk rating of the product has been provided to guide the investors on the possible risk rating of the product. The following is a legend for the risk rating. Within each section, the possible ratings which the product may have are shaded in red.



Risk Level	Explanation
1	Very low level of risk with potentially limited returns
2	Low to Medium level of risk with low volatility and expecting below average to average level of returns
3	Medium level of risks with medium level of volatility and expecting average expected returns
4	Medium to high level of risk and volatility and with high variance in the returns
5	High level of risk and volatility with a very high variance in returns

2. Introduction to Foreign Exchange (FX)/Precious Metals (PM)

2.1 Foreign Exchange (FX)

The purpose of this introductory paper is to help you, the investor, understand more about Foreign Exchange – its nature, the various types of common derivative products available to individual investors, benefits of trading derivative products and the key risks involved.

The foreign exchange rate (forex, FX, or currency market) between two currencies is the rate at which one currency is exchanged for another. The spot exchange rate refers to the current exchange rate. The forward exchange rate refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date.

Foreign exchange can be used for settlement, hedging or speculation purposes. For settlement purpose on securities purchase for example, if the investor had purchased Hong Kong securities and requires HKD for settlement but only has USD in his account, he would have to sell the USD to purchase the required amount of HKD.

In some cases, FX can be used for hedging. If an individual or a company has future need of foreign currency to fund projects, buy property or pay school fees etc., given the known sum and time horizon, an FX contract can be entered now to lock in current rate of conversion so that the upfront payment required in home currency can be made certain. Doing so means a hedge had been put in place against future exchange rate fluctuation that may go against the individual or company.

FX can also be used for speculation purpose when one has a view that a currency will appreciate or depreciate. If one views that the Euro will depreciate in the near future against the USD, then one will sell (short) the Euro today. Conversely, one will buy (long) the Euro and sell the USD now if there is an expectation that the Euro will rise in the future.

FX trading is typically done Over-the-Counter (OTC). Over-the-counter (OTC) trading is done directly between two parties, without any supervision of an exchange in contrast with exchange trading, which occurs via exchanges. In OTC trading, contracts are bilateral with each party having credit exposure to the other party.

Generally, all OTC derivative transactions involve the risk of adverse or unanticipated market developments, risk of counterparty default, risk of illiquidity and other risks, and may involve the risk of loss due to default or potential default by the counterparty. Substantial losses may occur as a result

2.2 Precious Metals (PM)

Precious metals refer to the classification of metals with rare and high economic value. It generally refers to Gold, Silver, Platinum and Palladium. With trading established in London in the early decades of the last century, it has since become an important center for metals trading. Loco (referring to the location) London forms the basis of international trading and settlement. As a result, the Loco London price has become the common denominator amongst dealers around the world. The settlement process can be likened to that in international foreign exchange markets, where settlement is effected by debits and credits over currency nostro accounts in the relevant banking systems. In more recent time, Zurich was added as the location of gold trading too. Troy ounce is the traditional unit of weight used for precious metals.

As gold tends to perform inversely to stocks and bonds prices and may perform well during political and economic uncertainty, the investor may choose to invest in gold as a form of portfolio diversification. Gold is also sometimes used as a buffer against inflation.

In the same way as one could exchange US dollars for Euro, gold too has a price and that price can fluctuate relative to any currencies, such as the US dollar or Japanese Yen. In this manner, gold has the capacity to trade like a currency. The market is generally quoted in US dollars per ounce.

The account, through which the investment in gold is conducted, is not an interest-bearing account with neither yield nor interest provided. It also does not involve physical holding or delivery of gold. The account is held with a bullion bank which provides custodial service for such an account. The investor would be exposed to the counterparty risk of the bullion bank as well as NSL

2.3 Spot

For a FX conversion, there are two methods of quotations; direct and indirect quotes. In a direct quotation, the quotes are denominated as the number of home (domestic, reference, base) currency per unit of foreign (alternate) currency. Indirect quotation refers to the foreign (alternate) currency price of one unit of home (domestic, reference, base) currency.

For example, if one is based in the US, US\$1.0050 = CHF 1.0000 will be a direct quote and US\$1.0000 = CHF 0.9850 will be an indirect quote.

While the concept of direct and indirect quotes is dependent on where the person is based in, the foreign exchange market has quoting conventions that transcend local borders. Below are some standard quotations:

1 EUR = 1.1350 USD (EURUSD)

1 GBP = 1.3150 USD (GBPUSD)

1 AUD = 0.7650 USD (AUDUSD)

1 USD = 100 JPY (USDJPY)

1 USD = 1.2800 CAD (USDCAD)

1 USD = 1.3450 SGD (USDSGD)

2.4 Forwards

Generally, a Forward contract gives its holder both the right and full obligation to conduct a transaction involving an underlying asset at a predetermined future date and at a predetermined price. The seller on the other hand, has the obligation to sell the underlying currency at a predetermined future date and at a predetermined price. The future date on which the transaction is to be consummated is the contract's maturity date.

Forward contracts, are traded Over the Counter (OTC). They are not standardized and can be tailored to the needs of individual investors. Both parties to the contract can privately negotiate and agree on the details of the contract. Swaps are a series of forward contracts used to exchange specified quantities of assets or cash flows at specified times in the future.

One of the common uses for forward contracts is for the investor to hedge certain financial positions against market movements. For example, a Hong Kong based exporter can enter into a foreign exchange forward contract to hedge its future earnings from the US markets. It can buy a 3 month currency forward contract to lock in his earnings in terms of Hong Kong dollars at a predetermined foreign exchange rate. Thus at the end of the contract, it will receive Hong Kong dollars in cash at the predetermined rate regardless of how the foreign exchange markets move. This reduces earnings fluctuations for the exporter.

This product is not capital protected and may be entered into on a margin basis or on leverage. The investor should be aware that in certain circumstances, the risk of losses is not limited to the assets pledged or capital invested. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of part, all or in excess of the original capital invested.

3. Introduction to Derivatives

3.1 Introduction to Derivatives

Derivatives are financial contracts for which prices are derived from assets and instruments with underlying such as equities, bonds, currencies, precious metals, commodities, interest rates, credit, benchmarks including indices, non-traditional asset classes, spot, forward contracts, swaps, options or any combination of the foregoing.

Derivatives are traded on exchanges or Over-the-counter (OTC). OTC trading is done directly between two parties, without any supervision of an exchange in contrast with exchange trading, which occurs via exchanges. In OTC trading, contracts are bilateral with each party having credit exposure to the other party.

The value of the derivatives to the investor depends directly on the value of the underlying asset. Factors which may affect the value of a derivative product include market factors like changes in interest rates, economic environment or geo-political landscape etc.

Derivatives are flexible instruments used for a variety of reasons. They can be used by the investor in the same way and for the same reasons as the underlying assets; the investor holds a view that the prices of the underlying would move in a certain direction in a predefined period. The investor can then enter into a derivatives instrument to “lock” in a predetermined price at which he will trade in that product in a future date.

However, a point to note is that the risks of losses might be amplified when the investor trade in derivative products instead of buying or selling the underlying asset in the market at spot. If the underlying asset price was to move greatly against the investor’s favour, the investor might still be required to purchase (sell) the underlying asset at the pre-determined price, which is at a great premium (discount) to the prevailing market price. The investor would incur a substantial loss accordingly.

3.2 Common Type of Derivatives

There are several types of derivatives available in the market. At the broadest level, we can classify them into two broad categories, namely Futures or forward contracts and Options contracts.

3.2.1 Futures or Forwards

A futures or forward contract gives the buyer or holder the obligation to either buy or sell the underlying asset at a predetermined future date and at a predetermined price. The future date on which the transaction is to be consummated is the contract’s maturity date.

The difference between a futures and a forward contract are as follows: - (1) Futures contracts are standardized contracts, with standard terms and trade on exchanges while forwards are tailor-made to the investor’s preferences and are traded OTC. (2) The investor will face counterparty risk of the issuer when entering forward contracts as opposed to futures where the exchange clearinghouse acts as the counterparty, reducing counterparty risk. Swaps are a series of forward contracts used to exchange specified quantities of assets or cash flows at specified times in the future. There is a risk that a counterparty may default or not completely fulfil its obligations in addition to the general risk of settlement default.

One of the common uses for forward contracts is for investors to hedge certain financial positions against market movements. For example, a Hong Kong based exporter can enter into a foreign exchange forward contract to hedge its future earnings from the European markets. It can buy a 3 month currency forward contract to lock in its earnings in terms of Hong Kong dollars at a predetermined foreign exchange rate. Thus at the end of the contract, it will receive Hong Kong dollars in cash at the predetermined rate regardless of how the foreign exchange markets move. This reduces earnings fluctuations for the exporter.

3.2.2 Options

Options give its holder or buyer the right but not the obligation to conduct a transaction involving an underlying security at a predetermined future date at a predetermined price or strike price.. The seller on the other hand, has the obligation to perform his side of the agreement if the buyer chooses to exercise the option.

Buyers would have to pay sellers a premium in return for sellers giving up the right to perform the specified act in the agreement at will and at the market price which may be more desirable than the strike price. A seller bears the risk of losing money as he has an opposite view of the underlying from the option buyer and he feels that the premium received is sufficient to compensate him for taking on the risk.

A call option gives the holder the right, but not the obligation, to *buy* the underlying security at a specified price within a specified period of time.

A put option gives the holder the right, but not the obligation, to *sell* the underlying security at a specified price within a specified period of time.

Common terminology

(i) ATM: At-the-money

An option is at-the-money if the strike price is the same as the spot price of the underlying asset on which the option is written.

(ii) ITM: In-the-money

A call option is in-the-money when the strike price is below the spot price. A put option is in-the-money when the strike price is above the spot price.

(iii) OTM: Out-of-the-money

A call option is out-of-the-money when the strike price is above the spot price of the underlying asset. A put option is out-of-the-money when the strike price is below the spot price.

A deep out of the money option is one where the strike price is far from the underlying spot price. For instance, the call strike is far above the underlying spot price or the put strike is far below the underlying spot price.

3.3 Use of Derivative Products

Speculation

The investor could enter into derivative positions for speculative reasons as he holds a view that markets and the price of the underlying security will move in his favour. As such, he is willing to take on a speculative bet so as to enhance his yield or participate in the performance of the underlying.

Access to various asset classes or markets

The investor would be able to gain access to certain asset classes or markets he would not otherwise have access to. For example, an investor who has a view on the onshore China equity markets would be able to participate in the performance of the underlying market through a synthetic ETF. Synthetic ETFs attempt to track a certain index through the use of underlying derivatives like swaps and options instead of purchasing the underlying components of the index.

Leverage Effect

Derivatives enable the investor to ride on the movement of the market prices of the underlying security without having to purchase the actual underlying security itself. The investor replicates the exposure to the underlying by using derivatives which only cost a fraction of the price of the underlying. This is commonly referred to as the "Leverage Effect".

Hedging

The investor could use derivatives to hedge his positions on the underlying security to preserve the value of his position against adverse market movements.

3.4 Key Risks

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of options (i.e. put or call) which they contemplate to trade and the associated risks. The investor should calculate the extent to which the value of the options must increase for his position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring (for call) or delivering (for put) the underlying asset. If the purchased options expire worthless, the investor will suffer a total loss of his investment which will consist of the options premium plus transaction costs. If the investor is contemplating purchasing deep-out-of-the-money options, he should be aware that the chance of such options becoming profitable is ordinarily remote.

Selling ('writing' or 'granting') options generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavourably against him. The seller will also be exposed to the risk of the purchaser exercising the options and the seller will be obligated to either settle the options in cash or to acquire or deliver the underlying asset.

Market Risk and Liquidity Risk

Prices of derivatives are affected by the prices of the underlying securities. Hence, fluctuations in prices of these underlying assets will ultimately affect derivative product prices. In addition to that, the investor in derivatives may experience liquidity risk. Prior to expiry, the derivatives may be harder to be disposed of/unwound and the investor may have to wait until expiry before he can get his funds back.

Credit Risk

Derivatives are usually issued/transacted by third party "issuers"/counterparties which are usually listed companies or financial institutions. In the event of default of the issuer or counterparty due to solvency issues, prices of the derivative products may be affected. In the worst case scenario, the investor might even lose all of his investment.

Default can generally be defined as:

1. Bankruptcy
2. Failure to pay
3. Debt Restructuring
4. Obligation default
5. Repudiation

Event Risk

Event Risk occurs because of rare, discontinuous and very large, unanticipated changes in the market environment. It could potentially increase both market and credit risks which would affect prices of derivative products as highlighted above. In the worst case scenario, derivative products might even lose all their value.

Event risk can be generally defined as:

1. A natural or manmade incident

2. A takeover or corporate restructuring.
3. Regulatory change

Leverage Risk

As derivative products can be leveraged, a small movement in the prices of the underlying might cause a larger change in the price of the derivative product.

Use of Credit Facility and Margin Call Risk

The investor may utilise credit facilities of Nomura to enter into derivative transactions. The investor will need to put in collateral to meet the initial margin requirement. As the price of the underlying changes of market condition changes, additional collateral may be required. In such a situation, a margin call may be issued whereupon if the investor is not able to meet such additional margin requirements, the position in the derivative transaction may be unwound. Such risks are referred to as margin call risk. The investor may lose part or all of his capital or more. Such leveraged activities have specific risks as described in General Product Introductory Material- Section 10“Introduction to Leveraged Portfolios”. It is important for the investor to understand such risks before entering into leveraged transactions.

4. Foreign Exchange (FX) Options



An option is a financial derivative instrument that establishes a contract between two parties (option seller and option buyer). It offers the buyer the right, but not obligation, to buy (call) or sell (put) the underlying currency.

A Call option gives the owner the right, but not the obligation, to *buy* the underlying currency at a pre-determined price (“Strike Price”) at or within a specified period of time. The call option seller would in turn have the obligation to sell the underlying currency at a specified price at or within a specified time.

A Put option gives the owner the right, but not the obligation, to *sell* the underlying currency at a pre-determined price (“Strike Price”) at or within a specified period of time. The put option seller would in turn have the obligation to buy the underlying currency at a specified price at or within a specified time.

An European-style option can only be exercised on the expiration date while an American-style option can be exercised at any time during its life. The options may include a knock-in or a knock-out feature or both.

Knock-In option: Option that is only in effect when a certain barrier or a pre-specified underlying price level is reached on expiration date (European-style) or anytime before expiration date (American-style).

Knock-Out option: Option that expires worthless when a certain barrier or a pre-specified underlying price level is breached on expiration date (European-style) or anytime before expiration date (American-style or Bermudan style).

An option involving cash settlement is settled as cash amount equal to the difference between the strike price and the current market value of the underlying currency, multiplied by the specified amount of underlying currency stipulated for each option.

This product is not capital protected. The investor should be aware that in certain circumstances, the redemption amount (if any) payable to the investors at maturity may be less than the principal sum invested in the product. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of all or part of his original investment.

4.1 Introduction to Options

Summary of options features and characteristics:

	Call	Put
Buy	<ul style="list-style-type: none"> Call option buyer pays a premium in exchange for the right, but not the obligation, to buy the underlying currency at the strike price at or within a specified period of time Call option buyer has a bullish view on the underlying currency and expects that the price of the underlying currency will rise by the expiration of the option 	<ul style="list-style-type: none"> Put option buyer pays a premium in exchange for the right but not the obligation to sell the underlying currency at the strike price at or within a specified period of time Put option buyer has a bearish view on the underlying currency and expects that the price of the underlying currency will drop by the expiration of the option

	Call	Put
Sell	<ul style="list-style-type: none"> Call option seller receives a premium in exchange for the obligation to sell the underlying currency at the pre-determined strike price at or within a specified time period Call option seller has a neutral to bearish view on underlying currency and expects its price will not stay above the strike price when the option expires 	<ul style="list-style-type: none"> Put option seller receives a premium in exchange for the obligation to buy underlying currency at the pre-determined strike price at or within a specific time period Put option seller has a neutral-to-bullish view on underlying currency and expects its price will stay above the strike price when the option expires
	Knock In	Knock Out
Buy	<ul style="list-style-type: none"> Option that is only in effect when a certain barrier or a pre-specified underlying price level is reached on expiration date (European option) or any time before expiration date (American option) If the barrier is not reached, the option will not be effective and the option will not be in effect A down-and-in barrier is one where the option becomes effective when the spot price moves downwards A up-and-in barrier is one where the option becomes effective when the spot price moves upwards 	<ul style="list-style-type: none"> Option that expires worthless when a certain barrier or a pre-specified underlying price level is breached at the expiration date (European option) or any time before the expiration date (American option) A down-and-out barrier is one where the option becomes worthless when the spot price moves downwards A up-and-out barrier is one where the option becomes worthless when the spot price moves upwards

4.2 Key Risks

Summary of product related risks

	Call	Put
Buy	<ul style="list-style-type: none"> Call option buyer could lose the entire premium paid if the prevailing spot price closes below the strike price when the option expires 	<ul style="list-style-type: none"> Put option buyer could lose the entire premium paid if the prevailing spot price closes above the strike price when the option expires
Sell	<ul style="list-style-type: none"> Call option seller could face unlimited losses should the underlying currency rise infinitely 	<ul style="list-style-type: none"> Put option seller might lose the entire notional value of the option contract if underlying currency falls to zero

The investor will be exposed to the underlying currency risk, and risk of adverse or unanticipated market, financial or political development risks which may negatively impact the underlying currency.

The investor may not be able to terminate the contract prior to the expiration of the contract. There may be high early termination costs involved should the investor terminate prior to the expiration of the contract.

The investor is subject to corporate risks (e.g. market disruptions, mergers, tender offers, public offerings, delisting or any other appropriate actions) that may affect the currency. This includes

exposure to unanticipated changes in the operating environment such as legal matters, lawsuits, regulatory changes and man-made or natural disasters. Such events may negatively impact the value of the product.

As the options are privately negotiated instruments with the counterparty, the investor will be exposed to risk due to default or potential default by the reference counterparty.

The investor may enter the transaction on a margin basis, or utilizing Nomura's credit facilities. As such, the investor would be bound by the terms of the credit facilities, including the requirements to make top up payments or meet margin calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as described in General Product Introductory Material - Section 10 "Introduction to Leveraged Portfolios". It is important for the investor to understand such risks before entering into leveraged transactions.

The above is not intended to be a comprehensive list of all risks involved. The investor should read the terms and conditions of the product carefully as this is a very high risk product where the potential gain is limited and losses could potentially be magnified.

4.3 Worst-case Scenario

For an option buyer, his maximum loss amount is limited to the premium paid to the option seller.

For an option seller, his maximum loss amount may exceed the premium received for selling the option contract to the option buyer.

For the seller of a call option contract, the seller's maximum loss is theoretically unlimited if the underlying currency were to rise in value for an infinite amount.

For the seller of a put option contract, the seller's maximum loss is the notional value of the option contract if the underlying currency was to reach 0.

4.4 Various Types of Options

Please see below for illustrations of the payoff of various option strategies. Please note that all figures shown are for illustration purpose only. For the diagrams below,

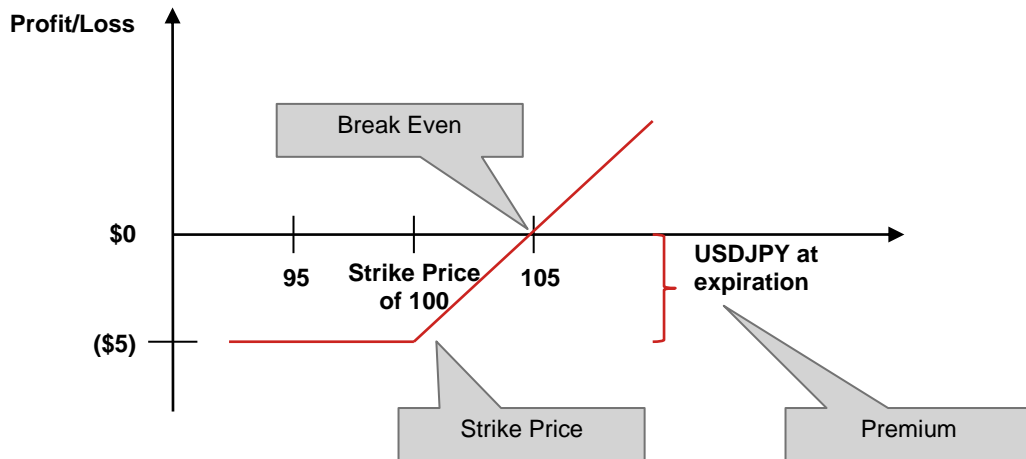
The x-axis represents the currency price (USDJPY) at expiration of the option. USDJPY is denoted as number of JPY per USD

The y-axis represents the profit and loss amount

The strike price is indicated on the chart

4.4.1 Call Options – With Bullish View

Payoff Diagram

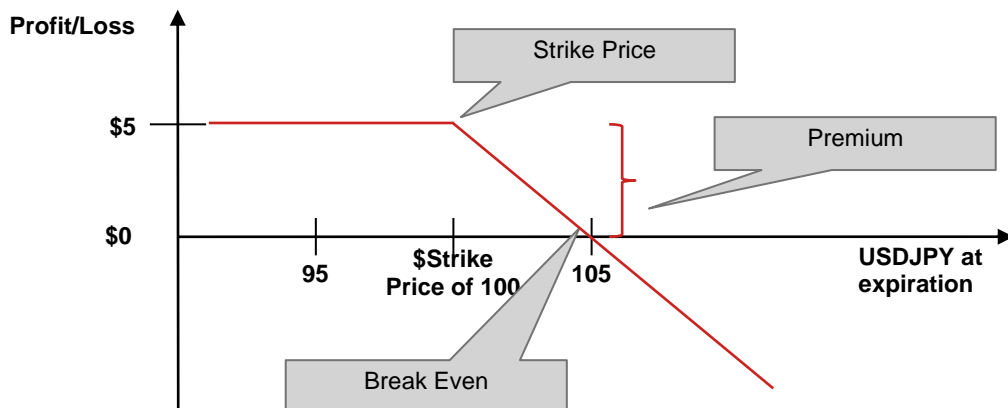


The investor is the buyer of the call option. The buyer of the call option has purchased the right to buy the underlying currency with the view that the price of the underlying currency will go up in the near term. The investor is expressing a bullish view. The above scenario shows the payoff at expiration for the investor. The investor pays a premium of \$5 for the right to buy a specified quantity of the currency at the USDJPY strike price of \$100. Where the underlying currency price at expiration is above the strike price of \$100 and the buyer of the call option exercises the call option, the investor's net profit at expiration would be the difference between the final currency price at expiration and the strike price, after deducting the premium paid up front. The break-even price of 105 is the currency price at expiration where the investor would have no profit or loss.

Where the price at expiration is below the strike price and the call option is not exercised, the loss incurred would be the upfront premium of \$5.

4.4.2 Call Options – With Mildly Bearish View

Payoff Diagram



The investor is the seller of the call option. The seller of the call option has received an initial premium in exchange for having the obligation to sell the underlying currency with the view that the underlying currency will be range-bound in the near term. The investor is expressing a mildly bearish view. The above scenario shows the payoff at expiration for the investor. The investor

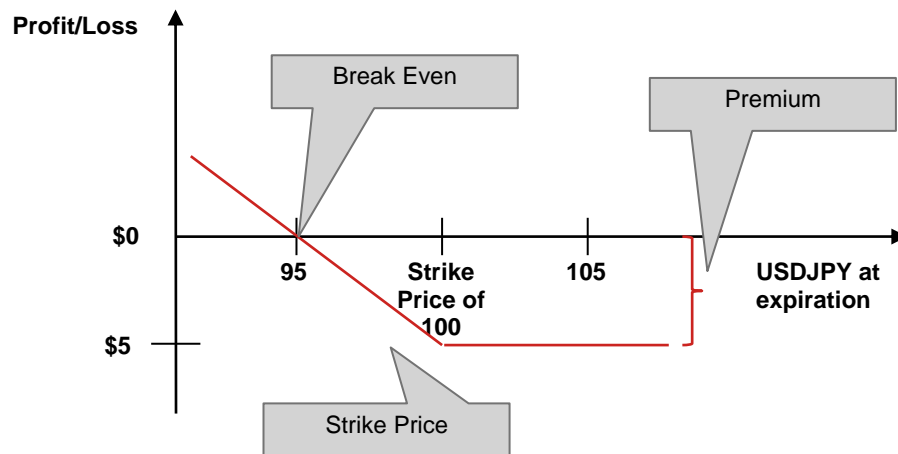
receives a premium of \$5 for the obligation to sell a specified quantity of the underlying currency at the USDJPY strike price of \$100.

Where the underlying currency price at expiration is above the strike price of \$100 and the call option is exercised, the investor's net loss at expiration would be the difference between the final currency price at expiration and the strike price, after taking into account the premium received. The break-even price of \$105 is the currency price at expiration where the investor would have no profit or loss.

Where the price at expiration is below the strike price and the call option is not exercised, the investor's net profit would be the upfront premium of \$5.

4.4.3 Put Options – With Bearish View

Payoff Diagram



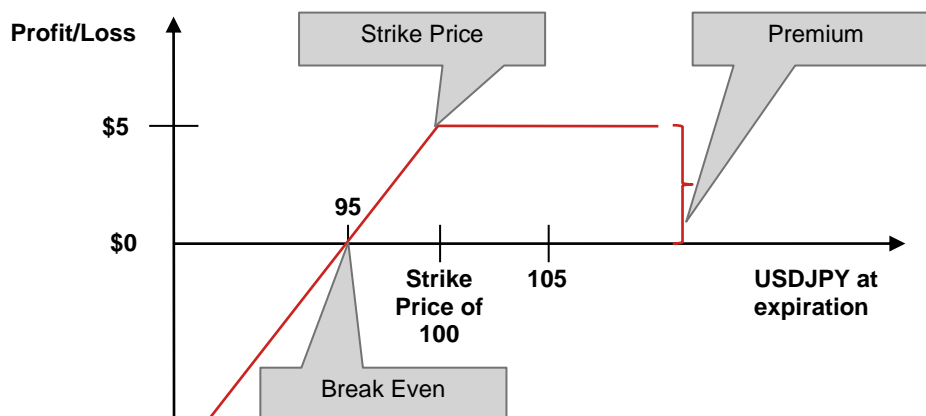
The investor is the buyer of the put option. The buyer of the put option has purchased the right to sell the underlying currency with the view that the price of the underlying currency will go down in the near term. The investor is expressing a bearish view. The above scenario shows the payoff at expiration for the investor. The investor pays a premium of \$5 for the right to sell a specified quantity of the currency at the USDJPY strike price of \$100.

Where the underlying currency price at expiration is below the strike price of \$100 and the buyer of the put option exercises the put option, the investor's net profit at expiration would be the difference between the final currency price at expiration and the strike price, after deducting the premium paid up front. The break-even price of \$95 is the currency price at expiration where the investor would have no profit or loss.

Where the price at expiration is above the strike price and the put option is not exercised, the loss incurred would be the upfront premium of \$5.

4.4.4 Put Options – With Mildly Bullish View

Payoff Diagram



The investor is the seller of the put option. The seller of the put option has received an initial premium in exchange for having the obligation to buy the underlying currency with the view that the underlying currency will be range-bound in the near term. The investor is expressing a mildly bullish view. The above scenario shows the payoff at expiration for the investor. The investor receives a premium of \$5 for the obligation to buy a specified quantity of the underlying currency at the USDJPY strike price of \$100.

Where the underlying currency price at expiration is below the strike price of \$100 and the put option is exercised, the investor's net loss at expiration would be the difference between the final currency price at expiration and the strike price, after taking into account the premium received. The break-even price of \$95 is the currency price at expiration where the investor would have no profit or loss.

Where the price at expiration is above the strike price and the put option is not exercised, the investor's net profit would be the upfront premium of \$5.

4.5 Other Features for Options

Unlike "plain vanilla" put and call options, exotic options are subject to additional conditions and agreements. Exotic options are non-standard options and may include a combination of options, compound options (or option on an option), or options involving several underlying(s). Given the special composition of exotic option, their price movements can vary markedly from those "plain vanilla" options.

4.5.1 Exotic Options

Barrier Options

Barrier options are options where the exercise rights for the option arise or expire if the underlying currency reaches or breaches a fixed threshold (barrier) within a specified period.

A knock-in barrier option is an option that is only in effect when a certain barrier or a pre-specified underlying price level is reached on expiration date (European option) or any time before expiration date (American option).

A knock-out barrier option expires worthless if the underlying currency exceeds the barrier or pre-specified underlying price level at the expiration date (European option) or any time before the expiration date (American option).

4.6 Scenario Analysis

To illustrate the features of the product, please refer to the analysis below. The analysis presented below (the "Analysis") is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. The illustration does not take into account transaction fees.

4.6.1 Call Option

Below are sample terms for a USD Call JPY Put option with a one month tenor. In the event that the option is exercised, the option buyer will buy USD and sell JPY at the strike price. The strike price for the option is 110.00, which is moderately higher than the current price of 108.00. The premium paid for the option is US\$10,000.

Sample Terms

Option Type	Call option
Underlying	USDJPY
Tenor	1 month
Strike Price	110.00
Reference Spot	108.00
Premium	US\$10,000
Notional	US\$1,000,000

If the investor is the buyer of the option, he will only exercise the option if the final underlying is above 110.00. His losses are limited to the initial premium he has paid.

Final Price	Strike Price	Final P&L (USD)	Option Exercised/Expired
108.50	110.00	(10,000)	Expired
109.20	110.00	(10,000)	Expired
112.00	110.00	7,857	Exercised
113.00	110.00	16,549	Exercised
114.50	110.00	29,301	Exercised
115.00	110.00	33,478	Exercised
118.50	110.00	61,730	Exercised

When the option is exercised, Final P&L (USD) is calculated using:

$$(((\text{Final Price} - \text{Strike Price}) * \text{Notional}) / \text{Final Price}) - \text{Premium}$$

If the investor is the seller of the option, the option will likely be exercised by the buyer of the option if the underlying closes above 110.00. His losses are potentially theoretically unlimited. If the price of the underlying at expiry is below the strike price and the buyer does not exercise the option, his returns are limited to the premium received when he sold the option.

Please see the table below for an illustration of his final profit and loss (P&L):

Final Price	Strike Price	Final P&L (USD)	Option Exercised/Expired
108.50	110.00	10,000	Expired
109.20	110.00	10,000	Expired
112.00	110.00	(7,857)	Exercised
113.00	110.00	(16,549)	Exercised

114.50	110.00	(29,301)	Exercised
115.00	110.00	(33,478)	Exercised
118.50	110.00	(61,730)	Exercised

When the option is exercised, Final P&L (USD) is calculated using:

$$\text{Premium} - (((\text{Final Price} - \text{Strike Price}) * \text{Notional}) / \text{Final Price})$$

4.6.2 Put Option

Below are sample terms for a USD Put JPY Call option with a one month tenor. In the event that the option is exercised, the option buyer will sell USD and buy JPY at the strike price. The strike price for the option is 105.00, which is moderately lower than the current price of 108.00. The premium paid for the option is US\$5,000.

Sample Terms

Option Type	Put option
Underlying	USDJPY
Tenor	1 month
Strike Price	105.00
Reference Spot	108.00
Premium	US\$5,000
Notional	US\$1,000,000

If the investor is the buyer of the option, he will only exercise the option if the price of the underlying at expiry is below the strike price of 105.00. If the price of the underlying is above the strike price and he does not exercise the option, his losses are limited to the initial premium he has paid.

Please see the table below for an illustration of his final profit and loss (P&L):

Final Price	Strike Price	Final P&L (USD)	Option Exercised/Expired
50.00	105.00	1,095,000	Exercised
90.00	105.00	161,667	Exercised
104.00	105.00	4,615	Exercised
109.00	105.00	(5,000)	Expired
110.00	105.00	(5,000)	Expired
115.00	105.00	(5,000)	Expired

When the option is exercised, Final P&L (USD) is calculated using:

$$(((\text{Strike Price} - \text{Final Price}) * \text{Notional}) / \text{Final Price}) - \text{Premium}$$

If the investor is the seller of the option, the option will likely be exercised by the buyer of the option if the underlying closes below 105.00. His losses are potentially the entire notional of the trade if the underlying falls to zero. If the price of the underlying at expiry is above the strike price and the buyer does not exercise the option, his returns are limited to the premium received when he sold the option.

Final Price	Strike Price	Final P&L (USD)	Option Exercised/Expired
50	105.00	(1,095,000)	Exercised

90.00	105.00	(161,667)	Exercised
104.00	105.00	(4,615)	Exercised
109.00	105.00	5,000	Expired
110.00	105.00	5,000	Expired
115.00	105.00	5,000	Expired

When the option is exercised, Final P&L (USD) is calculated using:

Premium – (((Strike Price – Final Price)*Notional)/Final Price)

5. Foreign Exchange (FX) Accumulators



5.1 Description

The over-the-counter (OTC) FX accumulator is a contract where the investor will be obliged to purchase the underlying currency at a specific forward (alternatively referred to as “strike”) price for the duration of the contract as long as the spot price closes below the knock-out trigger (“KO level”).

The strike price is typically set below the prevailing market price while the KO level is typically set above the prevailing market price.

Once the knock-out price is triggered according to the terms set out in the term-sheet, the accumulator is deemed to have expired and the investor will not be able to continue buying the underlying currency. The underlying currency will be credited to the account (“settled”) on a regular basis, for instance, every month.

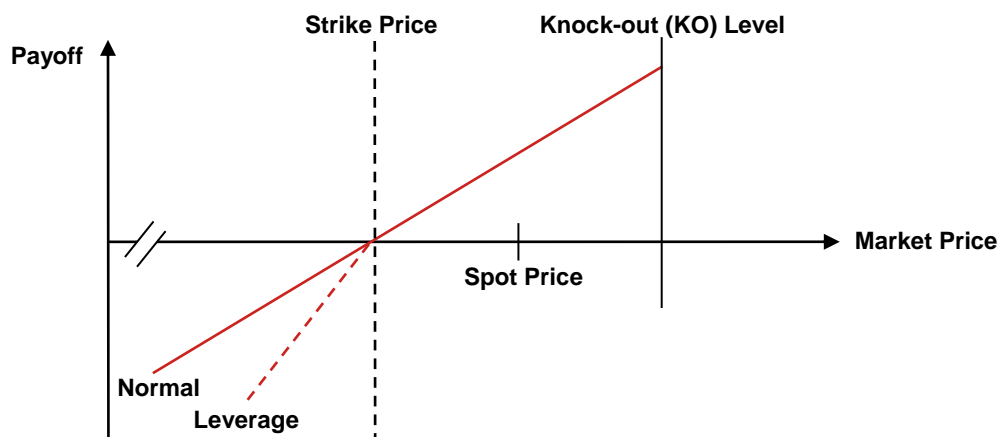
Variations of accumulators may include protected periods where accumulation of the currency during the protected period will continue regardless of whether the KO level has been triggered. Should the KO level be triggered during the protected period, the contract will terminate and the investor will receive the notional specified under the protected period.

Other variations and features that may be incorporated could include knock-in features across American, European or Bermuda type. Accumulator may have a “multiplier” condition (also referred to as “gearing” ratio). For those days where the prevailing market price falls below the strike price, the investor will need to purchase multiple times (for example, twice) based on the gearing ratio specified of the underlying currency at the strike price.

The investor may enter the transaction on a margin basis, or to utilize Nomura’s credit facilities. As such, the investor will be bound by the terms of the credit facilities, including the requirement to top up payments or to meet margin calls.

This product is not capital protected and may be entered into on a margin basis or on leverage.. The investor should be aware that in certain circumstances, , the risk of losses is not limited to the assets pledged or capital invested. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of part, all or in excess of the original capital invested

Payoff Diagram



5.2 Investor Profile

- The investor holds a neutral-to-positive view on the underlying currency and is prepared to purchase the currency at the strike price over the tenor of the contract
- Should there be a multiplier factor, the investor is prepared to purchase multiple times of the regular notional of the underlying currency if the spot price falls below the strike price.
- The investor should be prepared to have the obligation to purchase removed if the knock-out condition are triggered
- The investor is a Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or an Accredited Investor defined under the Securities and Futures Act of Singapore and possesses prior experience in investing in structured products or writing options

5.3 Key Risks

- The product will be exposed to unanticipated changes in the operating environment such as legal matters including mergers, acquisitions, lawsuits and regulatory including manmade or natural disaster or incident. Such events may result in substantial costs or increased credit risk of the counterparty
- If there is a “multiplier” (or gearing) condition specified, the investor will need to purchase multiple times of the agreed amount of the underlying currency for each period the prevailing market price closes below the strike price. As a result, losses could be further magnified
- Accumulators typically have a knock-out clause where the contract will terminate once the knock-out clause is triggered thereby capping the upside of the investor
- As the product is a privately negotiated instrument with the counterparty, the investor will be exposed to risk due to default or potential default by the reference counterparty
- The investor may enter the transaction on a margin basis, or utilizing Nomura’s credit facilities. As such, the investor would be bound by the terms of Nomura’s credit facilities, including the requirements to make top up payments or meet margin calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as described in General Product Introductory Material - Section 10 "Introduction to Leveraged Portfolios". It is important for the investor to understand such risks before entering into leveraged transactions.
- An Accumulator has a specified contract tenor and the investor is expected to fulfil the entire duration of the contract. The investor may not be able to terminate the contract prior to the expiration of the contract. There may be high early termination costs involved should the investor terminate prior to the expiration of the contract
- ***Worst-case scenario:*** If the underlying currency falls significantly and down to zero, the investor would suffer losses equivalent to the maximum exposure of the contract (equivalent to the maximum total underlying currency multiplied by the strike price). The extent of the loss is magnified if the transaction is entered into on a margin basis. The loss could be multiple times of the initial capital committed. ***This is a very high risk investment product and the potential gain is limited whereas the potential loss is the maximum notional exposure so the investor should exercise extra caution and consideration before entering into the contracts***

The above is not intended to be a comprehensive list of all risks involved. The investor should read the terms and conditions of the product carefully

5.4 Scenario Analysis

To illustrate the features of the product, please refer to the analysis below. The analysis presented below (the “Analysis”) is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. This illustration does not take into account transaction fees.

Sample Terms

Underlying Currency Pair	USDJPY
Reference Spot Price	120.00
Strike Price	115.00
Knock-out Barrier	125.00
Tenor	10 weeks
Gearing Ratio	2
Weekly Notional Amount	US\$1,000,000 (before gearing)/US\$2,000,000 (with gearing)
Protected Period (Guarantee)	2 weeks

The investor in the above product has a neutral-to-positive view on USD and is prepared to purchase the Weekly Notional at the strike price for the life of the contract. The investor is prepared to purchase two times the Weekly Notional each week if the spot price closes below the strike price as the investor may hold a positive view on the medium-to-long term basis. The investor wishes to deal in the product on a margin basis and is able to provide additional collateral in the event of a margin call.

5.4.1 Scenario (a): No Knock-out and The Spot Price on Each Scheduled Day is Trading Above The Strike Price

In the first scenario, no knock-out event has occurred and the spot price on each scheduled trading day is above the strike price. Over the 10 weeks period, the investor would accumulate US\$10,000,000 (and short JPY 1,150,000,000 (10,000,000 x 115.00)).

For illustration purpose, we assume that all USD is held until the end of the contract and sold at the final price. The profit and loss is indicated as below. Profit/Loss is calculated as the below formula:

(Final price – Strike Price) x Notional (USD)

Final Price	Notional in USD	Profit/(Loss) in JPY	Profit/(Loss) in USD
115.00	10,000,000	0.00	0.00
118.00	10,000,000	30,000,000	254,237
120.00	10,000,000	50,000,000	416,667
123.00	10,000,000	80,000,000	650,407

5.4.2 Scenario (b): No Knock-out and Spot Price on Each Scheduled Day is Trading below the Strike Price

In the second scenario, no knock-out event has occurred and the spot price on each scheduled trading day is below the strike price. Over the 10 weeks period, the investor would accumulate US\$20,000,000 (10 (number of weeks) x 1,000,000 (weekly notional) x 2 (gearing ratio)).

For illustration purpose, we assume that all USD is held until the end of the contract and sold at the final price. The profit and loss is indicated as below. Profit/Loss is calculated as the below formula:

$(\text{Final price} - \text{Strike Price}) \times \text{Notional (USD)}$

Final Price	Notional in USD	Profit/(Loss) in JPY	Profit/(Loss) in USD
113.00	20,000,000	(40,000,000)	(353,982)
110.00	20,000,000	(100,000,000)	(909,091)
108.00	20,000,000	(140,000,000)	(1,296,296)
105.00	20,000,000	(200,000,000)	(1,904,762)

5.4.3 Scenario (c): Assuming The Knock-out Event Has Occurred on Week 1 During The Protected Period

In the final scenario, a knock-out event has occurred on week 1 during the protected period. The investor would still receive US\$2,000,000 (2 (weeks protected) * 1,000,000 (weekly notional)).

For illustration purpose, we assume that all USD is held until the knock-out event and sold at the final price. The profit and loss is indicated as below. Profit/Loss is calculated as the below formula:

$(\text{Final price} - \text{Strike Price}) \times \text{Notional (USD)}$

Final Price	Notional in USD	Profit/(Loss) in JPY	Profit/(Loss) in USD
125.00	2,000,000	20,000,000	160,000
128.00	2,000,000	26,000,000	203,125
131.00	2,000,000	32,000,000	244,275
135.00	2,000,000	40,000,000	296,297

6. Foreign Exchange (FX) Decumulator



Product Risk Rating

6.1 Description

The over-the-counter (OTC) FX decumulator is a contract where the investor will be obliged to sell the underlying currency at a specified forward (alternatively referred to as “strike”) price for the duration of the contract as long as the spot price is above the knock-out trigger (“KO level”).

The strike forward price is typically set above the prevailing market price while KO level set below the prevailing market price.

Once the knock-out price is triggered according to the terms set out in the term-sheet, the decumulator is deemed to have expired and the investor will not be able to continue selling the underlying currency.

Decumulator may have a “multiplier” condition (also referred to as “gearing” ratio). For those days where the prevailing market price rises above the forward price, the investor will need to sell multiple times (based on the gearing ratio specified) of the underlying currency at the forward price.

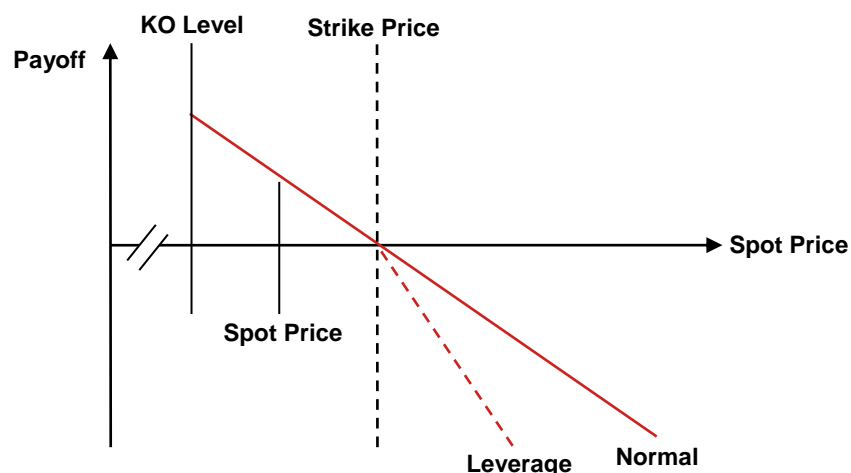
Variations of decumulators may include protected periods where selling of the underlying currency during the protected period will continue regardless of whether the KO level has been triggered. Should the KO level be triggered during the protected period, the contract will terminate but the investor will be required to sell the amount of notional of the underlying currency specified in respect of the whole of the protected period.

Other variations and features that may be incorporated could include knock-in features across American, European or Bermuda type.

The investor may enter the transaction on a margin basis, or to utilize Nomura’s credit facilities. As such, the investor will be bound by the terms of the credit facilities, including the requirement to top up payments or to meet margin calls.

This product is not capital protected and may be entered into on a margin basis or on leverage. The investor should be aware that in certain circumstances, the risk of losses is not limited to the assets pledged or capital invested. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of part, all or in excess of the original capital invested.

Payoff Diagram



6.2 Investor Profile

- The investor holds a neutral-to-negative view on the underlying currency and is prepared to sell the underlying currency at the strike or forward price over the tenor of the contract
- Should there be a multiplier factor, the investor is prepared to sell multiple times of the regular notional if the spot price rises above the strike price
- The investor is prepared to have the obligation to sell the underlying currency removed should the knock-out condition be triggered
- The investor is a Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or an Accredited Investor defined under the Securities and Futures Act of Singapore is eligible and possesses prior experience in investing in structured products or writing options

6.3 Key Risks

- The product will be exposed to unanticipated changes in the operating environment such as legal matters including mergers, acquisitions, lawsuits and regulatory including manmade or natural disaster or incident. Such events may result in substantial costs or increased credit risk of the counterparty
- If there is a “multiplier” (or gearing) condition specified, the investor will need to sell multiple times of the agreed notional for each period the prevailing market price closes above the strike price. As a result, losses could be further magnified
- Decumulators typically have a knock-out clause where the contract will terminate once the knock-out clause is triggered thereby capping the upside for the investor
- As the product is a privately negotiated instrument with the counterparty, the investor will be exposed to risk due to default or potential default by the reference counterparty
- The investor may enter the transaction on a margin basis, or utilizing Nomura’s credit facilities. As such, the investor would be bound by the terms of Nomura’s credit facilities, including the requirements to make top up payments or meet margin calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as described in General Product Introductory Material - Section 10 "Introduction to Leveraged Portfolios". It is important for the investor to understand such risks before entering into leveraged transactions
- A Decumulator has a specified contract tenor and the investor is expected to fulfil the entire duration of the contract. The investor may not be able to terminate the contract prior to the expiration of the contract. There may be high early termination costs involved should the investor terminate prior to the expiration of the contract
- **Worst-Case Scenario:** If the underlying currency rises significantly, the opportunity cost of selling at the strike price will increase as the price of the underlying currency rises. The extent of loss is magnified if the transaction is entered into on a margin basis. The loss could be multiple times of the initial capital committed. ***This is a very high risk investment product and the potential gain is limited whereas the potential loss is unlimited so the investor should exercise extra caution and consideration before entering into the contract***

The above is not intended to be a comprehensive list of all risks involved. The investor should read the terms and conditions of the product carefully as this is a very high risk product where the potential gain is limited and losses could potentially be magnified

6.4 Scenario Analysis

To illustrate the features of the product, please refer to the analysis below. The analysis presented below (the "Analysis") is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. . The illustration does not take into account transaction fees.

Sample Terms	
Underlying Currency Pair	USDJPY
Reference Spot Price	120.00
Strike Price	123.00
Knock-out Barrier	118.00
Tenor	8 weeks
Gearing Ratio	2
Weekly Notional Amount	US\$1,000,000 (before gearing)/US\$2,000,000 (with gearing)
Protected Period (Guarantee)	2 weeks

The investor in the above product has a neutral-to-negative view on the underlying currency (USD) and is prepared to sell the weekly notional per week at the strike price for the life of the contract. The investor is prepared to sell two times the weekly notional per week if the spot price closes above the strike price as the investor may hold a negative view on the medium-to-long term basis. The investor may wish to deal in the product on a margin basis and is able to provide additional collateral in the event of a margin call or alternatively, the investor has the maximum amount of the underlying currency (USD) that may potentially be decumulated.

6.4.1 Scenario (a): No Knock-out and Spot Price on Each Scheduled Day is Trading Below The Strike Price

In the first scenario, no knock-out event has occurred and the spot price on each scheduled trading day is below the strike price. Over the 8 weeks period, the investor would sell US\$8,000,000 (8 (number of weeks) x 1,000,000 (weekly notional)).

For illustration purpose, we assume that all USD sold or shorted is bought at maturity and at the final price with the profit and loss indicated as below. Profit/Loss is calculated as the below formula:

$(\text{Strike price} - \text{Final Price}) \times \text{Notional (USD)}$

Final Price	Notional in USD	Profit/(Loss) in JPY	Profit/(Loss) in USD
123.00	8,000,000	0.00	0.00
121.00	8,000,000	16,000,000	132,231
119.00	8,000,000	32,000,000	268,908

6.4.2 Scenario (b): No Knock-out and Spot Price on Each Scheduled Day is Trading Above The Strike Price

In the second scenario, no knock-out event has occurred and the spot price on each scheduled trading day is above the strike price. Over the 8 weeks period, the investor would sell US\$16,000,000 (8 (number of weeks) x 1,000,000 (weekly notional) x 2 (gearing ratio)).

For illustration purpose, we assume that all USD sold or shorted is bought at maturity and at the final price with the profit and loss indicated as below. Profit/Loss is calculated as the below formula:

$(\text{Strike price} - \text{Final Price}) \times \text{Notional (USD)}$

Final Price	Notional in USD	Profit/(Loss) in JPY	Profit/(Loss) in USD
123.00	16,000,000	0.00	0.00
125.00	16,000,000	(32,000,000)	(256,000)
130.00	16,000,000	(112,000,000)	(861,538)
135.00	16,000,000	(192,000,000)	(1,422,222)

6.4.3 Scenario (c): Assuming The Knock-out Event Has Occurred on Week 1 During The Protected Period

In the final scenario, a knock-out event has occurred on week 1 during the protected period. The investor would sell US\$2,000,000 (2 (weeks protected) x 1,000,000 (weekly notional)).

For illustration purpose, we assume that all USD sold or shorted is bought at the knock-out date and at the final price with the profit and loss indicated as below. Profit/Loss is calculated as the below formula:

$(\text{Strike price} - \text{Final Price}) \times \text{Notional (USD)}$

Final Price	Notional in USD	Profit/(Loss) in JPY	Profit/(Loss) in USD
123.00	2,000,000	0.00	0.00
118.00	2,000,000	10,000,000	84,746
110.00	2,000,000	26,000,000	236,364

7. Foreign Exchange (FX) Pivot Target Redemption Forwards (TARF)



Product Risk Rating

7.1 Description

The over-the-counter (OTC) FX pivot TARF is a contract where the investor will be obliged to buy or sell the underlying currency (with respect to a pivot level) at a specified forward (alternatively referred to as “strike”) price for the duration of the contract.

The strike prices are typically set more attractive than the current market spot price, where the buy strike price is set lower than the current market spot price and the sell strike price is set higher than the current market spot price. However, the investor has a downside risk when spot price settles beyond these strikes where the investor would be able to buy the underlying at a lower rate than the buy strike price or to sell the underlying at a higher rate than the sell strike price.

On every observation date, for instance weekly, the investor will be buying the underlying currency at the buy strike price if the prevailing market rate trades below the Pivot and selling the underlying currency at the sell strike price if the prevailing market rate trades at or above the pivot.

The Target Redemption Level refers to the maximum number of observations (typically on a weekly basis with each week being referred to as a ‘fixing’) in which the underlying currency can trade between the Buy Strike price and the Sell Strike price, after which the contract will be knocked-out, i.e. terminated. Once the Target Redemption Level is achieved according to the terms set out in the term-sheet, the Pivot TARF is deemed to have expired and the investor will not be able to continue buying/selling the underlying currency.

Other variations and features that may be incorporated could include knock-in features across American, European or Bermuda type.

Pivot TARF may have a “multiplier” condition (also referred to as “gearing” ratio). For those days where the prevailing market price worsens against the strike prices, the investor will need to buy/sell multiple times (based on the gearing ratio specified) of the underlying currency at the respective strike price.

The investor may enter the transaction on a margin basis, or utilize Nomura’s credit facilities. As such, the investor will be bound by the terms of the credit facilities, including the requirement to top up payments or to meet margin calls.

This product is not capital protected and may be entered into on a margin basis or on leverage. The investor should be aware that in certain circumstances, the risk of losses is not limited to the assets pledged or capital invested. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of part, all or in excess of the original capital invested

Payoff Diagram



7.2 Investor Profile

- The investor is of the view that the underlying currency will be trading in a range (within the buy/sell strikes) and is prepared to buy at the buy strike or sell at the sell strike the underlying currency over the tenor of the contract
- Should there be a multiplier factor, the investor is prepared to buy or sell multiple times of the regular notional if the spot price rise worsen against the strike prices
- The investor is prepared to have the contract terminated should the Target Redemption Level be reached
- The investor is a Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or an Accredited Investor defined under the Securities and Futures Act of Singapore is eligible and possesses prior experience in investing in structured products or writing options

7.3 Key Risks

- The product will be exposed to unanticipated changes in the operating environment such as legal matters including mergers, acquisitions, lawsuits and regulatory including manmade or natural disaster or incident. Such events may result in substantial costs or increased credit risk of the counterparty
- If there is a “multiplier” (or gearing) condition specified, the investor will need to buy multiple times of the agreed notional for each period if the prevailing market price trades below the buy strike, or sell multiple times of the agreed notional for each period if the prevailing market price trades above the sell strike. As a result, losses could be further magnified
- As the product is a privately negotiated instrument with the counterparty, the investor will be exposed to risk due to default or potential default by the reference counterparty
- The investor may enter the transaction on a margin basis, or utilizing Nomura’s credit facilities. As such, the investor would be bound by the terms of Nomura’s credit facilities, including the requirements to make top up payments or meet margin calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as described in General Product Introductory Material - Section 10 "Introduction to Leveraged Portfolios". It is important for the investor to understand such risks before entering into leveraged transactions

- The Pivot TARF has a specified contract tenor and the investor is expected to fulfil the entire duration of the contract. The investor may not be able to terminate the contract prior to the expiration of the contract or there may be high early termination costs involved should the investor terminate prior to the expiration of the contract
- **Worst-Case Scenario:** If the underlying currency falls significantly and down to zero, the investor would suffer losses equivalent to the maximum exposure of the contract (equivalent to the maximum total notional multiplied by the strike price). If the underlying currency rises significantly, the opportunity cost of selling at the sell strike will increase as the price of the underlying currency rises. The extent of loss is magnified if the transaction is entered into on a margin basis. The loss could be multiple times of the initial capital committed. ***This is a very high risk investment product and the potential gain is limited whereas the potential loss is unlimited so the investor should exercise extra caution and consideration before entering into the contracts***
 The above is not intended to be a comprehensive list of all risks involved. The investor should read the terms and conditions of the product carefully

7.4 Scenario Analysis

To illustrate the features of the product, please refer to the analysis below. The analysis presented below (the “Analysis”) is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. The illustration does not take into account transaction fees.

Sample Terms

Underlying Currency Pair	USDJPY
Reference Spot Price	120.00
Buy Strike Price	110.00
Pivot Price	115.00
Sell Strike Price	125.00
Tenor	15 weeks
Gearing Ratio	2
Weekly Notional Amount	US\$1,000,000 (before gearing)/US\$2,000,000 (with gearing)
Target Redemption Level	10 fixings

7.4.1 Scenario (a): Assuming That The Target Redemption Event Has Occurred After 10 Weeks of Fixings

In the first scenario, for the first 10 weeks of fixings, market had traded within the buy/sell strikes on each observation day. As such, there is no geared buying/selling per weekly fixing. The contract expires immediately after the 10th week.

For illustration purpose, we assume that all USD sold is bought, and all USD bought is sold, each week at the final spot price. Profit/loss is indicated in the table below.

Profit/Loss is calculated as per the below formula:

- a) Equal or above Pivot level: (Sell strike price – Final price) x Notional
- b) Below Pivot level: (Final price – Buy Strike price) x Notional

Week	Notional in USD	Strike	Final Spot Price	Profit/(Loss) in JPY	Profit/(Loss) in USD
1	1,000,000	125	122	3,000,000	24,590.16
2	1,000,000	125	121	4,000,000	33,057.85
3	1,000,000	125	120	5,000,000	41,666.67
4	1,000,000	110	114	4,000,000	35,087.72
5	1,000,000	110	114	4,000,000	35,087.72
6	1,000,000	110	114	4,000,000	35,087.72
7	1,000,000	110	114	4,000,000	35,087.72
8	1,000,000	110	113	3,000,000	26,548.67
9	1,000,000	110	113	3,000,000	26,548.67
10	1,000,000	110	111	1,000,000	9,009.01

7.4.2 Scenario (b): Target Redemption Event Does Not Occur Prior to Maturity

In the second scenario, no knock-out event has occurred and the spot price on each scheduled trading day is below the buy strike price and above the sell strike price. Over the full 15 weeks period, the investor had sold US\$6,000,000 (3 (number of weeks) x 2,000,000 (weekly geared notional)) and bought US\$24,000,000 (12 (number of weeks) x 2,000,000 (weekly geared notional)) at the sell/buy strike prices respectively.

For illustration purpose, we assume that all USD sold is bought, and all USD bought is sold, each week at the final spot price. Profit/loss is indicated in the table below.

Profit/Loss is calculated as the below formula:

- a) Equal or above Pivot level: (Sell strike price – Final price) x Notional
- b) Below Pivot level: (Final price – Buy Strike price) x Notional

Week	Notional in USD	Strike	Final Price	Profit/(Loss) in JPY	Profit/(Loss) in USD
1	2,000,000	125	126	(2,000,000)	(15,873.02)
2	2,000,000	125	127	(4,000,000)	(31,496.06)
3	2,000,000	125	128	(6,000,000)	(46,875.00)
4	2,000,000	110	109	(2,000,000)	(18,348.62)
5	2,000,000	110	109	(2,000,000)	(18,348.62)
6	2,000,000	110	109	(2,000,000)	(18,348.62)
7	2,000,000	110	108	(4,000,000)	(37,037.04)
8	2,000,000	110	107	(6,000,000)	(56,074.77)
9	2,000,000	110	108	(4,000,000)	(37,037.04)
10	2,000,000	110	109	(2,000,000)	(18,348.62)
11	2,000,000	110	107	(6,000,000)	(56,074.77)
12	2,000,000	110	108	(4,000,000)	(37,037.04)
13	2,000,000	110	109	(2,000,000)	(18,348.62)
14	2,000,000	110	109	(2,000,000)	(18,348.62)
15	2,000,000	110	108	(4,000,000)	(37,037.04)

7.4.3 Scenario (c): Assuming Target Redemption Event Occurs Prior to Maturity

In the final scenario, market had traded within the buy/sell strikes on the first 8 weekly observations and then stayed out of range for the next 2 weeks, before returning within the range for the remaining weeks of the product. As such, there is no geared buying/selling for the first 8 fixings, followed by geared buying/selling for the 9th and 10th fixings. The 11th and 12th fixings are both non-geared fixings. The structure expires immediately after the 12th fixing.

For illustration purpose, we assume that all USD sold is bought, and all USD bought is sold, each week at the final spot price. Profit/loss is indicated in the table below.

Profit/Loss is calculated as the below formula:

- a) Equal or above Pivot level: (Sell strike price – Final price) x Notional
- b) Below Pivot level: (Final price – Buy strike price) x Notional

Week	Notional in USD	Strike	Final Price	Profit/ (loss) in JPY	Profit/ (Loss) in USD
1	1,000,000	110	113	3,000,000	26,548.67
2	1,000,000	110	114	4,000,000	35,087.72
3	1,000,000	110	112	2,000,000	17,857.14
4	1,000,000	110	114	4,000,000	35,087.72
5	1,000,000	125	121	4,000,000	33,057.85
6	1,000,000	125	122	3,000,000	24,590.16
7	1,000,000	125	121	4,000,000	33,057.85
8	1,000,000	125	121	4,000,000	33,057.85
9	2,000,000	125	127	(4,000,000)	(31,496.06)
10	2,000,000	125	128	(6,000,000)	(46,875.00)
11	1,000,000	125	124	1,000,000	8,064.52
12	1,000,000	125	124	1,000,000	8,064.52

8. Non-Deliverable Forwards / Options



Product Risk Rating

8.1 Non-Deliverable Forwards (NDFs)

A non-deliverable, cash-settled, forward contract on a thinly traded or non-convertible foreign currency, where the profit or loss on the maturity date is calculated by taking the difference between the agreed upon contracted NDF rate and the fixing rate at the fixing date, for an agreed upon notional amount.

NDFs are commonly quoted for time periods of one month up to one year, and are normally quoted and settled in US dollars. They have become a popular instrument for corporations seeking to capitalize on particular FX market views or hedge exposure to foreign currencies that are not internationally traded.

Notional amount: The "face value" of the NDF, which is agreed between the two counterparties.

Fixing date and time: This is the day and time whereby the comparison between the contracted NDF rate and the fixing rate is made.

Maturity (or valuation or delivery) date: This is the day by which the payment of the difference is due to the party receiving payment.

Contracted NDF rate: This is the rate agreed between the two counterparties on the transaction start date, and is essentially the outright forward rate of the currencies dealt.

Fixing spot rate: The fixing rate on the fixing date is usually provided by the central bank, and is commonly calculated by calling a number of dealers in the market for a quote at a specified time of day, and taking the average. This is usually made available on Reuters/Bloomberg source pages. In Singapore, calculation of certain benchmark rates has changed from a surveyed approach to a traded approach and in some cases the onshore rate will be used. For illustration purpose, please refer to section 8.3 for a fixing rate reference page.

This product is not capital protected. The investor should be aware that in certain circumstances, the redemption amount (if any) payable to the investor at maturity may be less than the principal sum invested in the product. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of all or part of his original investment.

8.1.1 Investor Profile

- If the investor is of the view that **the non-deliverable currency is weakening** against the settlement currency, an NDF to **sell the non-deliverable currency** as a hedge or speculation against this move at contracted NDF rate may be entered
- If the investor is of the view that **the non-deliverable currency is strengthening** against the settlement currency, an NDF to **buy the non-deliverable currency** as a hedge or speculation against this move at contracted NDF rate may be entered
- Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or Accredited Investor defined under the Securities and Futures Act of Singapore is eligible and should possess prior experience in investing in structured products or writing options

8.1.2 Key Risks

- The product will be exposed to unanticipated changes in the operating environment such as legal matters including mergers, acquisitions, lawsuits and regulatory including manmade or natural disaster or incident. Such events may result in substantial costs or credit risk of the counterparty
- The investor may enter the transaction on a margin basis, or utilizing Nomura's credit facilities. As such, the investor would be bound by the terms of Nomura's credit facilities, including the requirements to make top up payments or meet margin calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as

described in General Product Introductory Material - Section 11 "Introduction to Leveraged Portfolios". It is important for the investor to understand such risks before entering into leveraged transactions

- As the product is a privately negotiated instrument with the counterparty, the investor will be exposed to risk due to default or potential default by the reference counterparty
- Transactions that involve non-deliverable currencies (NDC) are subject to **specific risks**. Most importantly, the performance or continuity of the transaction may be affected by disruption events such as the following:
 - Any event that generally makes it impossible to convert the NDC through customary legal channels into the currency which was determined as the settlement currency for the transaction;
 - Any event that generally makes it impossible to deliver the settlement currency as required under the transaction; or
 - If it becomes impossible to obtain firm quotes for conversion of the NDC into the settlement currency of the transaction
- **Worst-Case Scenario:** The extent of loss is magnified if the transaction is entered into on a margin basis. The loss could be multiple times of the initial capital committed. ***This is a very high risk investment product and the potential gain is limited whereas the potential loss is unlimited so the investor should exercise extra caution and consideration before entering into the contracts***

The above is not intended to be a comprehensive list of all risks involved. The investor should read the terms and conditions of the product carefully

8.1.3 Scenario Analysis

To illustrate the features of the product, please refer to the analysis below. The analysis presented below (the "Analysis") is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. The illustration does not take into account transaction fees.

Sample Terms

Underlying Currency Pair	USDINR
Forward Rate	66.25
Trade Date	January 15, 2014
Fixing Date	January 16, 2015
Maturity Date	January 20, 2015
Notional	US\$1,000,000

The investor in the above product has a neutral-to-negative view on the non-deliverable currency (INR) and entered into an NDF contract to Buy USD and Sell INR as per above with a maturity of 1 years' time. At any point prior to the fixing date, the investor may liquidate the trade. The liquidation trade will be booked in the non-deliverable currency amount. As the NDF will be cash settled in USD at maturity, the transaction will involve no actual currency exchange.

8.1.4 Scenario (a): Trade Was Done and Held to Maturity

- Fixing Date = January 16, 2015
- Fixing Rate = For illustration purpose, please refer to the table below
- Maturity Date = January 20, 2015

- Original Trade = Bought US\$1m against INR66.25m at 66.25 (as NDF can only settle in USD, the following trade is booked)
- Fixing Trade = Sell USD against INR66.25m at Fixing Rate

For illustration, we assume that the investor had sold USD against INR at the Fixing Rate with Profit/Loss calculated as the below formula:

(Original Notional (USD) – Notional (USD) at fixing)

Fixing Rate	Notional (USD) at fixing (66,250,000/Fixing Rate)	Profit/(Loss) in USD
66.25	1,000,000	0.00
60.00	1,104,167	(104,167)
70.00	946,429	53,571

8.1.5 Scenario (b): Trade Was Done but Liquidated Prior to Maturity

In the second scenario, it is assumed that the original trade was liquidated prior to maturity.

- Liquidation Trade Date = January 7, 2015
- Liquidation Rate = For illustration purpose, please refer to the table below
- Maturity Date = January 20, 2015
- Original Trade = Bought US\$1m against INR66.25m at 66.25 (as NDF can only settle in USD, the following trade is booked)
- Liquidation Trade = Sell USD against INR66.25m at Liquidation Rate

For illustration purpose, we assume that the investor had sold USD against INR at the Liquidation Rate with Profit/Loss calculated as the below formula:

(Original Notional (USD) – Notional (USD) on January 7, 2015)

Liquidation Rate	Notional (USD) on January 7, 2015 (66,250,000/Liquidation Rate)	Profit/(Loss) in USD
66.25	1,000,000	0.00
60.00	1,104,167	(104,167)
70.00	946,429	53,571

The Profit/Loss (USD) calculated in both sections 8.1.4 and 8.1.5 are the same. They are both to be realised upon maturity date (i.e. Maturity Date = January 20, 2015), despite the early liquidation in 8.1.5.

8.2 Non-Deliverable Options (NDOs)

NDOs are options quoted on non-convertible foreign currency. These are typically cash-settled.

NDOs are financial derivatives that represent a contract sold by one party to another party with the contract offering the buyer the right, but not the obligation, to buy (call) or sell (put) the underlying currency at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date) to assist to manage foreign exchange risk, specifically in situations where physical delivery of the underlying is not allowed at all.

NDOs are identical to FX options with the exception that there will be no delivery of the underlying currency on expiry but is settled for cash profits on maturity date instead. Please refer to the section on options for a more detailed discussion on options

NDOs are commonly quoted for time periods up to one year, and are normally quoted and settled in U.S. dollars.

Costs: NDOs are calculated on a transaction by transaction basis and is agreed with the NDO seller before transacting. An upfront premium is paid by the buyer of the NDO.

Notional amount: The "face value" of the NDO, which is agreed between the two counterparties.

Fixing date: This is the day on which the comparison between the strike rate and the prevailing spot rate is made.

Maturity (or delivery) date: This is the day on which the payment of the difference is due to the party receiving payment.

Contracted Strike rate: This is the rate agreed between the two counterparties on the transaction date.

Fixing spot rate: The fixing spot rate on the fixing date is usually provided by the central bank, and is commonly calculated by calling a number of dealers in the market for a quote at a specified time of day, and taking the average. This is usually made available on Reuters/Bloomberg source pages..

This product is not capital protected and may be entered into on a margin basis or on leverage. The investor should be aware that in certain circumstances, the risk of losses is not limited to the assets pledged or capital invested. Accordingly, a purchase of this product is only appropriate for the investor who can afford to risk the loss of part, all or in excess of the original capital invested.

8.2.1 Investor Profile

- If the investor is of the view that the **non-deliverable currency is weakening** against the settlement currency, an NDO to **sell the non-deliverable currency** as a hedge or speculation against this move may be entered
- If the investor is of the view that the **non-deliverable currency is strengthening** against the settlement currency, an NDO to **buy the non-deliverable currency** as a hedge or speculation against this move may be entered
- The investor is a Professional Investor as defined under the Securities and Futures Ordinance of Hong Kong or an Accredited Investor defined under the Securities and Futures Act of Singapore is eligible and possesses prior experience in investing in structured products or writing options

8.2.2 Key Risks

- The product will be exposed to unanticipated changes in the operating environment such as legal matters including mergers, acquisitions, lawsuits and regulatory including manmade or natural disaster or incident. Such events may result in substantial costs or increased credit risk of the counterparty
- The investor may enter the transaction on a margin basis, or utilizing Nomura's credit facilities. As such, the investor would be bound by the terms of Nomura's credit facilities, including the requirements to make top up payments or meet margin calls which can be substantial in poor market conditions. Such leveraged activities have specific risks as described in General Product Introductory Material - Section 10 "Introduction to Leveraged Portfolios". It is important for the investor to understand such risks before entering into leveraged transactions

- As the product is a privately negotiated instrument with the counterparty, the investor will be exposed to risk due to default or potential default by the reference counterparty
- Transactions that involve non-deliverable currencies (NDC) are subject to **specific risks**. Most importantly, the performance or continuity of the transaction may be affected by disruption events such as the following
 - Any event that generally makes it impossible to convert the NDC through customary legal channels into the currency which was determined as the settlement currency for the transaction;
 - Any event that generally makes it impossible to deliver the settlement currency as required under the transaction; or
 - If it becomes impossible to obtain firm quotes for conversion of the NDC into the settlement currency of the transaction
- **Worst-Case Scenario:** For an option buyer, the maximum loss is the amount of upfront premium paid. For a call option seller, the maximum loss is theoretically unlimited if the underlying currency were to rise in value for an infinite amount. For a put option seller, the maximum loss is the notional value of the option contract if the underlying currency was to reach 0. The extent of loss is magnified as the transaction is entered into on a margin basis. The loss could be multiple times of the initial premium received. ***This is a very high risk investment product and the potential gain is limited whereas the potential loss is unlimited so the investor should exercise extra caution and consideration before entering into the contracts***

The above is not intended to be a comprehensive list of all risks involved. The investor should read the terms and conditions of the product carefully

8.2.3 Scenario Analysis

To illustrate the features of the product, please refer to the analysis below. The analysis presented below (the “Analysis”) is provided for illustrative purposes only. The Analysis does not purport to show all possible scenarios or outcomes. It is not intended to suggest that any outcome is more likely than another, and it does not include all possible outcomes or the range of possible outcomes. The illustration does not take into account transaction fees.

Sample Terms	
Underlying Currency Pair	USDINR
Option	Investor Sold USD Put INR Call
Strike Rate	58.00
Tenor	1 year
Notional	US\$1,000,000
Premium Received	US\$0.4%/US\$4,000
Trade Date	January 15, 2014
Premium Value Date	January 17, 2014
Fixing Date	January 16, 2015
Maturity Date	January 20, 2015

The investor in the above product has a neutral-to-negative view on the non-deliverable currency (INR) and entered into an NDO contract where he would have the obligation to Buy USD and Sell INR at the strike rate with a maturity of 1 years’ time in exchange for the premium received.

At any point prior to the fixing date, the investor may liquidate the trade. The liquidation trade will be booked in the non-deliverable currency amount. As the NDO will be cash settled in USD at maturity, the transaction will involve no actual currency exchange.

8.2.4 Scenario (a): Trade was expired at expiry

- Fixing Date = January 16, 2015
- Maturity Date = January 20, 2015
- Fixing Rate = 60.00 INR per 1 USD
- Result: Option lapses because the fixing rate is greater than the strike, thus no further settlement

8.2.5 Scenario (b): Trade was exercised at expiry

- Fixing Date = January 16, 2015
- Maturity Date = January 20, 2015
- Fixing Rate = 50.00 INR per 1 USD
- Option was exercised because the fixing rate is less than the strike and the settlement is as per below:
 - Exercised Leg: Bought US\$1m against INR58m at 58.00 value January 20, 2015
 - Fixing Leg: Sold US\$1.16m against INR58m at 50.00 value January 20, 2015
- **Result:** Client records a **loss** on maturity date
 - US\$1,000,000 – US\$1,160,000 = **(US\$160,000)**
- As the client is required to pay US\$1.16m on the Fixing Leg while receiving US\$1m on the Exercised Leg, he records a loss on the difference **(US\$160,000)** less the premium received upfront **(US\$4,000)**, resulting in a net loss of **US\$156,000**, at maturity

8.3 NDFs/NDOs: Fixing Details

The below table shows the fixing details as found on Reuters.

Currency	Currency Code	Decimals	Fixing Page	Fixing Times	Business Days applicable to Fixing Date
Indonesian Rupiah	IDR	Nil	JISDOR	10:00 JKT	Jakarta
Taiwanese Dollar	TWD	3dp	TAIFX1	11:00 TPE	Taipei
Indian Rupee	INR	2dp	RBIB	13:30 Mumbai	Mumbai
Korean Won	KRW	2dp	KFTC18	15:30 Seoul	Seoul
Philippines Peso	PHP	2dp	PDSPESO	11:30 Manila	Manila
Chinese Yuan	CNY	4dp	SAEC	09:15 Beijing	Beijing

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