A SIMPLIFIED SUMMARY ON LEVERAGED PRODUCTS AND THE RISKS ASSOCIATED WITH THEM

Trading in financial products always involves a risk. As a general rule, you should therefore only trade in financial products if you understand the products and the risks associated with them. We have endeavoured in the following sections to cover the key leveraged products that Saxo Capital Markets offers to its clients as well as the risks associated with these particular products.

Foreign exchange trading (FOREX)

When trading in foreign exchange, the investor takes a view on the development of the price of one currency relative to another, where one is sold and the other is purchased. By way of example, an investor may sell British pounds (GBP) against the US dollar (USD) if he expects that the USD will increase relative to the GBP.

Foreign exchange is traded as a leveraged product, which means that for a small outlay, you can open and trade larger positions in the market. Foreign exchange may be traded as FX Spot, FX Forward or FX Options. FX Spot is the purchase of one currency against the sale of another for immediate delivery. FX Forward and FX Options transactions are settled on an agreed date in the future at prices which are agreed on the date of the transaction. FX Forward trading involves an obligation to enter into the transaction at the agreed price on the settlement date. A purchaser of FX Options has a right to enter into a transaction in the underlying FX Spot currency pair on the expiry date if the price is more favourable than the market price at this time. On the other hand, a seller of options has an obligation to enter into a transaction with the purchaser (Saxo Capital Markets) on the settlement date if requested by the purchaser. Purchased options therefore involve a limited risk in the form of a premium which is payable when the contract is made, while options that have been sold involve unlimited risk in the form of changes to the price of the underlying FX Spot currency pair.

The currency exchange market is the world's largest financial market with 24 hour trading on working days. It is characterised, among other things, by a relatively low profit margin compared to other products. A high profit is therefore subject to a large trading volume, which is achieved for instance by margin trading as described above. When trading in foreign exchange, a gain realised by one market player will always be offset by another player's loss. Foreign exchange transactions are always made with Saxo Capital Markets as counterparty, and Saxo Capital Markets quotes prices on the basis of prices that can be obtained in the market.

Please note that as foreign exchange is margin traded, it allows you to take a larger position than you would otherwise be able to based on your funds with Saxo Capital Markets. As such, a relatively small negative or positive market movement can have a significant effect on your investment. Foreign exchange trading therefore involves a relatively high level of risk. This makes the potential gain quite high, even if the deposit is relatively small. If your total exposure on margin trades exceeds your deposit, you risk losing more than your deposit. Please also note that for margin trades, Saxo Capital Markets has the right to amend the margin requirements at any time and you will be required to either top up funds or reduce positions (which may be at a loss) in such an instance, to avoid being forced closed out automatically by the trading platform.

CFDs

A CFD - or Contract for Difference - is an agreement between two parties to exchange the difference between the purchase and sale price of a financial instrument or security. The product allows you to take a view on the future increases or decreases in the value of a specific asset, for instance a share. If your view proves to be correct, you will make a profit from the difference in value (less costs). If the view you took turns out to be wrong, you will have to pay the difference in value (plus costs). Being tied to an underlying asset, the value of a CFD depends on that asset. CFDs are always margin traded (see the above paragraph on foreign exchange transactions). CFDs are normally traded with Saxo Capital Markets as the counterparty, but some CFDs may be traded on a regulated market. However, the price always moves with the price of the underlying product, which is in most cases traded on a regulated market. The price and liquidity of CFDs on individual shares mirror the price and liquidity of the share on the market in which the share is admitted for trading, whereas, for instance, index CFDs are over-the counter (OTC) products with a price fixed by Saxo Capital Markets on the basis of the price and liquidity of the underlying shares, the futures market, estimated future dividends, the effects of interest rates, etc.

Please note that as CFDs are margin traded, it allows you to take a larger position than you would otherwise be able to based on your funds with Saxo Capital Markets. As such, a relatively small negative or positive movement in the underlying instrument can have a significant effect on your investment. CFD trading therefore involves a relatively high level of risk. This makes the potential gain quite high, even if the deposit is relatively small. If your total exposure on margin trades exceeds your deposit, you risk losing more than your deposit. Please also note that for margin trades, Saxo Capital Markets has the right to amend the margin requirements at any time and you will be required to either top up funds or reduce positions (which may be at a loss) in such an instance, to avoid being forced closed out automatically by the trading platform.

Futures

Futures trading involves trading on the price of a specific underlying asset going up or down in the future. A future gives the holder a standardised obligation to either buy or sell the underlying asset at a specified price at a certain date in the future. The underlying asset may, for instance, be raw materials, agricultural produce or financial products. Depending on the nature of the future, the asset either has to be settled for the price difference or by actual delivery at the settlement date. Saxo Capital Markets does not support actual physical delivery. Futures are always traded on margin (see "Foreign exchange trading" above). Futures are always traded in a regulated market, either by direct trading in the stock exchanges' trading systems, or by reporting of transactions.

Please note that as futures are margin traded, it allows you to take a larger position than you would otherwise be able to based on your funds with Saxo Capital Markets. As such, a relatively small negative or positive market movement can have a significant effect on your investment. Futures trading therefore involves a relatively high degree of risk. This makes the potential gain quite high, even if the deposit is relatively small. If your total exposure on margin trades exceeds your deposit, you risk losing more than your deposit. Please also note that for margin trades, Saxo Capital Markets has the right to amend the margin requirements at any time and you will be required to either top up funds or reduce positions (which may be at a loss) in such an instance, to avoid being forced closed out automatically by the trading platform.

Contract options

Option trading is highly speculative and is not suitable for all investors due to the risks involved. Buyers and sellers of Contract options should familiarize themselves with the type of option (i.e. put or call, bought or sold) they intend to trade and the associated risks. Contract options are traded with Saxo Capital Markets as counterparty to the trades.

A Contract option gives you the right or the obligation to either buy or sell a specified amount or value of a particular underlying asset at a fixed exercise price, by the option being exercised either before or on its specified expiration date. A Contract option which gives you the right to buy or the obligation to sell is a call option and a Contract option that gives you the right to sell or the obligation to buy is a put option.

A Contract option that is in the money on expiry will always be exercised.

Trading Contract options involves a high level of risk. Contract options that gives you the right to either sell or buy an underlying asset (bought Contract options) might expire worthless and your initial investment (i.e. premium and transaction costs) will be lost. Contract options that gives you the obligation to either sell or buy an underlying asset (sold Contract options) can result in substantial (potentially unlimited) losses. To assure you will be able to cover losses on sold Contract options Saxo Capital Markets will require margin charges. Nonetheless, potential losses can exceed the margin charged and you will be liable for these losses.

If your total exposure on margin trades exceeds your deposit, you risk losing more than your deposit. If the underlying asset of a Contract option is a margin traded product (i.e. a derivative), and if the Contract option is being exercised by the buyer, then the buyer (in case of a call option) or the seller (in case of a put option) of the Contract option will acquire a position in the underlying margin traded product with associated risks as well as liabilities to provide margin.

Please note that by default, you will be enabled for buy Contract options (puts and calls) only. Should you wish to be enabled to write / sell Contract options (puts and calls), please contact your account manager.

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