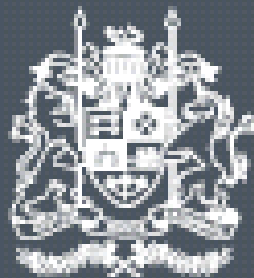

CUSTOM HOUSE
GLOBAL FOREIGN EXCHANGE

Product Disclosure Statement
Foreign Exchange Options

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Important Information about this PDS

This Product Disclosure Statement (PDS) sets out information designed to assist you in deciding whether to acquire any of the products set out in this document.

This PDS is an important document. We recommend that this PDS should be read in full before you make a decision to acquire from us any of the products to which this PDS relates. All information provided in this PDS is general in nature and does not take into account your individual objectives, financial situation or specific needs. We recommend that after reading this PDS you:

- consider whether the features of our products, including the advantages and disadvantages, will meet your individual objectives, financial situation or specific needs; and
- compare the similar products and payment services offered by others you may be considering.

Please also note that any advice relating to the services described in this PDS, should be read together with our Financial Services Guide (FSG). Please contact us if you have not received a copy of our FSG.

References to ***we, the Licensee, our, us, Custom House Global Foreign Exchange or Custom House*** are references to Custom House Currency Exchange (Australia) Pty Ltd, its subsidiaries, affiliates, successors and/or assigns, as well as its officers, directors, employees and agents. References to ***you, your, the customer*** are references to the reader, the reader's business, and any person authorised by you to transact on your behalf with Custom House. Also, there is a glossary in clause 3.7 of this document which explains various key terms, including "foreign exchange rate". Our role is to issue our own foreign exchange products.
Our representatives act on our behalf in promoting and assisting you to use our products.

Foreign exchange option products are complex, and need to be fully understood by you before you purchase or use them. Incorrect use of foreign exchange option products can have a significant detrimental financial impact on you. In this PDS, we assume that you have a basic knowledge of the foreign exchange markets.

In this PDS, we use examples where the Australian dollar (AUD) is measured against the US dollar (USD), with the AUD as the base currency. It looks like this: AUD/USD 0.7200 or 0.72. This means one Australian dollar would buy 72 US cents. This is called a "currency pair".

Structure of this PDS

There are three sections in this document:

- Section one explains our "Direct" product;
- Section two explains our "Structured" products; and
- Section three describes factors which are common to all of our foreign exchange option products, including the significant risks, costs and significant taxation implications associated with those products.

We can provide you with more free copies of this PDS either electronically or in hard format upon your request.

Your Contract With Us

When you acquire a foreign exchange option product from us you are entering into a contract with Custom House in relation to the product. That contract is made up of:

- the application form;
- this PDS; and
- terms and conditions set out in the Master Agreement; and
- terms and conditions set out in the Options Trading Terms and Conditions.

It is important that you understand the terms of the contract. If you are unsure about any aspect of your contract with us, we suggest you seek appropriate professional advice.

Section 1.0 – Our Direct Foreign Exchange Option Products ("Direct Options")

Custom House offers direct put options and direct call options, which are collectively referred to as Direct Options (also known as "vanilla" options). These are "European style options", as they can only be exercised on the expiry date (and not before).

The buyer of the option must exercise the option before a specified time of day on an agreed expiry date. If the buyer elects to do this, the buyer and Custom House must then exchange the currencies on the nominated settlement date.

These Direct Options usually involve the payment of a premium, being the cost of the option, from the buyer to Custom House. The premium is normally payable two business days after the buyer purchases the option.

Refer to the glossary in clause 3.7 of this document, which explains many of the terms used in the examples that follow.

1.1 About the Direct Options

1.1.1 Advantages and benefits of Direct Options

Advantages of the Direct Option include:

- they can be used to hedge foreign exchange risk for a future date;
- you might be able to exchange currencies at a better exchange rate than the spot rate applicable on the expiry date. In this way, they can be used as part of your foreign exchange risk management exposure strategy;
- you can protect your foreign currency exposure against adverse currency movements;
- you can define a "worst case" exchange rate;
- you can protect against uncertain or contingent foreign exchange exposures;
- you can allow flexibility in tailoring the expiry date, strike price and amount you wish to transact;
- the up-front financial cost for the buyer is limited to the cost of the premium.

See the examples in this section of the PDS for clear illustrations of the advantages and disadvantages of Direct Options.

1.1.2 Disadvantages and risks of Direct Options

Disadvantages of the Direct Options include:

- the premium is not refundable in any circumstances;
- depending on prevailing market rates, the total cost of the Direct Option, including the premium plus the ultimate foreign exchange cost, might be higher than if you have not purchased a Direct Option and
- at the expiry date or upon cancellation of the Direct Option, movements in market exchange rates plus the passage of time may result in the option having a reduced value or even no value.

1.1.3 Cost of Direct Options

If you decide to buy a Direct Option from us, you (the buyer) will be required to pay us a non-refundable premium.

Custom House (the seller) of the Direct Option determines the premium by taking into consideration various factors such as:

- the expiry date and the settlement;
- the strike price;
- prevailing interest rates in the currencies relevant to the option contract;
- market volatility;
- the face value amount;
- the current spot and forward exchange rates between the relevant currencies.

A more detailed explanation, including dollar examples of how we and any associates of ours are remunerated, is included in our FSG, available at www.customhouse.com.au (if you have not already received it) or by contacting us by phone, email or fax using the details on the last page of this PDS.

Premiums are usually payable by you to us within two days after entering into the Direct Option contract.

1.1.3.1 Transaction fee

You may be required to pay some costs on the settlement or delivery date depending on the method by which this is effected, for example a wire funds transfer or international draft. These transaction fees are in addition to the abovementioned costs.

In most circumstances you will be charged a transaction fee for using our international funds transfer service. The transaction fee we charge for each international funds transfer ranges from AUD0 to AUD25. This fee varies from transaction to transaction. The transaction fee we charge you will depend upon:

- the amount and type of foreign currency to be transferred;
- the number and frequency of international funds transfers you conduct through Custom House; and
- the country to which the funds are destined.

No other fees are charged by Custom House for selling currency options.

1.1.4 Cancellation (early termination) of a Direct Option

A Direct Option may be cancelled by you at any time. This can take place at any time before the expiry time on the expiry date.

Custom House will provide you with a quote for the cost of the cancellation. This is a complex matter requiring the buy-back of the Direct Option by Custom House. The cancellation pricing of a Direct Option will be determined by the same factors (including the contract exchange rate, currencies, term, amount and expiry date) used when pricing the original contract. These will be adjusted taking into consideration the prevailing market exchange rates, the remaining term of the contract, the Forward rate, interest rates in the relevant currencies, and volatility associated with the currencies. These factors combine to determine the cancellation price which will be a cost or benefit to you. If you accept the cancellation price then the cost or benefit will be paid and the contract will be cancelled.

You may lose money as a result of this action, but you will be provided with a quote for cancellation, based on the factors described above. If you accept the quote, the Structured Option will be cancelled.

1.1.5 Direct Option terms and conditions

Direct Options cannot be pre-delivered or extended - the expiry date is fixed. If necessary, however, a Direct Option may be restructured. The method for doing this is by cancelling the existing Direct Option and entering into an agreement for a new Direct Option with Custom House. The costs involved with these steps are discussed in clauses 1.1.3 and 1.1.4 of this PDS.

Individual Direct Options will usually be restricted to a minimum amount (face value) of USD100,000 or local equivalent.

1.2 Direct Put Options

You, the buyer of a Direct Put Option, have the right but not the obligation to sell (put) a specified amount of one currency for another currency at a nominated strike rate. You must pay us a non-refundable premium as outlined at 1.1.2 and 1.1.3 above.

If you, the buyer, want to exercise the option, you must do so before the expiry time on the expiry date.

1.2.1 Example of a Direct Put Option

An importer wishes to hedge USD against AUD for a six month future settlement date and wishes to protect themselves against any unfavourable exchange rate movements whilst benefiting from a favourable foreign exchange rate movement.

The importer decides to buy an AUD Direct Put Option from Custom House. This will enable the importer to sell AUD for USD for a set rate on the expiry date, if the importer wants to.

The importer provides details of the relevant expiry date, strike rate, and the amount of USD.

Assume the following conditions:

- the current spot rate is 0.6900 and six month forward rate is 0.6840;
- the strike rate is 0.6800;
- the expiry date is six months after the trade date;
- the premium calculated by Custom House to be paid is equivalent to 1.1% of AUD face value amount. For example, if the face value is AUD 100,000, the premium will be AUD1100.

If the spot rate on the expiry date is above the strike rate of 0.6800 the importer will allow the option to lapse and as necessary buy the required USD at the prevailing spot rate.

If the spot rate on the expiry date is below the strike rate of 0.6800, the importer would exercise the option and exchange AUD for USD at the agreed strike rate of 0.6800 on settlement date.

Note: The examples are indicative only and the rates and other details used are not factual.

1.3 Direct Call Options

You, the buyer of a Direct Call Option, have the right but not the obligation to buy (call) a specified amount of one currency for another currency at a nominated strike rate. You must pay us a non-refundable premium as outlined at 1.1.2 and 1.1.3 above.

If you, the buyer, want to exercise the option, you must do so before the expiry time on the expiry date.

1.3.1 Example of a Direct Call Option

An exporter wishes to hedge USD against AUD for a six month future settlement date and wishes to protect themselves against any unfavourable exchange rate movements whilst benefiting from a favourable foreign exchange rate movement.

The exporter decides to buy an AUD Direct Call Option as part of their foreign exchange risk management consideration.

The exporter provides details of the relevant expiry date, strike rate, the amount of USD.

Assume the following conditions:

- the current spot rate is 0.6900 and six month forward rate is 0.6840;
- strike rate is 0.7000;
- expiry date is six months after trade date;
- premium calculated by Custom House to be paid is equivalent to 1.05% of AUD face value amount. For example, if the face value is AUD 100,000, the premium will be AUD 1,050.

If the spot rate on the expiry date is below the strike rate of 0.7000 the exporter will allow the option to lapse and as necessary sell the USD at the prevailing spot rate.

If the spot rate on the expiry date is above the strike rate of 0.7000, the exporter would exercise the option and exchange USD for AUD at the agreed strike rate of 0.7000 on settlement date.

Note: The examples are indicative only and the rates and other details used are not factual.

Section 2.0 – Our Structured Foreign Exchange Option Products ("Structured Options")

Structured Options is a term that we use to describe several foreign exchange products that are available as a foreign exchange risk management alternative to Direct Options.

Two parties, the "buyer" of the Structured Option and the "seller" of the Structured Option, may enter into a Structured Option transaction to exchange a specified amount of one currency for another currency at a foreign exchange rate that is determined in accordance with the parameters set out in the transaction at an agreed time and on an agreed date (the "expiry time" on the "expiry date").

The parameters for determining the relevant exchange rate (and in some cases the final face value) will depend on the particular Structured Option you acquire. This PDS describes how they are determined relative to each product.

Structured Options are only suitable for clients who have a good understanding of the risks involved in utilising such products as well as any benefits that may be derived. What follows is *not an exhaustive overview* of the advantages and disadvantages (risks) of Structured Options.

Refer to the glossary in clause 3.7 of this document, which explains many of the terms used in the examples that follow.

2.1 About the Structured Options

2.1.1 Advantages and benefits of Structured Options

Structured Options are used to assist hedging foreign exchange risk for a future date. They are used:

- to protect foreign currency exposures against adverse currency movements;
- to establish a worst case rate;
- to allow participation in favourable exchange rate movements (depending on the Structured Option used);
- to provide flexibility to clients in meeting their particular needs;
- as part of a foreign exchange risk management exposure strategy;

Also, the financial cost for a buyer of a Structured Option is limited to the cost of a premium if such was paid.

See the examples in this section of the PDS for clear illustrations of the advantages and disadvantages of Structured Options.

2.1.2 Disadvantages and risks of Structured Options

- By entering into a Structured Option Contract you (the buyer) may be prevented from enjoying some of the benefit of favourable movements in exchange rates.
- If it is necessary to cancel the Structured Option Contract due to the underlying client's commercial contract being cancelled, there may be a profit or loss through the mark to market value of the Structured Option Contract. We will provide you with a quote for cancelling the option contract before the option contract is entered into which will incorporate the same variables used when pricing the original option contract but adjusted for prevailing foreign exchange market conditions over the remaining term of your option contract.
- If your option moves out of the money beyond 10% of the face amount we may seek from you a margin deposit as an offset to bring your option's risk exposure back to zero. See 2.1.6 below for more detail.

2.1.3 Cost of a Structured Option

Structured Options are normally "zero-cost" premium structures; however clients may elect to pay a premium. This will have an impact on the parameters that we would consider and be prepared to agree to in relation to a Structured Option contract.

Whilst these options are usually structured so that no premium is payable by you, Custom House still derive a financial benefit because the rates are slightly different to the base market rates prevailing at the time, through incorporation of a margin.

The cost structure of a Structured Option (i.e. the size of the margin) will be determined after taking account of several factors:

- the expiry date and delivery (settlement) date;
- the best case and/or worst case rates;
- the current spot rate and the current forward exchange rates;
- the strike rate;
- a trigger rate;
- interest rates;
- market volatility.

A more detailed explanation, including dollar examples of how we and any associates of ours are remunerated, is included in our FSG, available at www.customhouse.com.au (if you have not already received it) or by contacting us by phone, email or fax using the details on the last page of this PDS.

Because Structured Option products are flexible, you may be required to pay, depending on the product:
1. a premium, within two days after entering into the contract (if you elect to pay the premium);
2. no premium, if it is built into the product itself;
3. any other amount (including the funds to be exchanged), on or before the settlement date, as agreed between you and Custom House.

Note – for more information see the definitions of these phrases at 3.7 below.

2.1.3.1 Transaction fee

You may also be required to pay some costs on the maturity or delivery date depending on the method by which this is effected, for example a Wire Funds Transfer or International Draft. These transactions are in addition to the abovementioned costs.

In most circumstances you will be charged a transaction fee for using our international funds transfer service. The transaction fee we charge for each international funds transfer ranges from AUD0 to AUD25. This fee is described at 1.1.3.1 above.

2.1.4 Can a Structured Option be cancelled?

Upon your request a Structured Option can be cancelled at any time before its expiry time on the expiry date. Custom House will provide you with a quote for the cost of the cancellation.

This is a complex matter requiring the buy-back of the Structured Option by Custom House. The cancellation pricing of an Option will be determined by the same factors (including the contract exchange rate, currencies, term, amount and expiry date) used when pricing the original contract. These will be adjusted taking into consideration the prevailing market exchange rates, the remaining term of the contract, the Forward rate, interest rates in the relevant currencies, and volatility associated with the currencies. These factors combine to determine the cancellation price which will be a cost or benefit to you. If you accept the cancellation price then the cost or benefit will be paid and the contract will be terminated.

You may lose money as a result of this action, but you will be provided with a quote for cancellation, based on the factors described above. If you accept the quote, the Structured Option will be cancelled.

2.1.5 Structured Option terms and conditions

Normally, Structured Options cannot be pre-delivered or extended - the expiry date is fixed. If necessary, however, a Structured Option may be restructured. The method for doing this is by cancelling the existing Structured Option and entering into an agreement for a new Structured Option with Custom House. The costs involved with these steps are discussed in clauses 2.1.3 and 2.1.4 of this PDS.

Individual Structured Options will usually be restricted to a minimum amount (face value) of USD100,000 or local equivalent.

2.1.6 Margin Deposit

As part of its risk management processes Custom House carries out a mark to market revaluation of all outstanding options and other contracts it may have with you (e.g. forward contracts) on a daily basis.

If during this process your Option and/or Forward Contract(s) move Out of the Money (OTM) beyond an agreed amount or percentage of the face amount we may seek from you a Margin Deposit as an offset to bring your Option and/or Forward Contract or Contracts' risk exposure back to an agreed level.

It may be necessary for further Margin Deposit payments to be made by you should the revaluation continue to move further Out of the Money during the term of the Option and/or Forward Contract.

The Margin Deposit is repaid to you or is set off against any amount owing to Custom House by you under any agreement, when the Option is exercised, cancelled or lapses.

Refer to the Options Trading Terms and Conditions Agreement for more detail.

2.2 Range Forward Option

A Range Forward Option (also known as a collar or zero cost collar and formally known as a "Border Option" by Custom House) is a Structured Option contract that protects you against the risk that the spot rate is less favourable to you than a nominated worst case rate. However it also allows you to benefit from a favourable move in the spot rate up to the best case rate.

The Range Forward Option is usually a zero cost premium structure and is popular if you don't wish to pay a premium.

Characteristics of the Range Forward Option include:

- if the spot rate at the expiry time on the expiry date is more favourable to you than the best case rate, the contract settles at the best case rate;
- if the spot rate at the expiry time on the expiry date is less favourable to you than the worst case rate, the contract settles at the worst case rate;
- if the spot rate at the expiry time on the expiry date is between the worst case rate and the best case rate, you can settle at the prevailing spot rate.

Cancellation (early termination) may be requested but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.2.1 Example of a Range Forward Option used by an importer

An importer benefits from any favourable move in the spot rate up to the best case rate and is protected against the spot rate dropping below the worst case rate.

Assume an importer wants to buy USD against AUD in 6 months. The importer considers that the spot USD/AUD exchange rate will mildly appreciate over this period.

Assume the following:

- spot rate on trade date is 0.7075
- the 6 month forward rate is 0.6960
- the worst case rate being set at 0.6860
- and the best case rate being set at 0.7125.

Accordingly the importer enters into a Border Option Contract with worst case rate of 0.6860 and a best case rate of 0.7125.

If the spot rate is below the worst case rate at the expiry time on expiry date the contract will settle at the worst case rate. If the spot rate is above the best case rate at expiry time on the expiry date the contract will settle at the best case rate.

If the spot rate is between the worst case rate and the best case rate at the expiry time on the expiry date the importer could transact at the prevailing spot rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.2.2 Example of a Range Forward Option used by an exporter

An exporter benefits from any favourable move in the spot rate down to the best case rate and is protected against the spot rate rising over the worst case rate.

Assume an exporter wants to sell USD against AUD in 6 months. The exporter considers that the spot USD/AUD exchange rate will mildly depreciate over this period.

Assume the following:

- the spot rate on trade date is 0.7080
- the 6 month forward rate is 0.6970
- The worst case rate being set at 0.7100
- and the best case rate being set at 0.6900.

Accordingly the exporter enters into a Range Forward Option Contract with worst case rate of 0.7100 and a best case rate of 0.6900.

If the spot rate is above the worst case rate at the expiry time on expiry date the contract will settle at the worst case rate. If the spot rate is below the best case rate at expiry time on the expiry date the contract will settle at the best case rate.

If the spot rate is between the worst case rate and the best case rate at the expiry time on the expiry date the exporter client could transact at the prevailing spot rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.3 Convertible Option

A Convertible Option (also known as a "barrier knock-out option contract") is a Structured Option contract which protects you against the risk that the spot rate on the expiry date is unfavourable to you when compared against a nominated Worst Case exchange rate. However it allows you the opportunity to benefit if a nominated trigger rate is reached before the expiry time on the expiry date and the spot exchange rate is more favourable than the Worst Case exchange rate at the expiry time on the expiry date.

You will have a known Worst Case exchange rate at all times. If the nominated trigger rate is not reached the contract will settle at the worst case rate.

Cancellation (early termination) may be requested but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.3.1 Example of a Convertible Option used by an importer

If the trigger rate is reached at any time, an importer will benefit if the exchange rate is above the Worst Case exchange rate at the expiry time on the expiry date. Otherwise the contract will settle at the Worst Case rate.

Assume an importer wishes to buy USD against AUD in 6 months. The importer considers that the spot exchange rate will fall initially but will have moved higher by the expiry date.

Assume the following:

- on trade date that spot exchange rate was 0.7075
- 6 month forward exchange rate was 0.6960
- worst case exchange rate set at 0.6900
- and trigger exchange rate set at 0.6800.

The importer enters into a Convertible Option with Worst Case exchange rate of 0.6900 and a trigger exchange rate of 0.6800.

If the spot exchange rate trades at the trigger exchange rate at any time before the expiry time on the expiry date, the importer will benefit if the spot exchange rate is above the Worst Case rate at the expiry time on the expiry date. The

contract would lapse and the importer can settle at a higher spot rate. If the spot exchange rate never trades at the trigger exchange rate, the importer is obliged to deal at the Worst Case exchange rate.

If the spot exchange rate is below the Worst Case exchange rate at expiry, the importer is protected at the Worst Case exchange rate regardless as to whether or not the spot rate has traded at the trigger rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.3.2 Example of a Convertible Option used by an exporter

If the trigger rate is reached at any time, an exporter will benefit if the spot exchange rate is below the Worst Case exchange rate. Otherwise the contract will settle at the Worst Case rate.

Assume an exporter wishes to sell USD against AUD in 6 months. The exporter considers that the spot exchange rate will rise initially but will have moved lower by the expiry date.

Assume the following:

- on trade date that spot exchange rate was 0.7080
- 6 month forward exchange rate was 0.6970
- worst case exchange rate set at 0.7100
- and trigger exchange rate set at 0.7200.

The exporter enters into a Convertible Option with Worst Case exchange rate of 0.7100 and a trigger exchange rate of 0.7200.

If the spot rate trades at the trigger rate at any time before the expiry time on the expiry date, the exporter will benefit if the spot exchange rate is below the Worst Case exchange rate at the expiry time on the expiry date. The contract would lapse and the exporter can settle at a lower spot exchange rate. If the spot exchange rate never trades at the trigger exchange rate, the exporter is obliged to deal at the Worst Case exchange rate.

If the spot exchange rate is above the Worst Case exchange rate at expiry, the exporter is protected at the Worst Case exchange rate regardless as to whether or not the spot exchange rate has traded at the trigger exchange rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.4 Forward Extra Option

A Forward Extra Option (also known as a barrier knock-in option contract and formally known as a "Participating Option" by Custom House) is a Structured Option contract which protects you against the risk that the spot rate is unfavourable to you when compared against a worst case rate at expiry date. It also allows you some opportunity to benefit from a favourable move in the exchange rate provided that the spot rate never trades at another nominated exchange rate (the trigger rate) at any time before the expiry date.

If the spot exchange rate does trade at the trigger exchange rate, the exchange rate at which you will be required to settle the contract will be the nominated Worst Case exchange rate regardless of the prevailing spot exchange rate at the expiry date. In this situation you forgo any participation in favourable exchange rate movements and must trade at the Worst Case exchange rate. Custom House will monitor the relevant foreign exchange markets to determine whether or not the trigger rate has been reached and will subsequently advise you if it does as soon as practicable.

Therefore, by using a Forward Extra Option you will have a known worst case scenario. If the spot exchange rate moves favourably, but does not trade at the trigger exchange rate, the contract will lapse and you can choose to transact at the more favourable prevailing spot exchange rate on the expiry date.

Cancellation (early termination) may be requested by you, but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.4.1 Example of a Forward Extra Option used by an importer

An importer will benefit from any favourable exchange rate move provided the trigger rate never trades. If the trigger rate trades, then the exchange rate is fixed at the worst case rate.

An importer needs to buy USD in 6 months and expects the USD/AUD rate to exchange rates to appreciate mildly over that period.

Assume the following:

- Spot exchange rate on trade date is 0.7075
- 6 month forward exchange rate is 0.6960
- worst case exchange rate is set at 0.6900
- trigger exchange rate is set at 0.7400

The importer enters into a Forward Extra Option with a Worst Case exchange rate of 0.6900 and a trigger exchange rate of 0.7400.

The importer will benefit from any appreciation in the exchange rate provided the spot rate never trades at the trigger exchange rate.

If the spot exchange rate trades at or beyond the trigger rate, the exchange rate at which the Forward Extra Option settles will be the Worst Case exchange rate of 0.6900.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.4.2 Example of a Forward Extra Option used by an exporter

An exporter will benefit from any favourable exchange rate move provided the trigger exchange rate never trades. If the trigger exchange rate trades, then the exchange rate is fixed at the Worst Case rate.

An exporter requires to sell USD in 6 months and expects the USD/AUD rate to exchange rates to depreciate mildly over that period.

Assume the following:

- Spot exchange rate on trade date is 0.7080
- 6 month forward exchange rate is 0.6970
- worst case exchange rate is set at 0.7180
- trigger exchange rate is set at 0.6400

The exporter enters into a Forward Extra Option with a Worst Case exchange rate of 0.7180 and a trigger exchange rate of 0.6400.

The exporter will benefit from any depreciation in the exchange rate provided the spot exchange rate never trades at the trigger exchange rate.

If the spot exchange rate trades at or beyond the trigger exchange rate, the exchange rate at which the Forward Extra Option settles will be the Worst Case rate of 0.7180.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.5 Removal Option

A Removal Option (also known as a "barrier knock-out option contract") is a Structured Option contract which allows you the opportunity to benefit up to a possible Best Case exchange rate. However, if a nominated trigger exchange rate is reached at any time before the expiry time on the expiry date, this Removal Option is knocked out and ceases to exist leaving you without cover.

If the nominated trigger exchange rate is not reached during the life of the Removal Option, the contract will settle at the Best Case exchange rate. If the spot exchange rate, at any time during the life of the Removal Option, trades more

favourably than the nominated Best Case exchange rate trade, the Option will be settled at the Best Case exchange rate and you will not be able to benefit from that movement.

Cancellation (early termination) may be requested but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.5.1 Example of a Removal Option used by an importer

If the trigger exchange rate is reached at any time up to the expiry time on the expiry date, the Removal Option will cease to exist and the importer will have to consider alternative means of hedging and/or settling underlying commercial commitments.

If the spot rate never trades at the trigger rate but below the Best Case exchange rate at any time before the expiry time on the expiry date, the importer will benefit in settling the option contract at the Best Case exchange rate.

However if the spot rate trades more favourably than the Best Case exchange rate at any time up to the expiry time, on the expiry date the Removal Option contract will still settle at the Best Case exchange rate and the importer will not be able to avail of any more favourable exchange rates.

Assume an importer has to buy USD against AUD in 6 months. The importer considers that the spot exchange rate will move lower but doesn't want to take out a forward exchange contract at the current levels.

Assume the following:

- on trade date that spot exchange rate was 0.7075
- 6 month forward exchange rate was 0.6960
- the agreed Best Case exchange rate is 0.7300
- with a knock out trigger exchange rate of 0.6900

The importer enters into a Removal Option with a Best Case exchange rate of 0.7300 and a trigger exchange rate of 0.6900. If the spot exchange rate trades at the trigger rate at any time before the expiry time on the expiry date, the importer will be left with no foreign exchange cover and will be have to deal at the spot exchange rate when their payment is due or enter into a forward contract or another option in order to manage any necessary hedging cover.

If the spot rate moves above the Best Case exchange rate of 0.7300 the importer is still obligated to settle at 0.7300 on maturity of the Removal Option contract.

At expiry time on the expiry date, if the spot rate has not traded as low as the trigger rate during the life of the Removal Option contract the importer will settle at the Best Case exchange rate of 0.7300.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.5.2 Example of a Removal Option used by an exporter

If the trigger rate is reached at any time up to the expiry time on the expiry date, the Removal Option will cease to exist and the exporter will have to consider alternative means of hedging and/or settling their underlying commercial commitments.

If the spot exchange rate never trades at the trigger exchange rate but above the Best Case exchange rate at any time before the expiry time on the expiry date, the exporter will benefit in settling the Removal Option contract at the Best Case exchange rate.

However if the spot exchange rate trades more favourably than the Best Case exchange rate at any time up to the expiry time on the expiry date the Removal Option contract will still settle at the Best Case exchange rate and the exporter will not be able to avail of any more favourable exchange rates.

Assume an exporter has to sell USD against AUD in 6 months. The exporter considers that the spot exchange rate will move higher but doesn't want to take out a forward exchange contract at the current levels.

Assume the following:

- on trade date that spot exchange rate was 0.7075

- 6 month forward exchange rate was 0.6960
- the agreed Best Case exchange rate is 0.6850
- a knock out trigger exchange rate of 0.7200

The exporter enters into a Removal Option with a Best Case exchange rate of 0.6850 and a trigger exchange rate of 0.7200. If the spot exchange rate trades at the trigger exchange rate at any time before the expiry time on the expiry date, the exporter will be left with no foreign exchange cover and will be have to deal at the spot exchange rate when their payment is due or enter into a forward contract or another option in order to manage any necessary hedging cover.

If the spot exchange rate moves below the Best Case exchange rate of 0.6850 the exporter is still obligated to settle at 0.6850 on maturity of the Removal Option contract.

At expiry time on the expiry date, if the spot exchange rate has not traded as high as the trigger exchange rate and down to the Best Case exchange rate during the life of the Removal Option contract the exporter will settle at the Best Case exchange rate of 0.6850.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.6 Range Reset Option

A Range Reset Option (also known as a barrier double knock-out / knock-in option contract) is a Structured Option contract which protects you with a known Worst Case exchange rate but allows you the opportunity to benefit up to an agreed Best Case exchange rate.

However, if nominated trigger rates, positioned above and below the Best Case exchange rate, are reached at any time before the expiry time on the expiry date, you will be required to settle the contract at the nominated Worst Case exchange rate.

If the nominated trigger rates are not reached during the life of the Range Reset Option, the contract will settle at the Best Case exchange rate.

Cancellation (early termination) may be requested by you, but this may result in a cost to you.

2.6.1 Example of a Range Reset Option used by an importer

If the spot rate never trades at either trigger exchange rate during the term of the Range Reset Option contract, and at expiry date it is trading below the Best Case exchange rate, the importer must settle at the Best Case exchange rate.

If the spot exchange rate never trades at either trigger exchange rate during the term of the contract, and at expiry date is trading above the Best Case rate, the importer must settle at the Best Case rate.

However, if the trigger rate on either side of the Best Case rate is touched during the term of the contract, the importer will settle at a nominated Worst Case rate.

Assume an importer has to buy USD against AUD in 6 months. The importer considers that the spot foreign exchange market may move lower, but does not want to enter into a forward exchange contract at current levels.

Assume the following:

- on the trade date, the AUD/USD spot exchange rate is 0.7075
- the 6 month forward exchange rate is 0.6960
- The agreed Best Case rate is 0.7100 with knock-out / knock-in trigger exchange rates at 0.7500 and 0.6700
- The nominated Worst Case rate is 0.6950.

The importer enters into a Range Reset Option with a Best Case exchange rate of 0.7100, trigger exchange rates at 0.7500 and 0.6700 and a nominated Worst Case exchange rate at 0.6950.

If the spot exchange rate has not traded at the trigger exchange rates during the term of the contract, and is trading below the Best Case exchange rate on the expiry date, the importer must settle the option at the Best Case exchange rate of 0.7100

If the spot exchange rate is trading above the Best Case exchange rate on the expiry date, and has not traded at the trigger exchange rates during the term of the contract, the importer must settle the option at the Best Case exchange rate of 0.7100.

If either trigger exchange rate is reached at any time during the term of the contract up to the expiry time on the expiry date, the exchange rate at which the Range Reset option must settle at is the Worst Case rate, being 0.6950.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.6.2 Example of a Range Reset Option used by an exporter

If the spot exchange rate never trades at either trigger exchange rates during the term of the contract, and is trading above the Best Case rate, the exporter will settle at the Best Case exchange rate.

If the spot exchange rate never trades at either trigger exchange rate during the term of the contract, and is trading below the Best Case exchange rate, the exporter must settle at the Best Case exchange rate.

However, if a trigger exchange rate on either side of the Best Case exchange rate is touched during the term of the contract, the exporter must settle at a Worst Case exchange rate.

Assume an exporter has to buy AUD against USD in 6 months. The exporter considers that the spot exchange rate may move higher, but does not want to enter into a forward exchange contract at current levels.

Assume the following:

- on the trade date, the AUD/USD spot exchange rate is 0.7075
- the 6 month forward exchange rate is 0.6960
- the agreed Best Case exchange rate is 0.6900 with knock-out / knock-in trigger exchange rates at 0.7500 and 0.6700
- and a nominated Worst Case rate of 0.7000.

The exporter enters into a Range Reset Option with a Best Case exchange rate of 0.6900, trigger exchange rates at 0.7500 and 0.6700 and a Worst Case exchange rate at 0.7000.

If the spot exchange rate has not traded at the trigger exchange rates during the term of the contract, and is trading above the Best Case exchange rate on the expiry date, the exporter must settle at the Best Case exchange rate of 0.6900.

If the spot exchange rate is trading below the Best Case exchange rate on the expiry date, and has not traded at the trigger exchange rates during the term of the contract, the exporter must settle the option at the Best Case exchange rate of 0.6900.

If either trigger exchange rate is reached during the term of the contract up to the expiry time on the expiry date, the exchange rate at which the Range Reset Option must settle is the Worst Case exchange rate, being 0.7000.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.7 Bonus Forward Option

A Bonus Forward Option (also known as a "barrier knock-in option contract" and formally known as an "Advantage Option" by Custom House) is a Structured Option contract which protects you against the risk that the spot rate is unfavourable to you when compared against a Worst Case exchange rate at expiry date. It also allows you some opportunity to benefit from a favourable move in the exchange rate provided that the prevailing spot exchange rate never trades at another nominated exchange rate (the trigger exchange rate) at any time during the term of the contract up to the expiry time on expiry date.

If the spot exchange rate is trading at or below your Worst Case exchange rate at expiry date, the exchange rate you will be required to settle will be the Worst Case exchange rate.

If the spot exchange rate trades at the trigger exchange rate at any time during the term of the contract, the exchange rate at which you will be required to settle the contract will be a Reset Worst Case exchange rate, which is more favourable than your original nominated Worst Case exchange rate. However in this situation you forego any participation in subsequent favourable exchange rate movements and must trade at the nominated Reset Worst Case exchange rate on the expiry date.

By using a Bonus Forward Option you will have:

- a known Worst Case exchange rate and,
- a Reset Worst Case exchange rate that only applies if the nominated trigger exchange rate has been reached during the term of the contract.

If the spot exchange rate moves favourably, but does not trade at the trigger exchange rate, the Bonus Forward Option contract will lapse and you can choose to transact at the prevailing spot exchange rate on the expiry date.

Cancellation (early termination) may be requested by you, but this may result in a cost to you.

2.7.1 Example of a Bonus Forward Option used by an importer

An importer will benefit from any favourable foreign exchange rate move provided the trigger exchange rate is never reached. If the trigger exchange rate is reached, then the exchange rate is fixed at your Reset Worst Case exchange rate which you must settle at on expiry date.

An importer needs to buy USD in 6 months and expects the AUD/USD exchange rate to appreciate mildly over that period.

Assume the following:

- Spot rate on trade date is 0.7075
- 6 month forward rate is 0.6960
- worst case exchange rate is set at 0.6800
- trigger exchange rate is set at 0.7400
- Reset Worst Case exchange rate is set at 0.7000

The importer enters into a Bonus Forward Option with a Worst Case exchange rate of 0.6800, a trigger exchange rate of 0.7400 and a Reset Worst Case exchange rate of 0.7000.

The importer will benefit from any appreciation in the foreign exchange rate provided the spot exchange rate never trades at the trigger exchange rate during the term of the contract. In this situation the importer would allow the Option to lapse and settle at the prevailing spot exchange rate on the expiry date.

If the spot exchange rate trades at or beyond the trigger exchange rate at any time during the term of the contract, the exchange rate at which the Bonus Forward Option settles will be the Reset Worst Case exchange rate at 0.7000.

If the spot exchange rate trades at or below the Worst Case exchange rate at expiration, the exchange rate at which the Bonus Forward Option will be settled is the Worst Case exchange rate at 0.6800.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.7.2 Example of a Bonus Forward Option used by an exporter

An exporter will benefit from any favourable foreign exchange rate move provided the trigger rate is never reached. If the trigger rate is reached, then the foreign exchange rate is fixed at Reset Worst Case exchange rate which you must settle at on expiry date.

An exporter needs to buy AUD in 6 months and expects the AUD/USD exchange rate to depreciate mildly over that period.

Assume the following:

- Spot exchange rate on trade date is 0.7075
- 6 month forward exchange rate is 0.6960
- worst case exchange rate is set at 0.7400
- trigger exchange rate is set at 0.6800
- reset worst case exchange rate is set at 0.7000

The exporter enters into a Bonus Forward Option with a Worst Case exchange rate of 0.7400, a trigger exchange rate of 0.6800 and a Reset Worst Case rate of 0.7000.

The exporter will benefit from any depreciation in the foreign exchange rate provided the spot rate never trades at the trigger rate at any time during the term of the contract.

If the spot exchange rate trades at or beyond the trigger exchange rate at any time during the term of the contract, the exchange rate at which the Bonus Forward Option settles will be the Reset Worst Case exchange rate at 0.7000.

If the spot exchange rate trades at or above the Worse Case exchange rate at expiration, the exchange rate at which the Bonus Forward Option will be settled is the Worst Case exchange rate at 0.7400.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.8 Deferred Premium Option

A Deferred Premium Option is an option contract that provides you with a known Worst Case exchange rate, protecting you against unfavourable exchange rate movements while allowing you the ability to participate in any favourable exchange rate movements, after adjustment for an agreed Premium.

On the expiry date of the contract, the following possible situations may occur:

- If the prevailing foreign exchange rate at the expiry time on expiry date is the same or less favourable than the Worst Case exchange rate, the two contract currencies may be exchanged with Custom House at the Worst Case rate adjusted for the agreed Deferred Premium.
- If the prevailing foreign exchange rate at the expiry time on expiry date is more favourable than the Worst Case exchange rate, the two contract currencies may be exchanged with Custom House at the prevailing market foreign exchange rate adjusted for the agreed Deferred Premium, payable on expiry time on expiry date.
- You may choose not to exercise the option at expiry; however you would be obligated to pay the Deferred Premium to Custom House pursuant to the cost parameters in clause 2.8.1.

When you enter into a Deferred Premium Option you will advise Custom House which two currencies you would like to buy/sell, the foreign amount of cover required and the term you require. You will also nominate a contract Worst Case exchange rate (to be adjusted for the deferred Premium). Custom House will then calculate a Premium based on the information you provide. This Premium will be used to determine the exchange rate at which you will settle the contract on expiry date.

Cancellation (early termination) may be requested by you, but this will result in a cost to you. Refer to clauses 2.1.4 and 2.8.1 for explanations.

2.8.1 Cost of Deferred Premium Option

The Deferred Option Premium is calculated as a margin and included in the option contract exchange rate to apply on the expiry date. If you decide to buy a Deferred Premium Option, Custom House will determine the Deferred Premium by taking into consideration various factors such as:

- the term and expiry date;
- the strike (Worst Case) exchange rate;
- prevailing interest rates in the currencies relevant to the option contract;
- market volatility;

- the face value amount;
- current spot and forward exchange rates between the relevant currencies.

See the examples below for an illustration of how the premium is calculated.

If you do not exercise the option at expiry, the deferred premium cost must be separately paid to Custom House by you based on the above criteria.

2.8.2 Example of a Deferred Premium Put Option

An importer wishes to hedge USD against AUD for a six month future settlement date and wishes to protect themselves against any unfavourable foreign exchange rate movements whilst benefiting from a favourable foreign exchange rate movement.

The importer decides to buy a Deferred Premium AUD Put Option from Custom House. This will enable the importer to sell AUD for USD and protect them against the AUD depreciating against the USD but also participate in any favourable movements in the AUD.

The importer provides details of the relevant maturity (expiration) date, Worst Case exchange rate (strike rate), and the amount of USD. E.g. An importer wishes to buy USD100,000 and sell AUD in 6 months with a Worst Case exchange rate (in this example referred to as the strike rate) of 0.6800.

Based on this information Custom House calculates a Premium of 3.0%, expressed as a margin of 0.0210, to be deducted from the relevant AUD/USD exchange rate at expiry, the result being the rate at which the contract must be settled by the importer.

Assume the following conditions:

- the current spot exchange rate is 0.6900 and six month Forward AUD/USD exchange rate is 0.6840;
- the Worst Case (strike) exchange rate is 0.6800 (less the cost of the Deferred Premium);
- the expiry date is six months after the trade date;
- the Deferred Premium calculated by Custom House to be paid by the importer is equivalent to 3.0% of USD face value amount, which equates to 0.0210 points.

If the spot exchange rate on the expiry date is at or below the Worst Case (strike) exchange rate of 0.6800, the importer must exercise the option and exchange AUD for USD at the agreed Worst Case (strike) exchange rate of 0.6800 on settlement date, less the adjusted Deferred Premium agreed at the inception of the contract. In this case, 0.6800 less the Deferred Premium of 0.0210 equates to a rate of 0.6590 at which the importer must exercise the Deferred Premium Option.

If the spot exchange rate on the expiry date is above the Worst Case (strike) exchange rate of 0.6800 the importer is obliged to settle at the prevailing spot exchange rate, less the adjusted Deferred Premium of 0.0210 as agreed at the inception of the contract.

Alternatively, if you chose to not exercise your option, you would be required to separately pay the Deferred Premium amount to Custom House, as per section 2.8.1. In this example, 3.0% of the USD 100,000 face value would be USD3000, which converted at the Worst Case (strike) exchange rate of 0.6800 equates to AUD 4,411.

Note: The examples are indicative only and the rates and other details used are not factual.

2.8.3 Example of a Deferred Premium Call Option

An exporter wishes to hedge AUD against USD for a six month future settlement date and wishes to protect themselves against any unfavourable foreign exchange rate movements whilst benefiting from a favourable foreign exchange rate movement.

The exporter decides to buy a Deferred Premium AUD Call Option from Custom House. This will enable the exporter to sell USD for AUD and protect them against the USD depreciating against the AUD but also participate in any favourable movements in the AUD.

The exporter provides details of the relevant maturity (expiration) date, Worst Case exchange rate (also referred to as the strike rate), and the amount of USD. E.g. An exporter wishes to sell USD100,000 and buy AUD in 6 months with a Worst Case (strike) exchange rate of 0.7100. Based on this information Custom House calculates a premium of 3.0%, expressed as a margin of 0.0210, to be added to the relevant AUD/USD exchange rate at expiry, the result being the rate at which the contract must be settled by the exporter.

Assume the following conditions:

- the current spot exchange rate is 0.6900 and six month forward exchange rate is 0.6840;
- the Worst Case (strike) exchange rate is 0.7100 (plus the cost of the Deferred Premium);
- the expiry date is six months after the trade date;
- the premium calculated by Custom House to be paid is equivalent to 3.0% of USD face value amount which equates to a margin of 0.0210.

If the spot AUD/USD exchange rate on the expiry date is below the Worst Case (strike) exchange rate of 0.7100 the exporter will be obligated to settle at the prevailing spot exchange rate, plus the adjusted Deferred Premium as agreed at the inception of the contract.

If the spot exchange rate on the expiry date is at or above the Worst Case (strike) exchange rate of 0.7100, the exporter must exercise the option and exchange USD for AUD at the agreed Worst Case (strike) exchange rate of 0.7100 on settlement date, plus the adjusted Deferred Premium agreed at the inception of the contract. In this case, 0.7100 plus the Deferred Premium of 0.0210 equates to an exchange rate of 0.7310 at which the exporter must exercise the Deferred Premium Option.

Alternatively, if you chose to not exercise your option, you would be required to separately pay the Deferred Premium amount to Custom House, as per section 2.8.1. In this example, 3.0% of the USD 100,000 face value would be USD3000, which converted at the Worst Case (strike) exchange rate of 0.7100 would equate to AUD4225.

Note: The examples are indicative only and the rates and other details used are not factual.

2.9 Custom Forward Option Contract

A Custom Forward Option is a Structured Option which protects you against the risk that the spot exchange rate at the expiry time on the expiry date is less favourable to you than a nominated Worst Case exchange rate. It also allows you to benefit on half of the amount of your contract if the spot exchange rate is more favourable than the Worst Case exchange rate at the expiry time on the expiry date. You will have a known Worst Case exchange rate at all times. The Custom Forward Option is typically a zero cost premium structure.

Characteristics of the Custom Forward Option include:

- If the spot exchange rate at the expiry time on the expiry date is more favourable to you than the Worst Case (contract) exchange rate, you will settle half of the contract at the Worst Case exchange rate and the remaining half at the prevailing spot exchange rate.
- If the spot exchange rate at the expiry time on the expiry date is less favourable to you than the Worst Case exchange rate, you will settle the full amount of the contract at the Worst Case exchange rate

Cancellation (early termination) may be requested but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.9.1 Example of a Custom Forward Option used by an importer

An importer is protected against the spot exchange rate being at, or lower than, the Worst Case exchange rate at the expiry time on the expiry date for the full face value of the contract. An importer benefits from a favourable move in the spot exchange rate above the Worst Case rate on half of the contract amount with the other half of the contract being settled at the Worst Case exchange rate.

Assume an importer wants to buy USD against AUD in 6 months. The importer considers that the spot AUD/USD exchange rate may appreciate over this period.

The importer has a total amount of USD200,000 to cover but seeks some flexibility to participate in a favorable exchange rate at expiry time on expiry date but still maintaining protection at a Worst Case exchange rate.

Assume the following:

- the spot exchange rate on trade date is 0.7075
- the 6 month forward rate is 0.6960
- the Worst Case (contract) exchange rate being set at 0.6860

Accordingly the importer enters into Custom Forward Option Contract with a Worst Case exchange rate of 0.6860.

If the spot exchange rate is below the Worst Case exchange rate at the expiry time on the expiry date the contract will settle at the Worst Case exchange rate of 0.6860 for the full amount of the contract, being USD 200,000

If the spot exchange rate is above the Worst Case exchange rate at the expiry time on the expiry date the contract will settle 50% (USD 100,000) at the Worst Case exchange rate of 0.6860 and 50% (USD100,000) at the prevailing spot exchange rate at the expiry time on the expiry date, effectively allowing the importer to accrue half of the favourable move in the spot exchange rate, as compared to the Worst Case rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.9.2 Example of a Custom Forward Option used by an exporter

An exporter is protected against the spot exchange rate being at, or higher than, the Worst Case exchange rate at the expiry time on the expiry date for the full face value of the contract amount. An exporter benefits from a favourable move in the spot exchange rate below the Worst Case rate on half of the contract amount with the other half of the contract being settled at the Worst Case exchange rate.

Assume an exporter wants to sell USD against AUD in 6 months. The exporter considers that the spot AUD/USD exchange rate will mildly depreciate over this period.

The exporter has a total amount of USD200,000 to cover but seeks some flexibility to participate in a favorable exchange rate at the expiry time on the expiry date but still maintaining protection at a Worst Case rate.

Assume the following:

- spot exchange rate on trade date is 0.7080
- the 6 month forward exchange rate is 0.6970
- The worst cast (contract) exchange rate being set a 0.7100.

Accordingly the exporter enters into Custom Forward Option Contract with a Worst Case exchange rate of 0.7100.

If the spot exchange rate is above the Worst Case exchange rate at the expiry time on the expiry date the contract will settle at the Worst Case exchange rate of 0.7100 for the full amount of the contract, being USD 200,000.

If the spot exchange rate is below the Worst Case exchange rate at the expiry time on the expiry date the contract will settle 50% (USD 100,000) at the Worst Case exchange rate of 0.7100 and 50% (USD 100,000) at the prevailing spot exchange rate at the expiry time on the expiry date, effectively allowing the exporter to accrue half of the favourable move in the spot exchange rate as compared to the Worst Case rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.10 Target Forward Option Contract

A Target Forward Option is a Structured Option contract which allows you the opportunity to benefit up to a Guaranteed exchange rate on a Guaranteed amount. However, if the Guaranteed exchange rate is reached or exceeded at the expiry time on the expiry date, you are obligated to transact an additional (Contingent) amount (which is usually also equal to the Guaranteed amount of the contract) at the Guaranteed exchange rate. If this occurs you would be required to transact the Guaranteed amount plus the Contingent amount at the Guaranteed exchange rate.

If the Guaranteed exchange rate is not reached at the expiry time on expiry date, the contract must be transacted at the Guaranteed exchange rate for the Guaranteed amount only and not for the Contingent amount. Therefore, the final amount transacted in both possible outcomes will always be at the Guaranteed exchange rate. However, the transaction amount at the Guaranteed exchange rate is determined by the prevailing exchange rate at the expiry time on the expiry date.

Cancellation (early termination) may be requested but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.10.1 Example of a Target Forward Option used by an importer

The Guaranteed exchange rate will always apply to the transaction amount under the Target Forward Option. The amount transacted at this Guaranteed exchange rate will be determined by the prevailing spot exchange rate at the expiry time on the expiry date. If the spot exchange rate at the expiry time on the expiry date is more favourable to the importer, then the Guaranteed amount plus the Contingent amount must be transacted. This would occur if the spot exchange rate is above the Guaranteed rate. If the spot exchange rate at the expiry time on the expiry date is less favourable to the importer than the spot exchange rate, then only the Guaranteed amount must be transacted. The Contingent amount would not be transacted in this case. The Contingent amount would also have to be transacted if the prevailing exchange rate was above the Guaranteed exchange rate at the expiry time on the expiry date.

Assume an importer has to buy USD against AUD in 6 months. The importer considers that the spot exchange rate may move lower but doesn't want to take out a forward exchange contract at the current levels.

The importer has a Guaranteed amount of USD 100,000 and wants to achieve an exchange rate that is higher (more favourable) than the current forward rate while still maintaining protection at a Guaranteed exchange rate. The Contingent amount on the contract is USD 100,000.

Assume the following:

- on trade date that spot exchange rate was 0.7075
- 6 month forward exchange rate was 0.6960
- the agreed Guaranteed exchange rate is 0.7300.

The importer enters into a Target Forward Option with a Guaranteed exchange rate of 0.7300. If the spot exchange rate at the expiry time on expiry date is lower than the Guaranteed exchange rate of 0.7300, the importer would settle the Guaranteed amount of USD 100,000 at the Guaranteed exchange rate.

If the spot exchange rate at the expiry time on the expiry date is higher than the Guaranteed exchange rate, the importer would transact the Guaranteed amount (USD 100,000) at the guaranteed exchange rate plus the Contingent amount (USD 100,000) at the Guaranteed exchange rate. Therefore, the importer would be buying both the Guaranteed amount and Contingent amount of USD at a rate that is lower (worse) than the prevailing market spot exchange rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.10.2 Example of a Target Forward Option used by an exporter

The Guaranteed exchange rate will always apply to the contract under the Target Forward Option. The amount transacted at this Guaranteed exchange rate will be determined by the prevailing spot exchange rate at the expiry time on the expiry date. If the spot exchange rate at the expiry time on the expiry date is more favourable to the exporter, then the Guaranteed amount plus an additional Contingent amount must also be transacted. This would occur if the

spot rate is below the Guaranteed exchange rate. If the spot exchange rate at the expiry time on the expiry date is less favourable to the exporter than the spot exchange rate, then only the Guaranteed amount must be transacted. The Contingent amount would not be transacted in this case. The additional Contingent amount is only transacted if the spot exchange rate is below the Guaranteed exchange rate at the expiry time on the expiry date.

Assume an exporter has to sell USD against AUD in 6 months. The exporter considers that the spot exchange rate may move higher but doesn't want to take out a forward exchange contract at the current levels.

The exporter has a Guaranteed amount of USD 100,000 and wants to achieve an exchange rate that is lower (more favourable) than the current forward rate while still maintaining protection at a guaranteed rate. The Contingent amount on the contract is USD 100,000.

Assume the following:

- on trade date that spot exchange rate was 0.7080
- 6 month forward exchange rate was 0.6970
- the agreed Guaranteed exchange rate is 0.6850.

The importer enters into a Target Forward Option with a Guaranteed exchange rate of 0.6850. If the spot exchange rate at the expiry time on the expiry date is higher than the Guaranteed exchange rate of 0.6850, the exporter would settle the Guaranteed amount of USD 100,000 at the Guaranteed exchange rate.

If the spot exchange rate at the expiry time on the expiry date is lower than the Guaranteed exchange rate, the exporter would transact the Guaranteed amount (USD 100,000) at the Guaranteed exchange rate plus the Contingent amount (USD 100,000) at the Guaranteed exchange rate. Therefore, the importer would be selling both the Guaranteed amount and Contingent amount of USD at an exchange rate that is higher (worse) than the prevailing market spot exchange rate.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.11 Forward Extra Plus Option

A Forward Extra Plus Option is a Structured Option contract which protects you against the risk that the spot rate is unfavourable to you when compared against a Worst Case (Contract) exchange rate at the expiry time on the expiry date. It also provides you some limited opportunity to benefit from a favourable move in the spot exchange rate provided that the spot exchange rate never trades at a nominated exchange rate (a Knock-in Trigger exchange rate) at any time before the expiry time on the expiry date.

Additionally, the Forward Extra Plus has a release trigger (a Knock-Out Trigger) exchange rate which if reached, allows you to deal at the Worst Case exchange rate, or better, whether the Knock-in Trigger exchange rate has been breached or not. If the release trigger (Knock-Out Trigger) is reached you have an unlimited potential gain and a known Worst Case rate.

If the spot exchange rate does trade at the Knock-in Trigger exchange rate, the exchange rate at which you will be required to settle the contract will be the nominated Worst Case exchange rate unless the release trigger (Knock-out Trigger) exchange rate is also reached. In this situation you forego any participation in favourable exchange rate movements and must trade at the Worst Case exchange rate.

However if the release trigger (the Knock-out Trigger) exchange rate is reached at any time during the contract term this is no longer the case and you are no longer obligated to deal at the Worst Case exchange rate. You still have protection at the Worst Case exchange rate but can deal at a more favourable exchange rate if the relevant exchange rate subsequently moves in your favour.

Therefore, by using a Forward Extra Plus Option you will have a known worst case scenario. If the spot exchange rate moves favourably, but does not trade at the Knock-in Trigger exchange rate, the contract will lapse and you can choose to transact at the more favourable prevailing spot exchange rate on the expiry date. If the release trigger (the Knock-out Trigger) exchange rate is reached and the spot exchange rate subsequently moves favourably, you are able to trade at the more favourable spot exchange rate on the expiry date.

Cancellation (early termination) may be requested by you, but this may result in a cost to you. Refer to clause 2.1.4 for an explanation.

2.11.1 Example of a Forward Extra Plus Option used by an importer

An importer will benefit from any favourable exchange rate move provided the Knock-in Trigger rate never trades. If the Knock-in Trigger rate is reached at any time during the term of the contract, then the exchange rate is fixed at the Worst Case exchange rate. However, if the release trigger (Knock-out Trigger) exchange rate is reached at any time during the term of the contract (whether the Knock-in Trigger exchange rate has already been reached or not) you are protected at the known Worst Case exchange rate and also have the ability to benefit from a higher exchange rate if at expiry there is a prevailing higher spot exchange rate.

An importer needs to buy USD in 6 months and expects the AUD/USD spot rate exchange rate to be quite volatile over that time. Assume the following:

- Spot exchange rate on the trade date is 0.7075
- 6 month forward exchange rate is 0.6960
- Worst Case exchange rate is set at 0.6900. The Knock-in Trigger exchange rate is set at 0.7375 and the Knock-out (release) Trigger exchange rate at 0.6890

The importer enters into a Forward Extra Plus Option with a Worst Case exchange rate of 0.6900 and a Knock-in Trigger exchange rate of 0.7375 with a Knock-out (release) Trigger exchange rate of 0.6890.

The importer will benefit from any appreciation in the exchange rate provided the spot exchange rate never trades at the Knock-in Trigger exchange rate. If the Knock-in Trigger exchange rate of 0.7375 is reached at any time up to the expiry time on the expiry date, the exchange rate at which the Forward Extra Plus Option settles will be the Worst Case exchange rate of 0.6900.

However if the Knock-out (release) Trigger exchange rate of 0.6890 is reached (even if the Knock-in Trigger exchange rate has already been reached) the importer can deal at the Worst Case exchange rate of 0.6900 or higher if the prevailing spot exchange rate is higher at the expiry time on the expiry date.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

2.11.2 Example of a Forward Extra Plus Option used by an exporter

An exporter will benefit from any favourable exchange rate move provided a Knock-in Trigger exchange rate never trades. If the Knock-in Trigger rate is reached at any time during the term of the contract, then the exchange rate is fixed at the Worst Case rate. However, if the Knock-out (release) Trigger exchange rates is reached at any time during the term of the contract (whether the Knock-in Trigger exchange rate has been reached or not) you are able to trade a known Worst Case exchange rate and also have he ability to benefit from any lower exchange rate if that prevails at the expiry date.

An exporter needs to sell USD in 6 months and expects the AUD/USD spot exchange rate to be quite volatile over that time. Assume the following:

- Spot exchange rate on the trade date is 0.7080
- 6 month forward exchange rate is 0.6970
- worst case exchange rate is set at 0.7180. Knock-in Trigger exchange rate is set at 0.6500 and Knock-out (release) Trigger exchange rate at 0.7190.

The exporter enters into a Forward Extra Plus Option with a Worst Case rate of 0.7180 and a Knock In Trigger exchange rate of 0.6500 and a Release Trigger exchange rate at 0.7190. The exporter will benefit from any depreciation in the exchange rate provided the spot exchange rate never trades at the Knock-in Trigger exchange rate of 0.6500 at any time during the term of the contract. If the Knock In Trigger exchange rate of 0.6500 is reached at any time during the term of the contract, the exchange rate at which the Forward Extra Plus Option settles will be the Worst Case exchange rate of 0.7180. However if the Knock-out (release) Trigger exchange rate of 0.7190 is reached (even if the Knock-in Trigger exchange rate has already been reached) the exporter can settle at the Worst Case exchange rate of 0.7180 or lower if the prevailing spot exchange rate is lower at the expiry time on the expiry date.

There is no premium payable in this example.

Note: The examples are indicative only and the rates and other details used are not factual.

Section 3.0 – Factors Which Are Common To All Of Our Option Products

3.1 Terms and Conditions

Each Direct Option or Structured Option is subject to Custom House's Application and Terms and Conditions and Option Trading Terms and Conditions. You will be required to sign and acknowledge your acceptance of these documents prior to you entering into any Direct Option or Structured Option contract.

3.2 No Cooling Off Period

There is no cooling off regime which applies to any of the products described in this PDS.

3.3 Taxation

The taxation implications for you of obtaining one of our foreign exchange products will vary according to your personal circumstances. In particular, transactions may give rise to taxable gains or tax deductible losses. The treatment of those transactions for taxation purposes will depend on your individual circumstances and we recommend that you seek appropriate advice from a tax professional.

3.4 Risks

In addition to the risks listed in clauses 1.1.2 and 2.1.2, as well as the specific risks listed in the product examples, there are broad risks involved when you enter into a Direct Option or Structured Option transaction. These include:

- *Market risk*. Foreign exchange markets are subject to volatility. Entering a foreign exchange transaction exposes you to changes in the foreign exchange markets.
- *Operational risk*. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Disruptions in Custom House's processes may lead to delays in the execution and settlement of your transaction..
- *Counter party risk*. In each foreign exchange Options transaction you enter into with us, we are a counter party. This means that you will be relying on our ability to meet our financial obligations in the transaction. You can assess our financial ability to meet these counter party obligations to you by reviewing financial information about our company. We can provide a summary of this information to you for no charge upon your request.

3.5 Confirmation

Shortly after applying for each of the products described in this PDS, we will send you a confirmation reiterating the commercial terms of the relevant transaction. This confirmation is extremely important and we recommend that you check the confirmation to make sure that it accurately records the terms of the transaction. However, we note that failure of Custom House to provide confirmation to you shall not invalidate the transaction.

3.6 Credit Facility

Before entering into a Direct Option or Structured Option transaction, Custom House may carry out a credit check as part of its assessment to determine whether or not any credit requirements you have sought are satisfied. You will be advised of the outcome of this review as promptly as possible.

The credit check may also be relevant in assessing whether a line of credit will be provided to you by Custom House. Whether or not to extend a line of credit is at the sole discretion of Custom House.

3.7 Definitions

(1) "**Buyer**" means the party specified as such in the relevant option confirmation;

(2) "**Call option**" means a transaction which gives the buyer the right to buy from the seller the call currency amount at the strike rate;

(3) "**Confirmation/option confirmation**" means a document signed by you and Custom House confirming the details of the option entered into between you and Custom House;

(4) **"Contingent amount"** refers to a currency amount that may or may not be required to be dealt. The contingent amount is only dealt depending on the level of the prevailing spot rate at the expiy time on the expiry date of the contract
(5) "**European option**" means an option that can only be exercised at the expiry date;
(6) "**Exercise date**" means the date on which the seller accepts a notice of exercise;
(7) "**Expiry date**" means the last day on which the seller accepts a notice of exercise;
(8) "**Expiry Time**" means the latest time at which the seller will accept a notice of exercise, which shall be 3.00pm (Sydney time) on the exercise date, unless otherwise stated in the applicable option confirmation;
(9) **"Foreign exchange rate"** is a price at which one currency can be bought or sold for another currency.
(10) **"Foreign exchange contract"** means an agreement between two parties to exchange a specified amount of one currency for another currency at a specified exchange rate on an agreed date (refer also to our PDS on Foreign Exchange Transactions);
(11) **"Forward rate"** refers to the rate used to deliver a currency for a nominated amount of days in advance of the actual transaction.
(12) **"Guaranteed amount"** refers to a currency amount that we agree to in a contract. This amount must be transacted under the contract terms not matter where the spot rate is at the expiry time on the expiry date of the contract.
(13) **"Guaranteed rate"** is the rate at which the guaranteed amount is dealt.
(14) "**Notice of exercise**" means the notice given by the buyer to the seller of its intention to exercise the option;
(15) **"Mark to market"** means the daily revaluation of an option to reflect its current market value rather than its original contract value. It's often required to calculate variations of margins associated with our Flexible Options.
(16) "**Option**" means a contract conferring the right but not the obligation to buy(call) or to sell (put) a specified amount of an instrument at a specified price within a predetermined time period;
(17) "**Option value**" means the current value of an option as calculated by Custom House;
(18) "**Out of the money**" means the value of the original contracted option contract rate is less favourable to you than the current mark to market value;
(19) "**Premium**" means the amount that is payable by the buyer to the seller on the premium payment date for the option;
(20) "**Premium payment date**" means the trade date;
(21) "**Put option**" means a transaction which gives the buyer the right to sell to the seller the put currency amount at the strike price;
(22) "**Seller**" means the party specified as such in the relevant option confirmation;
(23) "**Settlement date**" means, in relation to an option, the date for settlement of the payment rights and obligations under the option following the exercise of the option, as specified in the relevant option confirmation. The settlement date of a European option is the second business day after the expiry date;
(24) **"Spot rate"** refers to the price of an options contract for immediate delivery.
(25) "**Strike price**" means the exchange rate specified as such in the option confirmation (see 3.5 above), which is the exchange rate at which the put currency will be exchanged for the call currency if the option is exercised, as agreed on the trade date;
(26) **"Strike rate"** means the exchange rate specified in the option confirmation, which is the exchange rate at which the put currency will be exchanged for the call currency (or vice versa) if the option is exercised, as agreed on the trade date.
(27) "**Trade date**" means the date on which the option is entered into between the buyer and seller;
(28) **"Trigger rate**" refers to a foreign exchange rate that we agree to in the contract. If the prevailing spot rate reaches the trigger rate before the expiry time on the expiry date, this will affect the rate at which you will need to exchange the two currencies under the contract;
(29) **"Worst Case rate"** means the least favourable foreign exchange rate you can be exposed to under your foreign exchange option contract.

3.8 How do we deal with your personal information?

We will only collect personal information for the purpose of providing you with the service that you have requested. If you don't provide us with the information that we request, we may be unable to provide the service to you. The information we obtain from you is for the purpose of foreign exchange transactions and to comply with relevant laws. We will not sell, share or reveal any of your information to marketing organisations, unless you have requested that we do so.

You may contact us at any time to find out what personal information we hold about you and, if necessary, to correct any inaccurate or incomplete information. You can do this by contacting the Custom House branch you normally communicate with; see contact details at 3.10 below.

We respect your privacy and have developed a Privacy Policy which embodies the National Privacy Principals. A copy of our privacy policy can be obtained on our website at www.customhouse.com.au or by contacting us using one of the methods described below in Section 3.10.

3.9 What should I do if I have a complaint?

Our primary goal is to provide superior customer service and better-than-bank exchange rates. To achieve this goal we would like to hear from you if you are dissatisfied with our customer service or any of the financial products provided to you. We would also like to hear from you if you would like to compliment one of our employees for providing exceptional customer service.

We have established procedures and policies to ensure that any complaint you may have is properly considered and appropriate measures are taken. If you have a complaint, please contact us at dispute@customhouse.com. Your complaint will be handled in accordance with our complaints handling policy.

We are also a member of an external dispute resolution complaints service called the Financial Ombudsman Service (FOS). If you are not satisfied with the way we handle your complaint, you may lodge a written complaint with FOS. You may access FOS by sending the necessary documents and information to:

Financial Ombudsman Service

GPO Box 3
Melbourne Vic 3001.
Telephone: 1300 78 08 08

Before FOS will deal with your complaint you must have first lodged a formal complaint with us and given us a reasonable period of time in which to resolve your complaint. There are restrictions on the complaints that may be considered by FOS. Those restrictions relate to:

- the size of the claim; and
- the nature of the claim, for example is the claim made in relation to a commercial decision by us.

For more information refer to the FOS website www.fos.org.au

3.10 Contact Information

You can contact us:

- by telephone on toll free 1.800.887.773;
- by sending an email to sydney@customhouse.com;
- by post addressed to Level 6, 34 Hunter Street, Sydney, NSW 2000, Australia;
- in person at any of our branch locations (details of which are listed below);
- by facsimile on 61.2.8001.2122.

Other Contact Information

The Australian Head Office address of Custom House Currency Exchange (Australia) Pty Ltd is:

- Level 6, 34 Hunter Street
  Sydney NSW 2000, Australia

The Global Head Office and Corporate Headquarters of our Canadian Parent Company, Custom House Ltd is:

- 517 Fort Street
  Victoria, BC V8W 1E7, Canada

Custom House – Branch Locations

- **Australian Head Office**
  Level 6, 34 Hunter Street
  Sydney, NSW 2000, Australia
  Phone 61.2.8001.2100
  Fax 61.2.8001.2122
  Email sydney@customhouse.com

  Melbourne Office
  Level 9, 53 Queen Street
  Melbourne, VIC 3000, Australia
  Phone 61.3.8622.8800
  Fax 61.3.8622.8811
  Email melbourne@customhouse.com

- **Brisbane Branch**
  Level 5,
  97 Creek Street
  Brisbane, QLD 4000, Australia
  Phone 61.7.3229.5500
  Fax 61.7.3229.4055
  Email brisbane@customhouse.com

  Perth Branch
  Level 6,
  37 St. Georges Terrace
  Perth, WA 6000, Australia
  Phone 61.8.9325.1544
  Fax 61.8.9325.1588
  Email perth@customhouse.com

- **Adelaide Branch**
  Level 9, Qantas House
  143-146 North Terrace
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